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thank all those who
have **contributed**
and shared their
valuable **domain**
insights in helping
us put this **report**
together.

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Digital Dawn

The metamorphosis begins

Foreword

2011 has been a dynamic year for the Indian Media & Entertainment (M&E) industry - A year in which the transformation of the industry began to take hold. It was also a year of mixed fortunes, with advertising growth being robust in the first half (January to June), and muted in the second (July to December). The long-promised digital ecosystem began to impact various segments. Film saw benefits from digital distribution with wide releases and early capture of revenue, cable digitization got underway, and the music industry grew on the back of consumption of digital music. Going forward as well, the outlook for the economy remains conservative, and the muted growth rates seen in the latter part of the year may continue into the first 6 months of 2012.

The Indian M&E industry has evolved greatly over the last decade against the backdrop of shifting consumer preferences towards niche content and digital delivery platforms, evolving business models, hyper competition due to entry of local and global players, and changing regulations. The industry has seen a focus on managing costs, innovation and research since the recessionary pressures in 2009. This has enabled players to look at sustainable cost optimization in difficult times.

The year saw important developments in terms of multiple films crossing the INR 100 Crore mark at the Box office, growing commitment from the cable industry to pursue digitization as per the government's mandate, regional markets defying recessionary trends in terms of growth of television and print, the government's commitment towards phase 3 for radio and the growth of new media.

We are looking forward to 2012 being a relatively more buoyant year in terms of growth for the industry. We wait to see the action in the television distribution space, and in radio, as both industries undergo regulatory changes. It will also be interesting to see print players adapt to the growing challenge being posed due to new media and changing news consumption habits. Lastly, new media such as Animation /VFX, digital advertising, and gaming are expected to continue their growth momentum.

The overall M&E market in India is expected to grow at a compounded annual growth rate of 15 percent per annum over the next five years, to reach INR 1.4 trillion in 2016. The potential for increase in media penetration, growing importance of regional markets, increasing consumption in tier 2 and 3 cities, impact of regulatory changes, more focused consumer research, innovation in content, marketing and delivery platforms to serve different niches, increasing device penetration like mobiles, tablets, PCs etc., all point towards a very positive future for the industry.

The analysis presented in this report has been put together after extensive discussions with senior stakeholders of the Indian M&E industry. KPMG in India and FICCI are grateful to them and all others who have helped us put this report together.

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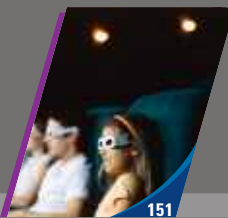


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Indian M&E Industry in 2011

An introduction





Indian M&E Industry in 2011

An introduction



2011 – A Mixed bag

What could the following three events of 2011 have in common? An iconic moment for Indian sports, with our Cricket World Cup triumph being celebrated across households, the spread of Anna Hazare's anti-corruption crusade, that caught the imagination of all at a time of a growing list of scams, and a song, Kolaveri Di, that went viral overnight. It was the power of the reach of Indian media. Be it the 146 million television households¹ viewing over 623² channels, the 82,000 newspapers with a readership of 181.91 million³, or the approximately 132 million Indian internet users⁴, the reach and exposure provided today by the Indian media, offers unprecedented opportunity to content creators, artistes, audiences and advertisers alike.

In terms of performance, 2011 proved to be a year with mixed results across different sub sectors. The traditional media businesses experienced a slow down compared to last year, especially in the second half of the year. However, the new media segments like animation and VFX, online and gaming witnessed strong growth rates.

2011 has been a challenging year not just for the Indian M&E industry, or even the Indian economy, but for the larger world economy. Challenges faced by key global economies were reflected in the US sovereign rating downgrade and continued weakness in the Eurozone, and impacted India through a trickle down effect. In addition, the RBI's interest rate hikes to battle inflation impacted GDP growth as did some other structural and regulatory issues that limited the reforms process and investment growth

While India is still expected to grow at a healthy pace, growth may be lower than earlier expectations. The Central Statistical Organization's (CSO's) advance estimates indicate a 6.9% real GDP growth rate for the year 2011-12. This is lower than the actual growth of 8.4 percent in 2010-11, and substantially lower than the 9 percent growth for 2011-12 projected by the finance minister in the union budget in Feb 2011. The BSE Sensex began the year at 20,509 and ended at 15,455. The average Sensex value in 2011 was 17,785 vis-à-vis 18,216 in 2010.

Going forward, the outlook for the economy in the next 1-2 years is muted vis-à-vis earlier expectations, and real GDP growth is expected to reach 8 percent only in 2013-14⁵. Despite the outlook impacting advertising budgets, projections of private consumption still remain strong and are a positive sign for the sector.

2011 saw the television distribution industry gearing up to embrace the digitization process and broadcasters expanding their regional footprint to establish pan India networks. The print players are in the process of getting their digital strategy in place to be ready for the opportunity being presented by new content and digital delivery formats. The film industry had reason to cheer with multiple movies crossing the 100 crore⁶ mark in domestic theatrical collections and 30 crore mark in C&S rights⁷. The radio industry is still awaiting the successful execution of phase 3 in order to expand its footprint and improve its share of overall media spends. Digital advertising continues to display a very high growth rate.

Internal efficiency in costs and processes which came about during the difficult times for the industry in 2008-09 proved to be a good foundation in the current environment as the industry was better equipped to weather the impact of the slowdown in the latter half of 2011.

01. Industry discussions and KPMG in India Analysis

02. Pitch Madison Report 2012

03. IRS Q3 2011 and Registrar of Newspapers

04. Industry discussions and KPMG in India analysis

05. Fitch

06. EconomicTimes, January 2012

07. Financial Express, February 2012



Industry size and projections

The Indian M&E industry grew from INR 652 billion in 2010 to INR 728 billion in 2011, registering an overall growth of 12 percent. Backed by strong consumption in Tier 2 and 3 cities, continued growth of regional media and fast increasing new media businesses, the industry is estimated to achieve a growth of 13 percent in 2012 to touch INR 823 billion. Going forward, the sector is projected to grow at a healthy CAGR of 14.9 percent to reach INR 1,457 billion by 2016.⁸

While television continues to be the dominant medium, sectors such as animation and VFX, digital advertising and gaming are fast increasing their share in the overall pie. Radio is expected to display a healthy growth rate after the implementation of Phase 3. Print, while witnessing a decline in growth rate, will still continue to be the second largest medium in the Indian M&E industry. A lot will depend on how well the print players are able to adapt to fast changing reader habits and news consumption patterns.

Overall industry size (INR billion)

Overall industry size (INR Billion) (For Calendar Years)	2007	2008	2009	2010	2011	Growth in 2011 over 2010	2012P	2013P	2014P	2015P	2016P	CAGR (2011-16)
TV	211.0	241.0	257.0	297.0	329.0	10.8%	380.0	435.0	514.0	618.0	735.0	17%
Print	160.0	172.0	175.2	192.9	208.8	8.3%	226.0	246.8	270.0	294.9	323.4	9%
Film	92.7	104.4	89.3	83.3	92.9	11.5%	100.0	109.7	121.1	134.5	150.3	10%
Radio	7.4	8.4	8.3	10.0	11.5	15.0%	13.0	16.0	20.0	24.0	29.5	21%
Music	7.4	7.4	7.8	8.6	9.0	4.7%	10.0	11.3	13.1	15.4	18.2	15%
OOH	14.0	16.1	13.7	16.5	17.8	7.6%	19.5	21.5	23.6	26.0	29.0	10%
Animation and VFX	14.0	17.5	20.1	23.6	31.0	31.2%	36.3	43.0	51.1	61.0	69.0	17%
Gaming	4.0	7.0	8.0	10.0	13.0	30.0%	18.0	23.0	29.0	37.0	46.0	29%
Digital Advertising	4.0	6.0	8.0	10.0	15.4	54.0%	19.9	25.8	33.5	43.7	57.0	30%
Total	514	580	587	652	728	11.7%	823	932	1076	1254	1457	14.9%

09. KPMG in India analysis

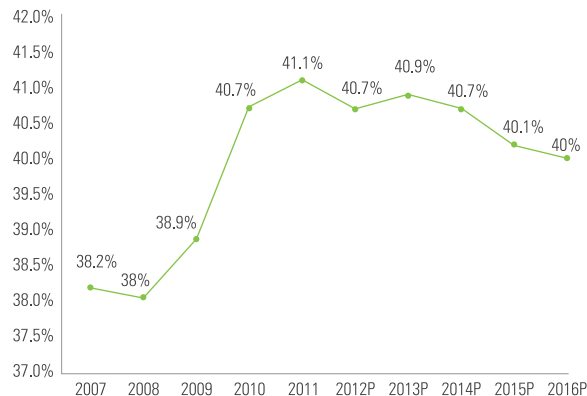
Advertising trends and projections

Advertising spends across all media accounted for INR 300 billion in 2011, contributing to 41 percent of the overall M&E industry revenues. Advertising revenues witnessed a growth of 13 percent in 2011 as against 17 percent observed in 2010.⁹

Print is the largest contributor accounting for INR 139 billion and 46 percent of the advertising pie. It is expected to continue being the most dominant medium for next 5 years, despite the threat from new digital platforms. Advertising spends are expected to grow at a CAGR of 14 percent to reach INR 586 billion in 2016.

The media industry is an ad dependent business and will continue to be so for some time, largely due to the relatively low ARPUs on account of hyper competition and lower price elasticity of consumers.

Contribution of advertising revenues of overall industry size



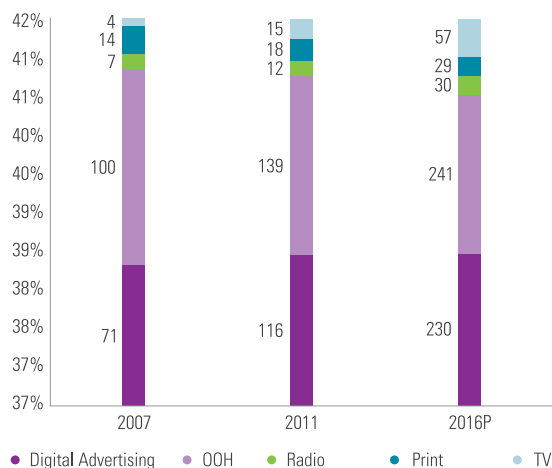
Source: KPMG in India analysis and industry interviews

Note: Percentages have been rounded to the nearest integer

Advertising revenue (INR billion)

Overall industry size (INR Billion) (For Calendar Years)	2007	2008	2009	2010	2011	Growth in 2011 over 2010	2012P	2013P	2014P	2015P	2016P	CAGR (2011-16)
TV	71.0	82.0	88.0	103.0	116.0	12.6%	130.0	148.0	170.0	197.0	230.0	14.7%
Print	100.0	108.0	110.4	126.0	139.4	10.6%	154.1	172.4	192.9	215.0	240.6	11.5%
Radio	7.4	8.4	8.3	10.0	11.5	15.0%	13.0	16.0	20.0	24.0	29.5	20.7%
OOH	14.0	16.1	13.7	16.5	17.8	7.6%	19.5	21.5	23.6	26.0	29.0	10.0%
Digital Advertising	4.0	6.0	8.0	10.0	15.4	54%	19.9	25.8	33.5	43.7	57.0	29.9%
Total	196	220	228	266	300	13.1%	337	384	440	506	586	14.3%

Percentage share of advertising spend by media



Source: KPMG in India analysis and industry interviews

Note: Numbers have been rounded to the nearest integer

Key Themes and trends going forward

Growth drivers for multiplex exhibitors

Digital technology continues to revolutionize media distribution – be it the rapid growth of DTH and the promise of digital cable, or increased digitization of film exhibition – and has enabled wider and cost effective reach across diverse and regional markets, and the development of targeted media content.

There has been increased proliferation and consumption of digital media content – be it newspapers and magazines, digital film prints, and online video and music or entirely new categories such as social media. For example, the print players are increasingly becoming available on the digital platforms in order to establish a connect with current readers as well as to establish a relationship with new readers. Accordingly, online advertising spends have seen a spurt in growth vis a vis spends on traditional media.

At the same time, the ability to develop models that get consumers to pay for online content is still limited. Currently, advertising is the primary source of revenue online but we expect new revenue models to emerge as the payment infrastructure develops and consumers begin to pay for content. Further, understanding and tracking online media behaviour of consumers would enable companies to progress to the next level of their online strategy and monetization.

Going forward, the adoption of 3G and 4G services could further fuel broadband penetration and offer opportunities for scaling digital media businesses.

09. KPMG in India analysis

Media on the go: Proliferation of New age user devices

Another seminal change is being brought about by the proliferation of screens – making media consumption more personal than ever. Smart phones, tablets, PCs, gaming devices, etc. all form the foundation of a new wave in media usage. This is gradually impacting the way content is being created and distributed. Multiple media including TV, films, news, radio, music etc are being impacted with this change.

For example, radio listenership has increased largely due to out of home mobile listenership. The number of internet users is expected to cross 546 million users by 2016, increasingly driven by wireless connections. The increase in tablet penetration in future can have a big impact on internet usage and in particular, video consumption, as its large screen allows a more user friendly experience compared to current mobile phone models.

Increasingly savvy and 'new age' consumers

As consumers evolve and with India's growing young population, there is a heightened need to engage them across platforms and experiences. There is a greater need for integration and innovation across traditional and new media, with changing media consumption habits and preferences for niche content. Media companies today have no choice but to provide more touch points to engage with audiences.

A recent example of a very successful 360 degree marketing campaign was in the marketing of 'RA One', which had one of the longest and the most elaborate marketing campaigns in the history of Indian cinema in order to build audience anticipation. It effectively used traditional and new media in the form of unveiling its first look on a popular social networking website. In addition, the campaign also leveraged digital and merchandising platforms to its advantage.

Activation has become a key service now provided by many media companies. Players in the print and radio industry have been building a strong value proposition in customizing campaigns for advertisers which include marketing across platforms, including organizing events for them.

India is a young nation and in many ways the youth is driving change in terms of strategies of media players in the industry due to their different media consumption habits and preferences. Since youth is an important target segment for a large number of heavy advertising sectors like Telecom, Financial Services etc, media players are trying to engage with young audiences in innovative ways in order to grab their attention and build some stickiness.

Print players across the world are exploring new ways to revamp readership as the young generation looks forward to social media, television and online channels for its dose of daily news. Not only are they breaking news and promoting their brands and shows on portals, search engines and social media, They are also organizing events and promotions especially targeting the youth, for example, Dainik Bhaskar launched The Brain Hunt 2012 across 13 states with an aim to develop reading habits among school students.

Regional markets bucking the recessionary trends and continuing growth momentum

Regional television and print continued its strong growth trajectory owing to growth in incomes and consumption in the regional markets. National advertisers are looking at these markets as the next consumption hubs and local advertisers are learning the benefits of marketing their products.

In order to tap the increasing regional budgets of the national advertisers and growing interests of local advertisers, media players are in expansion mode to increase their footprint in these regions. For example, large broadcasters have looked at increasing their presence in regional markets by new channel launches and M&A activity, for example, launch of Discovery Tamil, ETV's takeover by Network 18 etc. Dainik Bhaskar entered Marathi by launching editions in Aurangabad, Nasik, Jalgaon and Ahmednagar and strengthened its position on Rajasthan and Jharkhand by launching more editions. Jagran Prakashan expanded its newspaper to a fifth language – Punjabi. More film studios and funds are looking at investments in regional cinema.

M&E still an advertising revenue dependant industry

The ARPU for television, average newspaper cost for print and average ticket price for films continue to be low on account of hyper competition in these industries. Segments like Radio and a significant portion of online content are available free of cost to consumers. Owing to this, the Indian consumer is still not used to paying for content and hence the industry players are sensitive to the impact of macro economic slowdowns which affect advertising budgets of spenders.

Hybrid or bundled pay models (freemium) which are a combination of paid and free experience may be required to drive up subscription revenues. For example, in case of print, the editorial content, in depth investigative journalism, specialized business coverage and local city news etc which readers may not get readily through other information sources can potentially be moved behind a pay wall to build subscription revenues while the commoditized content may be offered free of cost to drive traffic towards the website. Also, research in consumer segments can bring about a better understanding of audiences who will be willing to pay for niche content, analysis and value added services.

Awaited Regulatory shifts

Lastly, apart from the shifts in consumer preferences, player strategies and business models, one big change awaited for the next growth wave is the implementation of recently enacted regulations on digitization for cable. Other anticipated events are the implementation of Phase 3, copyright clarification for Radio and the roll out of 4G. These shifts are expected to be game changers in terms of how business is being done currently and what could be the path going forward.

The companies which will be able to adapt and use these changes to their best advantage will survive and flourish, whereas the rest might find it difficult to keep pace with the dynamic environment. It will be vital for players to continuously keep pace with preferences and behavior across customer segments, (including regional, hyper local communities, youth) and tailor the business models accordingly across content creation, distribution and price points.

02

Television

In the box-seat



Television

In the box-seat

02

Introduction

Television is the largest medium for media delivery in India in terms of revenue, representing around 45 percent¹ of the total media industry. The TV industry continues to have headroom for further growth as television penetration in India is still at approximately 60¹ percent of total households.

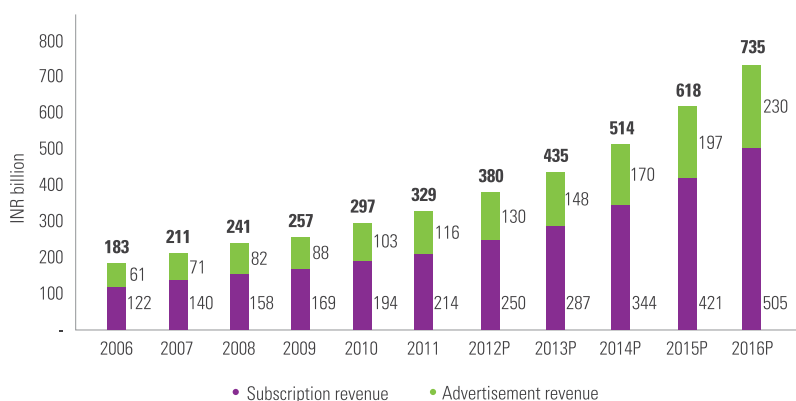
India continues to be the third largest TV market after USA and China with 146 million television households. Cable and Satellite (C&S) penetration of television households is close to 80¹ percent, with DTH driving a significant part of the growth in the last 12 months. With the impending digitization of all analog cable subscribers imminent, penetration level of digital households is expected to increase significantly, going forward.

The over-all television industry was estimated to be INR 329 billion in 2011, and is expected to grow at a CAGR of 17 percent over 2011-16, to reach INR 735 billion in 2016. The share of subscription to the total industry revenue is expected to increase from 65 percent in 2011 to 69 percent in 2016.¹

The total number of TV channels in India has gone up to 623² in 2011, and many more channels are awaiting approval for broadcast. There has been a significant increase in demand for satellite bandwidth, with the introduction of HD channels, DTH expansion, and new channel launches. This increases the options to the consumer, who may be amenable to paying more for content in the medium to long term.

While there has been a significant increase in advertisement inventory, advertisement rates have generally remained flat or declined in 2011, with advertisers cutting ad budgets due to the global and domestic economic slowdown. However, with a large number of untapped advertisers who are currently using only the print platform, there is potential for further growth for TV.

TV Industry size



Source: KPMG in India Analysis, Industry discussions

Note: Figures are rounded to the nearest integer and may not add up exactly to column totals

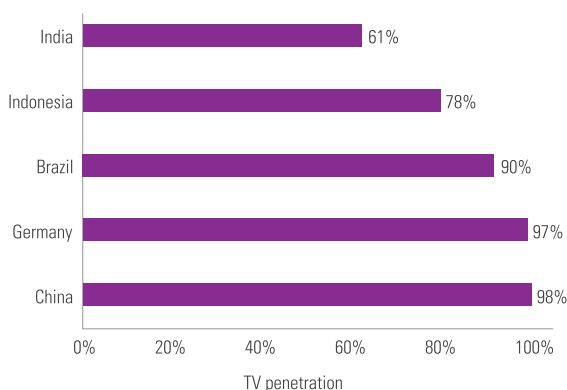
01. KPMG in India Analysis

02. Pitch Madison Report 2012

Significant potential for growth, based on TV penetration levels

India was estimated to have around 146 million TV households in 2011, which implies a TV penetration of approximately 60 percent. In 2016, TV penetration is estimated to rise to approximately 70 percent, which still offers potential for penetration-led growth (post 2016) as income levels rise, based on TV penetration levels in other mature as well as emerging economies³.

TV penetration in select countries (2011)

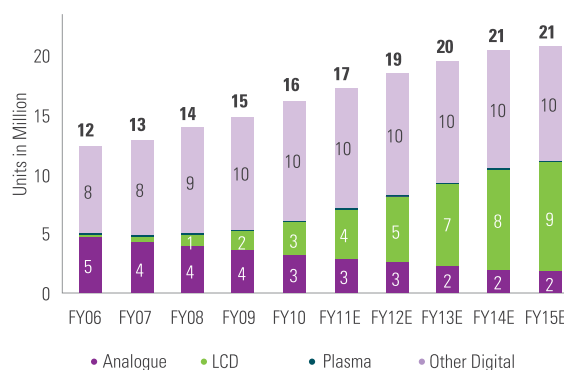


Source: Analyst estimates, Press articles, KPMG in India Analysis

New TV sales in India were estimated to be approximately 17 million in 2011. It may be noted that while India has added 12-16 million TV sets every year since 2005⁴, TV penetration every year has increased by around 6-8³ million. Thus, approximately 40 percent of TV sales in the year appear to reflect in increased TV penetration. The balance of TV sales includes replacement of old television sets or multiple TV sets entering a household. While a single analog cable

connection may be used to cater to all the TV sets in a house, these would need multiple connections (multiple set-top boxes) in a digitized environment.

Television sales



Note: "Other Digital" consists mostly of digital CRT TVs

Source: Euromonitor

C&S penetration to increase to 88 percent of TV households by 2016

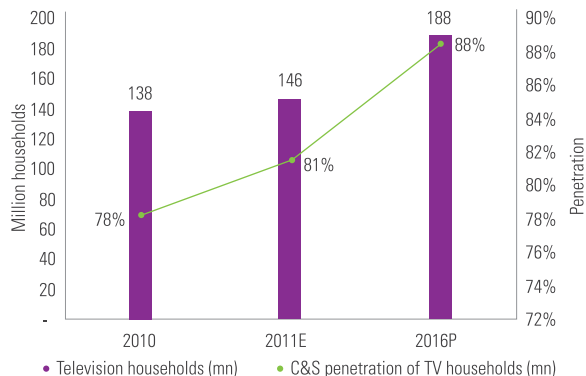
The number of C&S households increased by 11 million during 2011 to reach 119 million. Penetration of C&S increased from 78 percent of total TV households in 2010 to 81 percent in 2011³. As television homes increase going forward, consumer demand for content beyond free to air channels, combined with the relatively low ARPUs are expected to drive the demand for C&S in India.

03. KPMG in India Analysis

04. Euromonitor

The number of C&S households is estimated to reach approximately 174 million by 2016; translating to a C&S penetration of 88 percent of total TV households.

Growth in number of C&S households

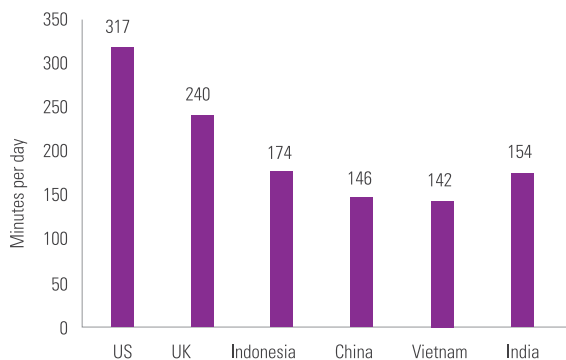


Source: KPMG in India Analysis, Industry discussions

Upside potential not only from penetration, but also from TV viewing time

Average television viewing time in India continues to be low vis-a-vis developed economies. Thus, there is potential for growth not only in terms of penetration / reach, but also in terms of viewing time.

Television viewing time (2011)



Source: Press articles, TAM; Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

Snapshot of the TV industry value chain

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

Content production

- The content production industry typically functions on a cost-plus basis, along with kickers / incentives if a program is successful
- Revenues and costs are usually linked to inflation levels
- Digitization of cable is expected to create an increased focus on content quality, as the end consumer gets greater choice, and channels work to create a "pull factor" from consumers
- The key challenge for content producers will be to consistently deliver differentiated content at reasonable prices

Broadcasting

- The broadcasting industry is expected to witness strong growth in both advertising and subscription revenues
- While 2011 has been a year of lower-than-expected advertising revenue growth for the broadcasting industry, the long-term outlook is still positive
- Digitization of cable is expected to significantly benefit the subscription revenue stream of the broadcasting community, while simultaneously rationalizing carriage
- Increasing fragmentation remains a key challenge for broadcasters, with competition not only from the increasing number of TV channels, but also from new media

Distribution

- India continues to be the third largest TV market in the world (after USA and China), with 146 mn TV households. With current TV penetration at 61 percent, there is still significant potential for growth
- Digitization of cable, driven by the recent government ordinance, is expected to be a game changer, affecting the entire value chain
- Broadcasters, MSOs and DTH operators are expected to be key beneficiaries of the government mandate, while the LCO's bargaining power is expected to decline substantially
- While the government's mandate presents a significant opportunity for MSOs and DTH operators, they may face several challenges and practical difficulties in implementation, and adhering to the prescribed timelines for digitization

Distribution: Digitization - the game changer

The cable television industry in India is poised for one of its most significant developments in the last decade – a transformation to the Digital Addressable System (DAS) for television distribution. Cable operators in a DAS regime would be legally bound to transmit only digital signals. Subscribed channels can be received at the customer's premises only through a set-top-box equipped with a conditional access card, and a subscriber management system (SMS). In a nut-shell, each user in the network would be uniquely identifiable to the service provider.

Digital television is expected to provide the consumer access to a higher number of TV channels, customized tariffs, availability of broadband and other value-added-services, and enhanced user experience through better viewing quality and consumer service.



Time spent watching TV in India is significantly lower than developed economies. The average time spent on TV by an individual in India is around 150 minutes per day – it has the potential to go up to 200+ minutes with digitization providing more accessibility to content, as well as evolved marketing wooing audiences for higher engagement

- L V Krishnan
CEO
TAM Media Research Pvt. Ltd.

A brief history

Mandatory Conditional Access System (CAS), first introduced in India in 2003, was implemented in Chennai but got derailed in all the other three metros. In 2007, CAS was implemented in the notified areas of Delhi, Mumbai and Kolkata but penetration level in those areas reached just 45-50 percent⁵.

An August 2010 report by TRAI recommending complete digitization of the cable sector revived the digitization efforts. With the parliament clearing the bill to amend the Cable Television Networks (Regulation) Act in December 2011, the stage has now been set for a significant transition to the digital addressable system, to be implemented across India in four phases. However, this is currently in ordinance form, and the Cable TV Act will need to be amended to allow for a smooth roll out of digitization. Some of the changes relate to new licensing requirements of a MSO, revenue share arrangements, etc. We understand that this process is ongoing and the Information and Broadcasting ministry is expected to finalise this shortly. TRAI also expects the likely completion of the National Broadband Plan by 2013 to provide the necessary impetus to digitization due to nation-wide availability of fibre optic network.

Television: In the box-seat | 12

Videocon d2h presents highest number of Asli "HD" channels

Enjoy life like picture quality & crystal clear sound that makes the experience of watching TV in high definition truly special. No India's most preferred DTH service, Videocon d2h.

19 Asli "HD" Channels

Grid of 19 HD channel logos including: Zee, Star, Sun, and others.

Sunset date for analog cable

Phase	Geographies covered	TRAI's initial recommendations	TRAI's revised view	Ministry's revised view	Parliamentary Approval
I	Delhi, Mumbai, Kolkata and Chennai	31-Dec-11	30-Jun-12	30-Jun-12	30-Jun-12
II	All cities with population > 10 lacs	31-Dec-12	31-Mar-13	31-Mar-13	31-Mar-13
III	All urban areas (municipal areas)	31-Dec-13	30-Sep-14	30-Sep-14	30-Sep-14
IV	Rest of India	31-Dec-13	31-Dec-14	31-Dec-14	31-Dec-14

Source: Information and Broadcasting Ministry



“ The television industry is at the cusp of a game changing movement, a la digitization. There should be no trust deficit amongst all participants: Broadcaster, MSO, LCO, Operator, and the Regulator. This will transform the industry to a profitable, sustainable TV economy. Great for business; good for the Government, and best for the consumer ”

- Sunil Lulla
CMD & CEO
Times Television



“ Digitization is a once in a lifetime 100 million+ subscriber addition opportunity over the next 4-5 years ”

- Rohit Jain
Deputy CEO
Videocon D2H

DAS is more likely to be successful than the earlier CAS

The new Digital Addressable System (DAS) has the support of key stake-holders including the government, the broadcasters and the multi-system operators (MSOs). The Indian consumer also appears to be ready for digital television, as demonstrated by the high penetration of DTH platform amongst C&S subscribers. The local cable operator (LCO) is likely to be most affected by digitization and may hence resist this move. However given the mandatory shift to digitization and inherent difficulty in managing the large investments required to fund this move, the LCO appears to have limited options, apart from aligning with the MSOs.

CAS versus DAS

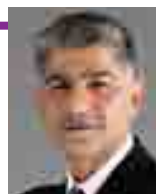
	Conditional Access System (CAS)	Digital addressable system (DAS)
Market dynamics	<ul style="list-style-type: none"> Limited consumer demand for digital television No competitive threat from the DTH platform <ul style="list-style-type: none"> DTH penetration was <1 percent in 2003, and only 5 percent in 2007 	<ul style="list-style-type: none"> Increasing consumer preference for digital television illustrated by: <ul style="list-style-type: none"> High penetration of DTH platform (30 percent of C&S subscribers in 2011) significantly threatening the cable market Sale of digital television sets (80 percent of all televisions sets sold in 2011)
Applicability	<ul style="list-style-type: none"> Applicable to only notified areas in the metros Free to air channels receivable without a set-top-box 	<ul style="list-style-type: none"> Applies to all C&S subscribers across India All channels including free to air to be made available only through the set-top-box
Consensus and the roadmap	<ul style="list-style-type: none"> Lack of consensus amongst industry, consumer groups and political class Mandated installation of addressable cable boxes for all subscribers within a year 	<ul style="list-style-type: none"> Roadmap developed in consultation with all the key stake-holders More realistic deadlines, with implementation across four phases over 3 years from the time of announcement
Pricing	<ul style="list-style-type: none"> Price cap of INR 5 per channel Regulated revenue sharing across the value chain 	<ul style="list-style-type: none"> TRAI to provide an opinion on retail pricing of channels and revenue sharing mechanism, based on comprehensive discussions with the key stake-holders
Scale of operations and availability of capital	<ul style="list-style-type: none"> Limited MSO access to capital before the Hathway IPO in 2010 and private equity investments in other MSOs 	<ul style="list-style-type: none"> The five large MSOs have achieved significant scale and account for ~40-45 percent⁶ of the total subscriber base in terms of reach Funds for implementation of Phase I estimated to be in place for large MSOs 25-50 percent⁶ annual decline in the cost of digital equipments like head-ends and set-top-boxes

Source: KPMG in India Analysis, Industry discussions



“ We have been moving towards digitization for the past 9 years. The government is very determined to implement digitization this time. The industry has been able to convince the government that digitalization of cable will be beneficial to the consumers, and also that the analog business model is not sustainable anymore for any of the stake-holders, including the government, which is losing large tax receipts ”

- K. Jayaraman
Managing Director and Chief Executive Officer
Hathway Cable and Datacom Limited



“ DAS implementation will happen. Every stakeholder in the chain will benefit from it. Consumers get better quality & immense variety of content, subscription revenues will see actual growth. However, going by examples of international markets like Japan & Korea as well as in the West, where similar mandates have been undertaken, overall implementation timelines would be at least 4-5 years ”

- Siddharth Jain
Managing Director – South Asia
Turner International India Pvt. Ltd.

While the transition towards digitization is not expected to be entirely smooth, and there are bound to be implementation challenges, the over-all indicators appear positive, and the industry believes that digitization of cable networks across India is likely to be largely successful.

There may be a delay of approximately 6 to 12 months for complete digitization across metros (Phase I)

While most stake-holders believe that Phase I will be successfully implemented, we expect a delay of 6 to 12 months for complete digitization across metro cities. Five key issues may lead to this delay:

- **Timely installation of set-top-boxes**
 - With rising demand, the lead time for the delivery of set-top-boxes (STBs), currently 3 to 4 months, may increase going forward. Some other countries including Brazil, Russia, and South Korea⁷ are also undergoing a shift to digital television at the same time, leading to increased demand for STBs, especially from Chinese suppliers who are amongst the largest manufacturers of STBs. While manufacturing capacity does not appear to be a significant constraint, operators who have not placed timely orders for set-top-boxes are likely to see delays as the deadline approaches near.



“We have a lot of orders from customers, and we are doing our best to service them on time. This is a challenge for MSOs as well as set top box manufacturers. Today the lead time from order placement to delivery is around 8-10 weeks. Having said that, Changhong has the capacity to produce 1 million set top boxes per month (for the global market). If required, we can step up capacity.”

- Martin Jiang
General Manager - India
Changhong Group

- To meet the stated deadline, an LCO operator in a metro city with an average base of 1,500-2,000 subscribers may need to seed around 10 to 15 set-top-boxes every day. Most households would typically demand that the installation, which takes about an hour, be done during a limited time window of 6-8 PM on weekdays or during the weekends. This may lead to delays in the installation process. The challenge is compounded by the fact that many consumers do not appear to be adequately aware of the digitization mandate and hence the need to install STBs on time.
- Voluntary digitization is expected to be low before the sunset date specified for a particular city. It is anticipated that local cable operators would continue with the existing analog system for as long as possible

in order to generate maximum possible revenue before the mandatory shift to digitization. As cable operators start STB installation very close to the actual deadline, it is unlikely that all existing analog cable TV homes will be able to make a transition to digital cable within the specified time frame.

- **Availability of funding for smaller and regional MSOs**
 - A shift to digitized regime will require large capital expenditure on digital head-ends, back-end infrastructure, and STB installation. Regional and smaller MSOs, which account for approximately 50 percent of the cable TV market, may find it difficult to raise the required capital for Phase I in time.
 - The industry has also suffered a recent set-back with the government panel rejecting the financial incentives proposed for the cable industry by Information and Broadcasting ministry. While the panel has agreed on increasing the FDI across platforms from 49 percent to 74 percent, currently other fiscal incentives like providing custom concessions and income tax holidays for service providers have been rejected⁷.
- **Organizational preparedness**
 - Apart from the financial requirements, digitization also presents large organizational challenges for the MSOs. To be able to operate under complete digitization and service its customers, MSOs will need to scale up IT systems, build out call centers, and provide technical assistance to LCOs. This would call for significant manpower preparedness.
- **Customer education**
 - The average consumer today appears to be unaware of the digitization timelines, and the potential impact of not complying with these deadlines. Accordingly, one of the critical success factors for a timely digitization would be educating the consumer. This may need to be led by the government through various campaigns and supplemented by the broadcaster and MSOs through their marketing initiatives.

- **Lack of regulatory clarity around the Cable TV Act**
 - Implementation of cable digitization may require several modifications to the Cable TV Act. These amendments are expected to provide greater clarity around issues like the status of existing analog licenses, new licensing requirements for a digital MSO, retail pricing and revenue sharing mechanism and procedures for enforcement of the analog sunset date. At the time of going to print, these modifications were still in the process of being finalized by the Information and Broadcasting ministry. Industry discussions indicate that further delay in amending the Cable TV Act may lead to increased uncertainty for the smaller MSOs, and may impact the digitization deadline.

Implementation of complete digitization may also vary across the metro cities. The Delhi market is considered the most challenging, given the highly fragmented nature of cable industry in the city, while the Mumbai market is largely consolidated, with fewer MSOs.



“ There are likely to be delays in digitization due to practical difficulties. Even if there is a 6-12 month delay in digitization, I would still say it is ‘on-time’ - we have waited for over 10 years for digitization. The main challenge thereafter is the “communication to the consumer” and they converting to pay the extra charges or a per channel on offering basis. This will take another 2 years, I believe. The two big themes for 2012 and 2013 are digitization of cable, and broadband ”

- Ronnie Screwvala
Managing Director
The Walt Disney Company India



“ Phase 1 has around 10 million TV homes in the four metros. The success of implementation in Phase 1 will ensure a smooth implementation plan for rest of the country in phases. The challenges of logistics, customer support, pricing and offerings and customer choice will be well tested in the first phase of digitization, along with the competition. Phase 1 will be seen as a proof of concept of addressable digitization and complete analog sunset. MSOs are focusing their energies on getting Phase 1 right ”

- Subhashish Mazumdar
Senior Vice President –
Marketing and Customer Relations
IndusInd Media & Communications Ltd.



“ India today is at a similar point that China was in three years ago (in terms of digitization effort). However, since cable distribution in China is government owned, the digitization effort was easier and completed on time ”

- Martin Jiang
General Manager - India
Changhong Group

Successful implementation of the first phase critical for the entire digitization process

Digitization is likely to be tackled in a tiered manner, with the first phase being the immediate focus for the leading MSOs. Phase I is expected to be the most challenging amongst the first three phases⁸. Metro cities consist of LCOs with a larger subscriber base (1,500-2,000) and the revenue is heavily skewed towards carriage and placement fee. In the absence of a pre-determined price regime or revenue sharing arrangement, there may be delays due to negotiations between the MSOs and LCOs.

While implementation challenges during successive phases are expected to be similar, they may be mitigated to some extent as stakeholders gain experience during Phase I. Implementation of phase I may provide greater clarity around industry dynamics in a digitized world, and enable better capital availability for successive phases. Consolidation may also become an increasing necessity, subject to diligence issues, valuation expectations, closures and regulatory issues like CCI guidelines, if applicable.

Industry stakeholders thus consider the success of the first phase to be the yardstick by which to measure further investments in digitization and align their strategy for the next phases of implementation.

Back-end infrastructure for Phase I implementation largely in place for leading MSOs

A consumer focused approach is a critical success factor for MSOs to succeed post digitization. While MSOs provide technical and manpower assistance to LCOs to set-up head-ends and install STBs, they also need to scale up the back-end infrastructure like IT systems, call centers, billing operations and STB management (procurement and repair). MSOs may also need to dedicate resources to run large scale marketing campaigns educating LCOs and the customers regarding mandatory digitization and the need to install STBs on time.

Approximately 12 to 15⁹ million set-top-boxes (including DTH providers) are expected to be installed in Phase I cities over the next five years. Industry discussions indicate that the back-end infrastructure and required network is largely in place for Phase I, however much more work may need to be done to scale up billing and customer service operations, which may further lead to large scale IT outsourcing contracts.

Phase II, III, IV cities may require significant upgrade of existing infrastructure and network (e.g. poor quality fiber). Approximately 100 to 110⁹ million set-top-boxes are estimated to be required in these cities over the next five years. It may however be interesting to note that the penetration of digital C&S platform is already higher than 40¹⁰ percent in Phase IV cities, driven by increasing DTH penetration in the rural areas.

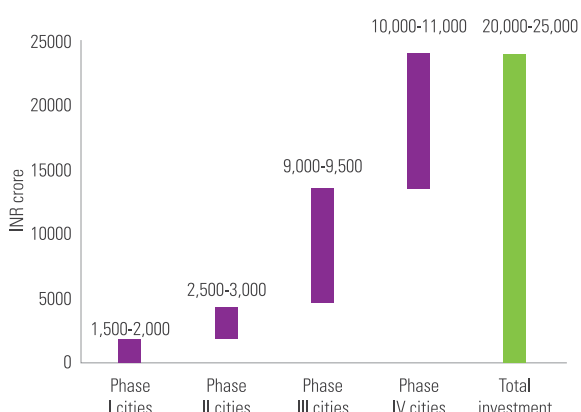
The chart below provides preliminary estimates for phase-wise capital expenditure for digital cable service providers. This includes the cost for STB installation, and infrastructure upgrade required to digitize existing analog as well as new C&S subscriber additions during 2012 to 16. While focus remains on a particular phase, cities covered in successive phases are expected to continue to digitize C&S households simultaneously, albeit at a slower rate than the cities in the focus phase.

08. Industry discussions

09. KPMG in India Analysis

10. TAM Universe update 2012

Estimated capital expenditure for digital cable



Source: KPMG in India Analysis, Industry discussions

Note: The above estimate does not include investments for DTH additions during these phases

The power equation is expected to shift towards MSOs over the next three years

In the absence of digital addressability, the industry estimates that a cable operator declares only 15 to 20¹¹ percent of his actual subscriber base to the MSO. Subscriber declaration levels are expected to increase to 100 percent post digitization. However, revenue share between various stakeholders may continue to be negotiation driven.

The revenue share is expected to evolve as digitization progresses. Broadcasters and MSOs are expected to see a significant increase in their bargaining power over LCOs. The LCO's share, while smaller than the pre-digitization period, may differ depending on the area.

Stake-holder revenue share	Pre-digitization	Post 2016
Consumer ARPU	100%	100%
LCO	65-70%	35-50%
Distributor	5%	0-5%
MSO	15%-20%	25-30%
Broadcaster	10%-15%	30-35%

Source: KPMG in India Analysis, Industry discussions

With digital addressability and eventual control of the subscriber, the TV distribution industry is expected to see a significant shift in power away from the LCO towards the MSO. Post complete digitization, the MSO would own and control the infrastructure and generate the bill using the subscriber management system. The LCO is expected to take up the role of a collection and servicing agent of the MSO. The LCO may need to align itself with an MSO in order to establish a platform brand and gain access to funds required for seeding STBs. Discussions indicate that MSOs are no longer buying out LCO networks at high prices, and valuations have declined to less than one third of the level prevalent a year ago.

However, this shift in power is expected to be gradual over the four phases of digitization. The cooperation of LCOs across cities remains crucial for a smooth conversion of analog customers to digital, and at least until the analog sunset, the MSO-LCO equation remains delicately balanced.



Any major resistance from LCOs is not likely. Firstly, digitization safeguards their business from other competing technologies. Secondly, it provides the scope to offer more services to the consumer e.g. broadband, movies-on-demand etc. which will boost the operator revenue

- Anil Malhotra
COO

Wire & Wireless (India) Ltd.

Carriage fee per broadcaster to rationalize

Carriage fee has increased significantly over the last few years. Broadcasters as well as MSOs expect a decline in carriage fee after the implementation of the first phase of digitization. However, there is a lack of consensus on the movement of carriage fee in the medium term. While broadcasters expect a decline over the next 2 to 3 years, some MSOs expect carriage payments to claw back to current levels.

There is a case for decline in carriage fee because:

- A shift to digital removes the bandwidth constraints of analog cable, and the number of channels that may be carried increases significantly
- Digitization will alter the existing skewed revenue model of MSOs - increased subscription revenues will lead to lower reliance on carriage fee, thus providing an impetus for rationalization of carriage per broadcaster

However, placement is expected to remain crucial even on a digital platform, and a decline in the carriage fee may be offset to some extent by an increase in the placement fee. Even in advanced markets like the US and UK, broadcasters continue to pay for placement on the digital platform; and there may be a scope for opportunistic demand for carriage / placement even post digitization.



Currently, very few LCOs are thinking about a post-digitization scenario. Very few have come to us to discuss revenue share in a digitized environment. The attitude seems to be 'we shall see when it happens'

- Jagjit Singh Kohli
MD & CEO
Digidigable

11. Industry discussions



“ All channels want to be incorporated in the basic digital tier. Hence there will be a huge value for placement in a digitized world ”

- **Dinyar Contractor**
Editor and Executive Publisher
Satellite and Cable TV magazine

Broadcasters to benefit from increased subscription revenues

Addressability is expected to increase the revenue share of broadcasters, leading to an approximate 30 percent CAGR in subscription revenue of broadcasters from 2011 to 2016¹². For mature broadcasters, a significant share of subscription revenues is expected to flow to the bottom line. While broadcasters re-align their revenue model, decreasing dependence on advertisement revenues, sustaining strong subscription revenues may require broadcasters to re-engineer their offering and deliver high quality content to the consumer. Digitization provides an opportunity for the number of channels go up and the niche channels to increase their offering.



“ Digitization will result in a significant rise in the subscription revenues of broadcasters as addressability and transparency increase ”

- **Sameer Ganapathy**
Senior Vice President-Distribution
UTV Global Broadcasting

The broadcaster-MSO agreements for content delivery are expected to evolve along the same lines as the existing broadcaster-DTH agreements. Except for sports and niche channels, most broadcasters are expected to enter into fixed fee agreements with MSOs for content delivery.

ARPU growth may remain low in the short-medium term due to significant competition and a race to acquire subscribers

Currently, ARPUs appear to be depressed largely due to the prevalence of analog cable, and competition due to fragmentation of the industry. During implementation of digitization, ARPUs may continue to be under pressure, as MSOs and DTH operators target the same subscriber base.

However, digitization will also create the opportunity to introduce new and niche channels. This may drive demand for specific content. Further, price elasticity may not be very high for the Indian consumer, given that per hour cost of TV entertainment is approximately INR 2¹³ (which compares favourably versus other entertainment avenues), and that entertainment is a compulsive need.

Accordingly, ARPUs are expected to grow at a faster pace as digitization progresses across the various phases.



“ We believe ARPUs should increase going forward. Current ARPU levels of around INR 150 for a digital pay TV service is among the lowest in the world. For a sustainable business model, the ARPU needs to move up. The consumer does have the capacity to pay, especially when one considers the cost of alternative entertainment options in India ”

- **Atul Das**
Chief Strategy Officer
Zee Entertainment Enterprises Limited



“ Due to expected competitive intensity during the digitization period, ARPU might show only an inflationary increase. However post digitization, it is likely to take a big upward swing ”

- **Rohit Jain**
Deputy CEO
Videocon D2H

ARPU (INR per month)	2011	2012	2013	2014	2015	2016
Analog	160	165	170	170	171	171
Digital	160	170	180	201	226	253
DTH	160	170	180	201	226	253
IPTV	160	170	180	201	226	253

Source: KPMG in India Analysis, Industry discussions

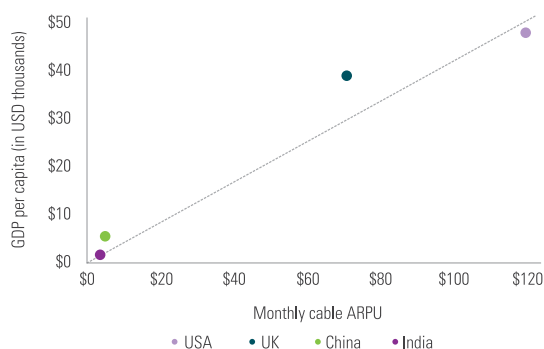
A comparison of cable and DTH ARPUs in India versus other countries illustrates that as GDP per capita increases, there is potential for ARPU to increase going forward.



12. KPMG in India Analysis

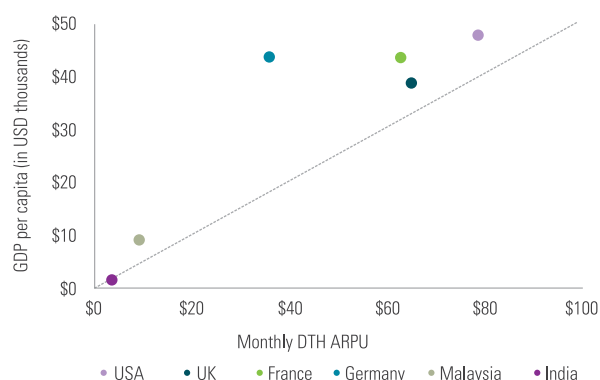
13. Assuming 154 minutes of viewing time per day

Global Cable ARPU



Source: Analyst estimates, Press articles, KPMG in India Analysis

Global DTH ARPU



Source: Analyst estimates, Press articles, KPMG in India Analysis

Double play – An opportunity, but in the medium to long term

A blended offering of broadband along with cable TV services provides a strong proposition, and MSOs expect this to be a key differentiator for digital cable vis-a-vis DTH operators. A case in point is Comcast Corporation, which is the largest¹⁴ cable operator as well as the home internet service provider in the United States.

MSOs may experiment with bundling broadband and cable services in order to offset the revenue loss to the LCO during digitization. A double play offering may require the MSO to tie up with broadband providers or ISPs for licensing requirements.

However the double play opportunity seems to be limited to the metros and large cities in the medium to long term. The broadband monthly ARPUs at INR 400 may be high for a non-metro consumer, while a lower ARPU may not be feasible currently since subscriber acquisition costs range between INR 2,500 to 3,000¹⁵. However, the cost of providing broadband is expected to decline for MSOs over the medium term, leading to a decline in broadband ARPUs, and lead to greater opportunity for double play in smaller cities as well.

In the short to medium term, MSOs are expected to focus efforts towards subscriber acquisition / cable digitization, and

double play and revenue enhancement may become areas of focus in the longer term.

BWA licenses have recently been auctioned in India, and 4G services are expected to be launched on LTE technology. 4G services may emerge as a threat to double play, if implemented well, at the right price point, and if Indian consumers adopt wireless technology for broadband as they did in the case of 2G.



We are very bullish on double play. We have seen significant broadband penetration in Phase 1 cities. MTNL has a waiting list for internet connections. Bundling broadband with cable is low-hanging fruit

- Jagjit Singh Kohli
MD & CEO
Digicable

DTH – strong growth likely to continue due to digitization

The DTH segment continued to expand in India, reaching a gross subscriber base of around 44¹⁶ million at the end of 2011. On a net basis, this is estimated to translate into a subscriber base of 37 million. This represents a 31 percent penetration of DTH within the C&S subscriber base, compared to 26 percent in 2010¹⁷. Despite strong growth, DTH saw a relative slowdown towards the later part of the year. Discussions indicate that a decrease in free viewing period offers across industry players, leading to a correction in demand, may have partially contributed to the slowdown. Going forward, while players continue to face transponder capacity constraints, the digitization mandate, leading to increasing penetration of digital platforms, is expected to provide a significant opportunity for DTH growth.

Conversion of analog cable subscribers to digital cable is not expected to take place without some churn to DTH providers. The current mandate provides a strong opportunity for both DTH operators and MSOs (digital cable). A better consumer value proposition and preparedness of industry players to enter a digitized world may determine which platform takes the lead during digitization.



70-75 percent of the analog market should easily shift to digital cable, provided that the cable industry is ready for it. However, in case cable players do not gear themselves fully for the transition, especially the smaller MSOs, the DTH industry's claims of taking 40-45 percent of the market may not be unrealistically ambitious

- K. Jayaraman
Managing Director and Chief Executive Officer
Hathway Cable and Datacom Limited

14. Company filings and company websites

15. Industry discussions

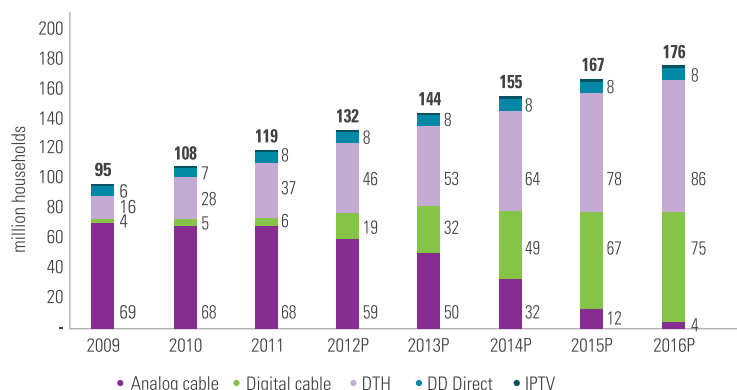
16. TRAI

17. KPMG in India Analysis

Strong opportunity for both digital cable and DTH players

The market appears to be large enough to accommodate both digital cable as well as DTH service providers. Unlike the television market in the United States or United Kingdom, which is heavily skewed towards one or the other kind of distribution platform, the Indian market is likely to see a co-existence of both the platforms. Currently, IPTV may not be a strong contender, and does not appear to be an area of focus for the service providers

No. of subscribers



Source: KPMG in India Analysis, Industry discussions

Note: DTH figures are net of churn

Content production & broadcasting: Slowdown impacts advertising revenues

2011 has been a challenging year for the television broadcasting industry. Advertising rates faced pressure from the global and domestic economic slowdown, resulting in a lower than expected increase in advertising revenues, particularly in the second half of the year. At an aggregate level, the total TV advertising market is estimated to have grown around 12 percent in 2011, lower than the 15 percent growth projected in our report last year.

A study of the total marketing spends of large advertisers suggests muted growth in 2011 (vis-à-vis 2010), depressing advertising revenues for the television industry. Advertisers expect tighter budgets in 2012 given the current economic climate, and may face pressure to deliver 'more with less'.

Illustrative analysis of key advertisers

Advertiser	Advertisement spend* (INR Cr)			Advertisement spend percent of revenue		Advertisement spend growth over previous year	
	2009	2010	2011	2010	2011	2010	2011
HUL	2,216	2,768	2,598	14.7%	11.9%	24.9%	(6.1%)
Colgate Palmolive	N/A	352	410	16.3%	15.9%	NA	13.8%
Bharti Airtel	2,307	2,985	3,277	5.5%	4.7%	29.4%	9.8%
Idea Cellular	1,401	1,828	2,351	13.0%	12.8%	30.5%	28.6%

Source: Company filings, Company websites, Prowess database, Analyst reports

Note: * Advertisement spend here refers to: HUL - advertising and promotions, Colgate - advertising and sales promotions, Airtel - sales and marketing, Idea - marketing expenses and subscriber acquisition costs

“ We haven’t really seen any slowdown in advertisers’ spends. At Sony, our ratings growth and strong channel performance has led to an increase in revenues. While there may be some impact on some sectors such as telecom, there are other new advertiser categories such as Internet companies that have come in ”

- Nitesh Kriplani
Senior Vice President
Multi Screen Media Private Limited

It may be noted that the fundamental driver for advertising in India - private consumption expenditure -also appears to have been impacted. As per Central Statistical Organization’s (CSO) advance estimates, private consumption expenditure at constant prices (2004 to 05) is estimated at INR 32,70,368 crore in 2011-12, a 6.5 percent increase over the previous year. In comparison, the increase in private consumption expenditure from 2009-10 to 2010-11 was 8.1 percent.

Industry discussions suggest that the cricket world cup held during the first quarter of 2011 benefitted TV advertisements, drawing some advertising budgets from print to TV¹⁸. Advertisement spends are expected to grow in 2012 at similar levels as experienced in 2011. In the long term, however, India continues to be a growth market, and the advertisement market is expected to grow at a CAGR of 15 percent over 2011-16.

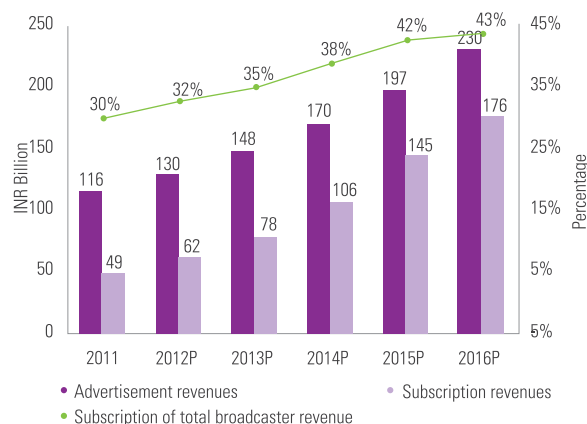


“ While government spending and investment may have shown a decline, private consumption in India has not been significantly affected by the ‘slowdown’. In fact, there may be a bump-up in 2012-13, with inflation easing off, and interest rates likely to ease off as well ”

- Paritosh Joshi
CEO
Star CJ Alive

Subscription revenue for broadcasters is estimated to grow at a CAGR of 29 percent¹⁸ from 2011 to 16, driven by higher declaration as a result of digitization, as well as increased bargaining power of broadcasters through aggregation of distribution, such as MediaPro.

Broadcasting industry



Source: Industry discussions, KPMG in India Analysis

Advertising revenue growth continued to be driven by increased inventory, while rates remained flat

Advertisement inventory levels increased by 14 percent in 2011¹⁹, driven by a higher number of channels and commercial time per hour of programming. The total number of active channels increased from 552 in 2010, to 623 in 2011. However, effective rates remained flat, continuing the trend seen in 2009 and 2010.



“ The advertising market grew due to increase in volume, while rates, in general rates stayed flat or declined ”

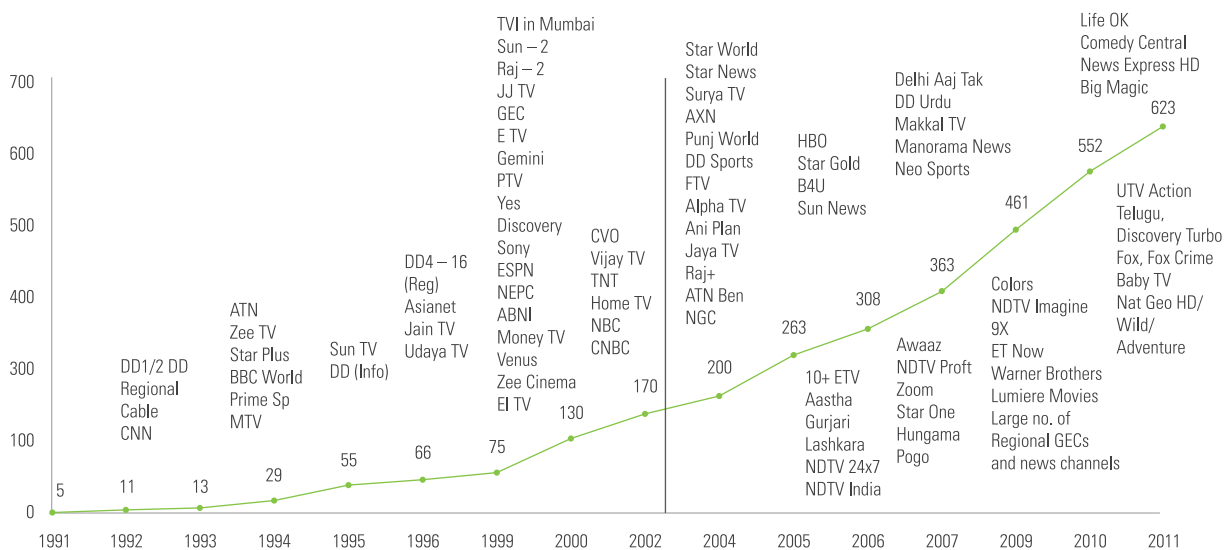
- Uday Shankar
CEO
Star India



18. Industry discussions, KPMG in India Analysis

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TV channels in India



Source: FICCI-KPMG report on M&E 2011, Pitch Madison

The FMCG sector continued to dominate the advertising space

FMCG (including categories like food & beverage, personal care & hygiene, hair care, personal accessories, personal healthcare, and household products) continued to be the dominant sector, representing 43 percent of ad volumes, up from 42 percent in 2010, and 40 percent in 2009²⁰. Since the FMCG category consists of volume buyers who buy in bulk at low rates, there was pressure on effective rates.

2011 also saw newer categories of advertisers such as internet / new media companies use the television medium, with advertisers such as Flipkart, Justdial, Quicker etc.

Top 10 Categories advertising on TV

Top Sectors	2011 (% share)	2010 (% share)
Food & Beverage	14	14
Personal Care/Personal Hygiene	13	13
Services	6	6
Hair Care	5	5
Personal Accessories	5	4
Telecom/ ISP	4	4
Auto	4	4
Banking/Finance/Investment	3	3
Personal Healthcare	3	3
Household Products	3	3
Total	60%	59%

Source: Indian television AdEx India Analysis, 18 Oct, 2011

Note: Split above is on the basis of volume; Data represents shares for January to September 2011



2011 saw the resurgence of FMCG with the slowdown of Telecom, Finance and Insurance Sector. FMCG are bargain buyers, and as they replace premium buyers, the advertising market growth is tempered due to lower rates.

- Ronnie Screwvala
Managing Director
The Walt Disney Company India

The top 10 sectors accounted for around 60 percent of the overall TV advertising volume share during 2011, similar to 2010. Apart from FMCG, services, telecom and auto sectors were key advertisers. Within services, DTH was the largest category, followed by real estate.

HUL, with its large portfolio of brands, remained the top advertiser on TV, followed by other FMCG brands. 9 out of the top 10 advertisers on TV were FMCG players, indicating the dominance of the consumer business on media spending.

Top advertisers on TV	% Share in 2011	% Share in 2010
Hindustan Unilever Ltd.	8%	8%
Reckitt Benckiser India Ltd.	3%	3%
ITC Ltd.	2%	2%
Cadbury India Ltd.	2%	2%
Coca Cola India Ltd.	2%	2%
Colgate Palmolive India Ltd.	2%	1%
Proctor & Gamble	1%	2%
Ponds India	1%	1%
Smithkline Beecham	1%	1%
Bharti Airtel Ltd.	1%	-
Total	23%	22%

Source: Indian television AdEx India Analysis, 18 Oct, 2011

Note: Split above is on the basis of volume; Data represents shares for January to September 2011

Genres

Hindi GECs led among the genres with a 27.4 percent share of viewership, but witnessed a decrease from the 2010 figure of 29.6 percent. Nevertheless, this genre is expected to continue its dominant position going forward. South channels followed with a viewership share of 23.7 percent. Hindi movies came next, with a genre share of 11.9 percent while the Kids genre stayed flat at 6.3 percent²¹.

Viewership share by genres

Share of channel genres at all India level	
Genre	2011
Hindi GEC	27.4%
Hindi movies	11.9%
Kids	6.3%
Music	3.2%
Sports	3.5%
Infotainment	1.1%
English movies	1.0%
English GEC	0.2%
Regional channels	33.4%
Others	12.0%

Source: Exchange4media.com, 12 Jan, 2011 and 13 Jan, 2011, Hindustan Times, 02 Mar, 2012, Pitch Madison Report 2012

Hindi GECs

The Hindi GEC genre will continue to grow, and be the main revenue driver for broadcasters, due to the significant reach and viewership levels.

In 2011, Star Plus retained its number 1²² position in terms of viewership. MSM's SET climbed to the number 2 spot, on the back of shows like Kaun Banega Crorepati and Bade Achche Lagte Hain, ending the year at 235 GRPs²³. Colors and Zee TV ended the year at number 3 and 4, respectively.

After a 2010 rebranding campaign that reportedly helped Star regain a leadership position, Zee TV also embarked on a corporate rebranding exercise in 2011. As a part of its effort to better connect with the women audiences, Zee unveiled its new corporate logo with the slogan 'Umeed Se Saje Zindagi'.²⁴

Some key themes observed in 2011 among Hindi GECs were a focus back on fiction programming, continued rapid rise in movie acquisition cost, and an increased attention to flanking channels.



“The next decade may well be the decade of MNC broadcasters – and they may take the market to a very different place”

- MK Anand
CEO
UTV Global Broadcasting

Bringing focus back on fiction

In order to control cost of programming, as well as to improve viewer stickiness, broadcasters appear to be focusing on enhancing their fiction offerings.

2011 saw the launch of several new shows such as “Bade Achche Lagte Hain” and “Kuch Toh Log Kahenge” on Sony, “Choti Bahu 2” and “Afsar Bitiya” on Zee, “Is Pyar Ko Kya Naam Doon?” and “Diya Aur Bati Hum” on Star Plus, and “Parichay” and “Veer Shivaji” on Colors.

MSM's flagship channel SET moved to the number 2 spot by creating significant traction with Kaun Banega Crorepati (KBC), and following it up with strong fiction content.



“2011 has been a very good year for us, with flagship channel SET turning around and reaching no.2. Our new fiction programs like Bade Achche Lagte Hain got momentum just around the time KBC was ending its season. SAB has also done well”

- Nitin Nadkarni
CFO
Multi Screen Media Private Limited

21. Exchange4media.com, 12 Jan, 2011 and 13 Jan, 2011, Hindustan Times, 02 Mar, 2012, Pitch Madison Report 2012

22. TAM, Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

23. Week 52 of 2011, Bestmediainfo.com, 28 Dec, 2011

24. Press articles



// A healthy mix for a GEC would be 85 percent fiction and 15 percent non-fiction //

- Puneet Goenka
MD & CEO

Zee Entertainment Enterprises Limited



// Non-fiction does not result in a sticky audience – an audience that is hooked to the story. The cost of non-fiction / reality is also higher than fiction //

- Puneet Kinra
CEO

Balaji Telefilms Ltd.

Fiction shows, also appear to be more popular than non-fiction generating, on average, higher TRPs than non-fiction.



Top ten fiction programs in 2011

Show	Channel	Prime Time TVR%
Saathiya Saath Nibhana	Star Plus	4.1
Pavitra Rishta	Zee TV	3.3
Balika Vadhu	Colors	3.2
Yeh Rishta Kya Kehlata Hai	Star Plus	3.0
Pratigya	Star Plus	2.8
Uttaran	Colors	2.8
Bade Acche Lagte Hain	Sony	2.6
Sasural Genda Phool	Star Plus	2.6
Laagi Tujhse Lagan	Colors	2.3
Na Aana Is Des Laado	Colors	2.3

Source: TAM Peoplemeter System, All India CS4+market, Time period: 2011; Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

Top ten non-fiction programs in 2011

Show	Channel	Prime Time TVR%
Kaun Banega Crorepati	Sony	3.7
Jhalak Dikhhla Jaa-4	Sony	2.1
DID Doubles	Zee TV	2.1
Just Dance	Star Plus	1.9
India's Got Talent 3	Colors	1.8
FF-Khatron Ke Khiladi-4	Colors	1.7
Saregamapa Li'l Champs	Zee TV	1.6
LUX Dance Ke Superstars	Zee TV	1.6
Entertainment Ke Liye Kuch-3	Sony	1.4
X Factor India	Sony	1.2

Source: TAM Peoplemeter System, All India CS4+market, Time period: 2011; Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

The table below lists the top 10 fiction and non-fiction (reality) launches in 2011, as measured by Ormax Media which tracks the UA (Unaided Awareness) and TA (Total Awareness) of new shows on television. The difference in awareness between fiction and non-fiction shows appears to have reduced vis-à-vis 2010, with awareness of top fiction shows at levels similar to those of non-fiction.

Top 10 fiction and non-fiction launches in 2011

Fiction				Non-fiction			
Show	Channel	UA	TA	Show	Channel	UA	TA
Phulwa	Colors	44	85	Kaun Banega Crorepati	Sony	42	100
Mukti Bandhan	Colors	31	74	Bigg Boss	Colors	39	96
Sasural Simar Ka	Colors	29	74	Zor Ka Jhatka	Imagine TV	33	84
Parvarish	Sony	28	85	Sach Ka Saamna	Life OK	26	88
Diya Aur Baati Hum	Star Plus	27	85	X-Factor India	Sony	22	70
Parichay	Colors	25	76	Khatron Ki Khiladi	Colors	19	93
Kuch Toh Log Kahenge	Sony	24	89	Ratan Ka Rishta	Imagine TV	19	78
Hitler Didi	Zee TV	20	83	Just Dance	Star Plus	17	76
Mahadev	Life OK	20	65	Maa Exchange	Sony	14	54
Dharam Patni	Imagine TV	19	70	Wife Bina Life	Star Plus	13	73

Source: Front Page 2011 - Ormax Media

Movie acquisition cost continues to soar

Movie acquisition cost has seen a rapid rise, growing at rates of approximately 30-35²⁵ percent per annum over the last three years. This reflects both the shortening theatrical window and the growing demand for movies among broadcasters.

2009		2010		2011		2012*		Yet-to-release	
Movie	Cost	Movie	Cost	Movie	Cost	Movie	Cost	Movie	Cost
Ghajini	20-25	3 idiots	30-35	Ra.One	35-40	Don 2	35-40	Dabangg2	50+
Singh is Kinning	15-20	Housefull	15-20	Bodyguard	25-30	Agneepath	30-45	Talaash	40+
Welcome	10-15	Dabangg	10-15	Rajneeti	20-25			Krrish 3	35-40

Note: (1) Years refer to the television premier of the films

(2) * Expected TV premiers

(3) Reported acquisition cost in INR crore

Source: Media articles

The ability to recover the cost of such acquisitions is dependent on the spot rates. For instance, to recover 60 percent of the cost of a movie acquired for INR 30 crores (in the first screening), assuming 20 minutes advertising per hour (3 hour movie) would translate into an effective rate of approximately INR 5 lakhs per ten second spot.



“Movies are a key genre for broadcasters. The cost of movie broadcasting rights has been growing at 30 percent per year. Movies may have a ‘long term value’, and not just the value monetized through advertisements while airing the movie. Three years ago, it was said that INR 8-9 cr for acquiring a big ticket movie was too high – today it does not seem that”

- M. K. Anand
CEO
UTV Global Broadcasting



“ Satellite rights costs for movies have been breaking records; clearly this is driven by strategic and competitive imperatives amongst broadcasters rather than immediate financial reasoning ”

Anuj Poddar
Head – Strategy and Business Development
Viacom 18 Media Private Limited

Airing a movie close to its theatrical release date has served to raise the movie acquisition cost. However, it has also resulted in higher viewership, as reflected in the TRPs of key movie premieres in 2011.

TRPs of Film Premieres in 2011

Bodyguard	10.3
Singham	8.8
Zindagi Na Milegi Dobara	4.1
Band Baaja Baarat	2.5

Source: Press Articles

Selling of broadcast rights offers producers the opportunity of early liquidity, since broadcast rights are often sold before the movie is made, or sometimes even at the concept stage. For instance, Star has reportedly bought satellite rights for yet to be shot Dabangg 2 at INR 50 cr.

Movie broadcast rights have largely moved away from syndicated deals, back to exclusive deals. Further, the contract duration has risen from 5 years to around 7 years.



“ Movie broadcast rights have moved back to exclusive deals. Further, the period for broadcast rights has increased from the earlier 5 years, to 7 years or even more ”

- Uday Shankar
CEO
Star India

Cost of renewal of movie broadcast rights has also been rising strongly. The level of competition for bidding is reflected in the fact that broadcast rights renewal needs to be done 2 to 3 years before contract expiry; else a competing channel may bid for and pick up the rights 1 to 2 years before the current contract expiry.



“ Movie bidding has become extremely competitive, but a channel that does not acquire big ticket movies gets left behind. In fact, even renewals are going at a huge premium. If we take the case of a five year movie broadcast contract, a renewal in today's environment needs to be done three years before contract expiry. Rights today are sold to other broadcasters one year before expiry of contract ”

- Nitin Nadkarni
CFO
Multi Screen Media Private Limited

Flanking channels get more attention

MSM's model of employing a flanking strategy through SAB TV has been successful, with SAB TV consistently staying well above the 100 GRP mark, ending the year at around 120 GRPs²⁶. MSM is continuing to put efforts towards strengthening SAB TV, with new launches such as “Chidiya Ghar” and “R. K. Laxman Ki Duniya”.

Star has also started focusing attention on flanking channels. It re-launched its “Star One” channel as “Life OK” in December 2011, and aims to build it as a strong second line channel. Life OK has introduced several new concepts, such as a defined two-minute breaks, original programming on weekends, and shorter episodes (three episodes in one hour versus the prevalent practice of two episodes per hour). Some of these strategies have now been adopted by other channels (two minute break countdown).

Star has also initiated the strategy of premiering big ticket movies on its Star Gold movie channel, rather than its flagship channel Star Plus, indicating the increased attention given to channels other than the flagship channel.

English entertainment

The English entertainment genre saw continued interest from players, and overall GRPs for English entertainment increased by almost 50 percent²⁷, with increase in both reach and viewing time. Increasing digital penetration in metros, where audiences are likely to show a higher skew towards English content, has led to greater reach for these channels.

• English GECs

While existing GEC channels like AXN, Star world, and Zee Café continued to lead the English genre, the three channels of Reliance broadcasting network – Big CBS Prime, Big CBS Love, Big CBS Spark are together estimated to have gained more than 51 percent of the market share of English GECs²⁸. Comedy Central was a new entrant (February 2012), launched by Viacom 18 as an English comedy channel.

• English movies

Key players in this space include Star, Sony Pix and HBO and Movies Now. ‘Movies Now’, launched in 2010 in high definition and surround sound, helped increase the GRPs of the entire English movies genre by 48 percent²⁹, and is now closely competing with Star Movies for a leadership position.

26. Week 52 of Dec 2011, bestmediainfo.com, 28 Dec, 2011 and Campaignindia.com, 28 Dec, 2011

27. Indian television, 13 Feb, 2012

28. Emkay estimates

29. Scatmag January 2012 issue

Players in the English entertainment segment have experimented with various strategies to better engage the younger Indian viewership. Big CBS plans to extensively use social media to connect with the younger audiences. Fox History and Entertainment has re-branded itself as Fox Traveler, with increased focus on the travel segment.

English channels are also increasing Indian original programming to bring a local flavor to their shows. Fox Traveler has nearly half of its content shot and produced locally. Big CBS Spark plans to introduce Indian music featuring college festivals and music concerts along with international music on its music based shows. AXN, Star World and Discovery Networks also broadcast some original local content along with foreign shows.

English channels have a higher viewership amongst the more premium SEC A viewership, which is an important target segment for advertisers. However, advertisement revenue in this genre has been most affected by the current slowdown in the economy, since several advertisers are multinationals who have felt the effect of slowdown globally, and reduced global advertising budgets.

Regional channels

Regional markets form a sizable portion of the total TV pie - after Hindi GECs, the regional GEC genre is the largest in terms of viewership. Regional advertising markets have grown at a higher rate than the national market, registering a growth of 15³⁰ percent in 2011. They appear to have been more insulated from the current economic slowdown than national channels, to some extent driven by local business segments such as jewelry in Kerala and textile in Tamil Nadu.



Regional ad spends are relatively better insulated against market fluctuations

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

Strong underlying potential and opportunity

As discussed in our report last year, key regional markets in India present a large population with higher-than-average incomes and consumption patterns. Advertiser interest in these markets has been rising – Andhra Pradesh is viewed as a test market by several companies, and the Maharashtra market is seen as a priority market by several advertisers³⁰.

Large broadcasters have recognized the rising importance of these markets, and are looking to expand their regional footprint, through both channel launches and increased M&A activity in this space.

Some examples of regional expansion in 2011

Network / Channel	Action	Comment
UTV	Launch of Action Telugu	Launch of new regional offering
Network 18	Takeover of ETV (100 percent stake in news channels; 24.5 percent in Telugu GEC, and 50 percent in other GEC channels)	M&A to widen regional presence – add regional channels to complement national offering
Discovery	Launch of Discovery Tamil (with its own specific programming)	Launch of new regional offering

Source: Media articles, Industry discussions



India is one of the few countries where Discovery is split in two. Discovery channel Tamil was spun off into a separate channel and programming was based on extensive research on likes and dislikes of the Tamil audience. Advertisers' response has been extremely positive. Today, the channel attracts more viewership than all Tamil dubbed channels across all genres in the state

- Rahul Johri
Senior Vice President & General Manager
Discovery Networks Asia-Pacific, India



30. Industry discussions

M&A activity and regional expansion are expected to continue going forward, as large national networks acquire regional broadcasters to get a “pan-India” presence. However, discussions suggest that there are fewer good-quality assets available for acquisition and valuations continue to be high.

Market size

Language	Households (millions in the home state)	Television households (millions, percent of total households)	C&S households (million, percent of television households)	Advertisement market size (INR crores)
Tamil	17.5	16.1 (92.3 %)	15.4 (95.7%)	1,170
Telugu	20.5	14.2 (69.1%)	13.8 (97.7%)	800
Bangla	19.8	8.7 (43.7%)	7.4 (86.0%)	780
Kannada	13.2	9.3 (70.4%)	9.0 (96.9%)	560
Malayalam	8.1	7.4 (92.4%)	7.0 (94.0%)	575
Marathi	24.6	16.2 (65.8%)	13.3 (82.5%)	390
Oriya	9.8	3.9 (39.5%)	3.2 (81.8%)	70
Gujarati	12.4	7.6 (61.1%)	6.1 (80.4%)	40

Source: IRS Q3 2011, Industry discussions

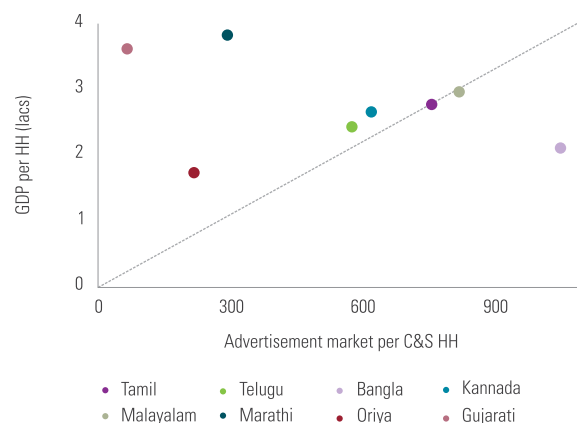
The Tamil market continues to dominate the regional markets in terms of advertisement spends, followed by Bangla and other southern markets.

A comparison of GDP per household versus advertisement market per C&S household across key regional markets is illustrated below. In theory, the advertisement market per household may be expected to be high in markets where the GDP per household is high, and vice-versa.

The chart below should be considered in conjunction with the share of regional language in the home state. For instance, it may be noted that Marathi and Gujarati markets appear to be strongly under-penetrated in terms of advertisement revenue, given the size of their economies. However, this may be due to the bi-lingual nature of the population, who are targeted not just through Marathi / Gujarati channels, but also through Hindi channels.

However, the Bangla market appears to be over-valued relative to other markets, basis the chart below.

Potential for regional markets

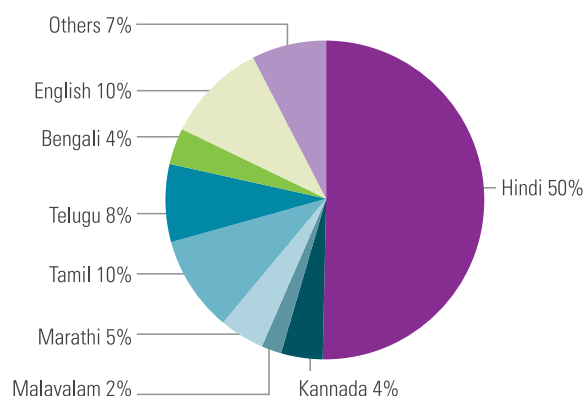


Source: Press articles, Industry discussions, KPMG in India Analysis

Viewership share of regional channels

Regional channels accounted for approximately 33³¹ percent of the all India CS4+ television viewership, with Bengali and Marathi channels gaining viewership along with the South Indian channels.

Language-wise channel share



Source: Pitch Madison, Viewership (percent) C&S 4+ All India

Key trends:

- Share of regional channels within home state**

Some regional markets in India, such as Gujarat, Maharashtra, Karnataka etc. are largely bi-lingual, where Hindi (or some other language) is commonly spoken in addition to the home state language. In such states, regional language channels face competition from Hindi GECs. For instance, industry discussions suggest that in Maharashtra, a significant portion of the audience switches over to Hindi channels during prime time. In Karnataka, particularly in Bangalore, Kannada channels are losing share to Hindi and Tamil channels. Bangla channels, however, have raised their share in the bi-lingual state of West Bengal, driven by strong investment in content.

In other markets such as Tamil Nadu and Kerala, the home state language enjoys a dominant position, and the regional languages account for a majority of viewership.

- Non-GEC genres expand into regional**

Regional markets are emerging as the next big play for players in the non-GEC segment as well. Several national players across infotainment, movies, and music and kids genres expanded their footprint into the regional markets in 2011.

Discovery spun off DiscoveryTamil into a separate channel altogether, while Fox Traveller launched a 24-hour Bangla feed. UTV launched its UTV Action Telugu showcasing Telugu-dubbed English action movies. 9XM Media launched 9X Tashan and 9X Jhakaas in the Punjab and Marathi markets respectively. Viacom launched its new Kids channel 'SONIC' with a multi-lingual feed.

Existing regional players have also expanded their offerings in the non-GEC genre. Sun TV network has launched advertisement-free action movie channels in the four southern languages. It has also launched a new Kids channel "KochuTV" in Malayalam in addition to its three existing Kids channels in the Tamil and Telugu markets.

- Changing distribution environment in Tamil Nadu**

In 2011, the Tamil Nadu government revived Arasu cable, the State-owned cable distributor. Arasu went live across Tamil Nadu, except in Chennai, in September 2011, without the top four paid Tamil channels – Sun TV, KTV, Star Vijay and RajTV. More than 90 percent³² of cable operators in the state (outside Chennai) are estimated to have enrolled with Arasu cable.

While Sun TV is still not carried on Arasu cable, Arasu customers are now receiving the other top pay channels like Star Vijay, KTV and RajTV. Arasu cable now offers 97 pay channels and 50 free-to-air channels at monthly subscription of INR 70, versus Sun Direct's base bouquet of INR 149 a month. Arasu has taken a recent decision to recently foray in Chennai and about 2,000 operators are reported to have registered with the network³³.

Both Arasu cable and Sun TV have indicated that they are in negotiations to include Sun TV in the Arasu network. However, no development has been reported on that front as of now.

News

News channels command a share of advertising revenue disproportionate to their viewership share – the share of advertising revenue is approximately double the share of viewership. This premium is paid to reach the male audience (the core target group for GECs is female). However, news channels tend to have carriage payout significantly higher than subscription revenue – i.e. they are "net payers" on the distribution front, which is not adequately compensated for by advertising revenue.

2011 has been a challenging year for news channels, with carriage costs rising but advertising revenues showing muted growth. Rates have been under pressure, and not shown any material increase over the last 3 years. Further, there is very limited potential for revenue increase through volume growth for news channels, as inventory levels are already very high³⁴.



"In Bengal, consumption of Hindi channels has decreased and people are watching more of Bengali channels. In Maharashtra, the reverse is true. The shift in Bengal might be content driven, as stronger content became available in Bengali. In Maharashtra, the shift in viewing patterns might be due to the footprint of TAM metering systems – which have entered areas in Konkan where non-Marathi languages are spoken."

- Puneet Goenka
MD & CEO
Zee Entertainment Enterprises Limited

31. Pitch Madison Report 2012
32. The Hindu, 26 Aug, 2011

33. Press articles
34. Industry discussions



“ In tough times, advertisers tend to put pressure on smaller and more competitive genres like news. The genre saw muted growth in 2011 ”

- Ashok Venkatramani
CEO
Star News

Digitization, and the associated increase in subscription revenue along with the potential decline in carriage (due to increase in carrying capacity), may be critical for the sustainability of the news genre. Currently, news channels are only able to afford limited investment in content, and the environment may encourage sensationalization of news in order to draw maximum eyeballs – and increase advertising revenue. An increase in subscription revenue / decline in carriage will enable news channels to invest in content³⁵.

Hindi movies

The importance of movies for a broadcaster has gone beyond advertisement revenue generation. In a fiercely competitive market, movie premieres are now considered essential to brand building and sustaining eyeballs for the channel.

A key trend emerging in 2011 was the premiere of big movies on the movie channels of the broadcasters rather than the flagship GEC. Star network was the first to start the trend in order to establish Star Gold as a leading movie channel in the genre. Star Gold premiered blockbusters like ‘Singham’, ‘Ra.One’ and ‘Zindagi Na Milegi Dobara’ during 2011 and continued with ‘Rockstar’ in 2012. Zee and Sony have also experimented with the strategy, premiering relatively smaller hits like Double Dhamaal and Shaitan on Zee, and Mujhse Fraandship Karoge on Set Max.

Sports

2011 saw a spike in the sports viewership, with several international sporting events like the Cricket World Cup, IPL, Common Wealth Games, Formula One racing championship and several football matches held in the country. The Cricket World Cup had the best possible outcome from an India perspective – India won the World Cup. Advertisers directed spends towards the Cricket World Cup, as India progressed in the tournament, which may have led to reduced spend towards the IPL³⁶. Advertisers also directed some of their print advertising budget towards television because of the Cricket World Cup. The Cricket World Cup is estimated to have generated INR 600 – 800³⁵ cr in TV advertising revenues.

In contrast, the fourth season of IPL saw a dip in viewership, as ratings declined sharply compared to the first three seasons leading to advertiser demands for lower advertisement rates during coming seasons.

Increasing demand to watch sporting events in high definition provided an impetus to the HD growth wave. Three new HD sports channels were launched in 2011 – ESPN HD, Star Cricket HD and Ten Sports HD.

Interestingly, while cricket continues to account for over 80³⁵ percent of the advertisement pie, broadcasters are also targeting committed audiences for other sports. After last year’s launch of Ten Action+, a 24 hour football channel, Ten

Sports is reported to have plans to launch a golf dedicated channel, Ten Golf in the coming months. Sports like football and golf may help the advertiser target the upwardly mobile premium consumers, attracting good advertisement rates while the acquisition cost for these sports remains as low as 10 percent of the cost of acquiring live cricket telecast rights.

Music

The viewership share of the music genre saw an increase from 2.5 percent to 3.16³⁶ percent in 2011, due to an increase in the absolute channel shares and entry of new channels.

In a highly fragmented market of 19 players, content differentiation has remained a challenging task. After experimenting with their content and positioning strategy in 2010, Hindi music channels appear to have found their niche. While 9XM and Mastiii continued as pure play music channels, Channel [V], MTV and UTV Bindass have positioned themselves as youth-centric channels with a high content mix of fiction and non-fiction youth based programming.

Sony Mix, the latest entrant in the Hindi music category, has experimented with the strategy of playing music as per the mood and the time of the day. 9XM Jalwa, yet another new entrant launching in end February, is also reported to have special bands dedicated to various moods of music.

The use of social media as a tool of engaging with the younger audiences extended to the music genre as well. For instance, 9XM has started a live streaming facility of its on-air content on its official website.



“ One of the drastic changes in the media buying pattern seen in 2011 was the strong preference towards niche channels. Marketers have started taking niche genres seriously as these channels have become most cost effective medium for the brands. These niche channels, especially the music genre, have become a strong medium for brands, and I foresee this trend continuing in 2012. Also digitalization in the industry will have a greater impact on these niche channels. They will be the new mass as they deliver the message across and will be a positive force to reckon with ”

- Mr. Pawan Jaikhani
Head-Sales
9XM Media

Kids

The Kids genre is becoming an important television segment, reportedly delivering over 500 GRPs every week in comparison with the industry average of 200 GRPs³⁷. Childrens’ role as purchase influencers has long been recognized by advertisers. With 30 to 35 percent³⁵ of the viewership on these channels attributed to adults 15 years and above, non-traditional advertisers like automobiles, BFSI and other non-FMCG household consumables also advertise on these channels.

35. Industry discussions

36. For week 1-50, Exchange4media.com, 12 Jan, 2012

37. Hindustan Times, 13 Nov, 2011



Disney Channel has a broad appeal, and enjoys significant co-viewing of families, along with its success amongst kids. This is reflected in the channel's 4+ audience viewership which has witnessed an upswing, taking it among the mass-appeal entertainment and movie channels

- Nitin Chawla
Vice President-Interactive Media Group
The Walt Disney Company India

In 2011, Viacom launched its Animation channel 'SONIC' targeted towards young adults, 10 to 17 years old. Competition led to increased fragmentation in the genre, while viewership share of the genre remained unchanged.



One shift noticed in 2011 is that kids prefer to watch fewer shows on kids' channels than before and have begun to spend more time per show. Thus, although the viewership for the number of shows has reduced, the overall category viewership remains mostly unchanged

- Monica Tata
General Manager
Entertainment Networks, South Asia
Turner International India Pvt. Ltd.

Localization continues to be a key trend for the kids segment. Pogo achieved a leadership position riding on the success of its popular animated show "Chhota Bheem", which is reported to be the top show on Kids channels in India. While local characters are gaining popularity, a number of shows scripted and conceived in India are being executed in destinations like Indonesia, Singapore and Argentina, where animation costs are reported to be more economical compared to India³⁸.

Lifestyle & Infotainment

The lifestyle and infotainment segment in India continued to evolve in 2011, with major players expanding reach and increasing investments in quality content. The overall advertisement revenue market for the infotainment and lifestyle segments is estimated to be INR 3³⁹ billion. Key players in the infotainment segment include Discovery Channel, National Geographic and new entrant, HistoryTV18, and those in the lifestyle segment include TLC, Fox Traveler, and NDTV Good Times.

In the infotainment genre, Discovery channel and TLC launched several new formats with engaging hosts. Discovery channel provides a feed in five languages including Hindi and English. These channels host programming on topics including natural history, survival, technology, wildlife, and India.

The lifestyle segment succeeded in creating new television trends in 2011. Indian television saw the rise of dedicated food channels focusing on culinary entertainment. Zee

launched the nation's first 24-hour food channel, Khana Khazana, at the end of 2010, based on the country's popular TV show. Other new food channels in 2011 include: Astro Television's Food Food and Real Global Broadcasting's Food First. These niche channels are only available on digital networks, and hence cater to the evolved customer. In 2011, the average Indian viewer spent approximately eight minutes⁴⁰ per day watching cooking-related TV. MasterChef India, inspired by the Australian and UK formats, is attributed to increasing the popularity of cooking shows.

Other themes in 2011, and going forward

Waiting for the HD growth curve

Buoyed by increasing LCD and Plasma TV sales, expected to grow at a CAGR of 22 percent⁴¹ over 2011 to 15, broadcasters and DTH players have expanded their HD offerings this year. With an increasing uptake of affordable HDTV's, consumers may be willing to pay a premium for a better viewing experience on these television sets.



Out of the approximately 15 million new colour TV sales in India, around 6 million are LCD / LED. Of the LCD / LED screens, around 15 percent are HD. With HD panel prices consistently dropping internationally, we see this 15 percent going up to 30 percent. Rather than move from a flat CRT to a SD LCD / LED TV set, the Indian consumer might move directly to a HD LCD / LED – just like the consumer leapfrogged landline telephones

-Anil Khera
CEO
Videocon D2H

While HD penetration amongst the existing subscribers is low, this is expected to increase significantly going forward. Approximately 7 to 8 percent³⁸ of new DTH subscribers are estimated to be opting for HD packages.

The demand for HD channels amongst consumers has gone beyond specific events, sports and movies. Approximately 30 channels are available in HD today in GEC, Infotainment, and lifestyle apart from movies and sports genres. Increasing subscription for HD channels may help increase ARPU's and provide a subscription revenue boost to distributors and broadcasters.

HD is here to stay for the long term. However, given the high investments in production and broadcast of HD content combined with the lower than the optimum penetration of HD subscriber base currently, broadcasters are cautious

38. Industry discussions

39. Indian television.com, 25 Jan, 2012

40. Knowledge@Wharton 7 Jul, 2011

41. Euromonitor

in their approach towards HD. A typically HD channel may require a bandwidth equivalent to 3-4 SD channels. Transponder capacity constraint may also prove to be a challenge for DTH players to expand their HD channel offering in the long term.



“ Our HD experience has been very good. New TV sales are dominated by flat screen TVs with HD technology. Customers are willing to pay for the breathtaking HD experience. While the HD penetration today looks small, it is growing at a very rapid pace. Discovery HD World will continue to benefit from its first-mover advantage ”

- Rahul Johri
Senior Vice President & General Manager
Discovery Networks Asia-Pacific, India

Re-engineering television content

With an increased number of channels in a digitized environment, and with greater choice in the hands of the consumer, broadcasters will be pushed to deliver differentiated, high quality programming.



“ Every broadcaster’s revenue may not shoot up with digitization. Customers will be the deciding factor. If channels want to take advantage of the opportunity afforded by digitization, they have to re-engineer their content and brand USP ”

- Rahul Johri
Senior Vice President & General Manager
Discovery Networks Asia-Pacific, India

Multi-screen television content consumption

Indian consumers are beginning to consume television content on non-TV devices like smart-phones, tablets, and personal computers. India is reported to have a subscriber base of one million active users of mobile TV, while six million active subscribers have access to 3G services⁴².

While mobile TV is yet to pick up in India on a large scale, broadcasters and telecom service providers have already launched TV-on-the-go services in larger mobile markets. In 2011, MTNL launched mobile TV services for its 2G and 3G subscribers in Mumbai and Delhi.

In early March 2012, Zee New Media launched India’s first over-the-top (OTT) TV distribution platform, Ditto TV, which will provide television content and video-on-demand to customers consuming content through their mobile phones, laptops and tablets.

Zenga, a free platform, already operates in the mobile TV segment in India with a 65-70 percent⁴² market share, and is reported to have achieved a 250 percent growth in revenues over last year, when it launched.

The Times Group plans to launch BoxTV.com, a service that is expected to enable viewers to watch the latest movies and TV shows online. The group aims to target new-age consumers, and is in the process of introducing new products across the news and entertainment categories⁴³.



“ We want to be available on any platform where our target audience is present, be it the original channel, our own websites, other portals and video platforms, social networks and on mobile platforms ”

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

Digitization will also open up avenues for broadcasters to launch subscription driven, specialty channels in India. On the lines of international markets, niche channels dedicated to cooking, gardening, gaming, automobiles, health or education may find flavor in India. Addressability also provides an opportunity for broadcasters to insert localized content and advertising, translating into premium advertisement rates.

Subscription driven, advertisement free channels are available on digital platforms in developed markets. However, such channels require a non-capped tariff regime, which is still being discussed by TRAI with the industry stakeholders. Interestingly, Sun TV has already launched four advertisement-free action movie channels in the four southern markets.



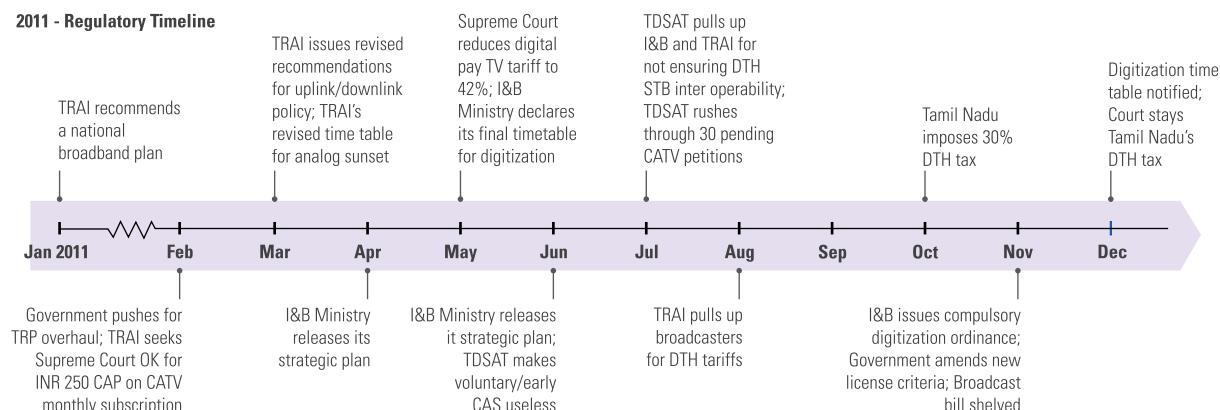
42. DNA, 1 Mar, 2012

43. EconomicTimes article dated February 25, 2012


Regulatory snapshot




The timeline below indicates key regulatory updates in 2011.


2011 - Regulatory Timeline



Industry wish-list

Entity	Wish-list	Comment
Broadcasters	Move to CPT, rather than CPRP based system	<ul style="list-style-type: none"> Currently, the industry primarily uses the CPRP metric to arrive at rates According to broadcasters, a CPT metric would better represent the new C&S households that are added every year <p>"There is a dire need for CPT/ CPM method of evaluating the TV medium along with rural measurement for factual monetization and survival of TV industry at large"</p> <p>- Subramanyam K National Head – Adsales and Marketing ETV Network</p> 
	Introduce pricing freedom	<ul style="list-style-type: none"> In the previous CAS regime, the government had regulated the retail pricing, as well as revenue share amongst the various elements in the distribution value chain For the current DAS regime, the government has not taken a decision on whether pricing would be market driven or regulated Strong broadcasters would prefer pricing freedom <p>"There is more than enough competition and market forces ought to determine pricing; the regulator shouldn't determine pricing"</p> <p>- Nitesh Kripalani Senior Vice President Multi Screen Media Private Limited</p>
	Introduce 'must carry' clause	<ul style="list-style-type: none"> Currently, there is a "must provide" clause, where broadcasters are required to provide their channel to all distributors However, there is no "must carry" clause where distributors would be required to carry the channels of all broadcasters In order to create balance, broadcasters would like a "must carry" clause introduced However, this may pose a practical challenge, since even in a digitized environment, capacity availability on DTH may be a challenge

Entity	Wish-list	Comment
MSOs	Regulate price at retail level – Introduce concept of “MRP”	<ul style="list-style-type: none"> In the previous CAS regime, the government had regulated the retail pricing, as well as revenue share amongst the various elements in the distribution value chain For the current DAS regime, the government has not taken a decision on whether pricing would be market-driven or regulated A market-driven pricing model may lead to a customer in one region / area paying a very different ARPU from a customer in another region / area for the same bouquet of channels
	Plan analog switch-off in a practical fashion	<ul style="list-style-type: none"> If analog signal is completely switched off on the sunset date for any Phase (particularly Phase 1), it may cause shock and resentment in customers who may not have moved to digital by the sunset date, who may then move to DTH MSOs believe that it may be more prudent to switch off pay channels on analog on sunset date, while continuing with FTA channels on analog for a further 3-4 months. This is expected to give the customers a clear signal about the government's resolve of going digital, while still giving them a few months to move to digital without having a complete blackout of channels – and may reduce resentment <p>“Going ‘cold turkey’, and switching off analog signal completely on Day 1 of DAS, is likely to create chaos and confusion – since there may be several households without a set top box on the sunset date. There are likely to be challenges in installing set top boxes in all Phase 1 areas by the June deadline, given that it is less than 4 months away, and there are exams in April, and holidays in May. For a smoother transition, one could switch off pay channels on analog, leaving subscribers to watch FTA channels in analog till they install a set top box, and then 3 to 6 months later, implement sunset of analog. This would ensure that both subscribers and operators have enough time to install set top boxes in the entire Phase 1 area without any problems”</p> <p>- Ravi Mansukhani MD & CEO IndusInd Media & Communications Ltd.</p> 
	Incentives and support from the government	<ul style="list-style-type: none"> The industry would benefit from government incentives and support. Some items raised included: <ul style="list-style-type: none"> Customs duty waiver for set top boxes – this has been rejected by the government in 2011 Granting infrastructure status to the industry
	Assisting with right-of-way	<ul style="list-style-type: none"> Currently, right-of-way is difficult to obtain, and is very expensive Rationalizing the right-of-way payment, and making the process easier would aid the digitization effort
	Enforcement and policing, post digitization	<ul style="list-style-type: none"> The state government should expend efforts in enforcing digitization, and in curbing piracy that might creep in, in a digitized environment
DTH operators	Rationalize taxes	<ul style="list-style-type: none"> The DTH industry pays around 30 percent of revenue as taxes, excluding income tax The tax levied on the DTH industry includes an average of 10 percent entertainment tax, 10 percent in license fees and another 10 percent in service tax; in addition to include a five percent custom duty on set top boxes Reduction / rationalization of taxes would give a strong fillip to the industry <p>“Tax is a key challenge. We are charged both entertainment tax and service tax. Further, there are VAT on set top boxes, octroi, and license fee of 10 percent of our revenue”</p> <p>- Anil Khera CEO Videocon D2H</p> 
		<p>“The double charge of service tax and entertainment tax should be subsumed in GST and there should some relief in license fee from existing 10 percent to 6 percent as agreed by TRAI and I & B Ministry. The basic customs duty on digital head-end and Set-Top-Boxes should be reduced to zero for three years to give boost to digital conversion”</p> <p>- Salil Kapoor COO Dish TV India Ltd.</p> 

Entity	Wish-list	Comment
	Open market to make bandwidth available	<ul style="list-style-type: none"> DTH operators are facing bandwidth / capacity issues In a freely competitive environment, capacity availability would improve
Content creators	Move to using content banks in Hindi GECs	<ul style="list-style-type: none"> Currently, Hindi GECs shoot for a program just 1-2 days before airing, leaving almost no buffer for contingencies Building a content bank would reduce risk, and also reduce the cost <p>“The typical trend today on daily soaps in Hindi GECs is to shoot with very limited buffer – shooting may be done only a day or two in advance of airing. The industry should move to a practice of creating script & episode banks, which will prove better in quality, more economical as well as create a buffer in case of emergencies. Some of the leading broadcasters are pushing hard and trying to promote this practice”</p> <p>- Santosh Nair COO UTV Television</p> 
	Owning IP in Hindi GECs	<ul style="list-style-type: none"> In the Hindi GEC industry, broadcasters own the content once it is produced for them This is unlike in the South TV industry (Sun TV), or even unlike the movies, where the IP rests with the content creator. For format-driven shows, the IP is owned by the content creator and not the broadcaster (even in the case of Hindi) Content producers would like to own the IP for their content <p>“It would be good to own IP, as happens in films”</p> <p>- Puneet Kinra CEO Balaji Telefilms Ltd.</p>



Print

Exploring new(s) frontiers

03



Print

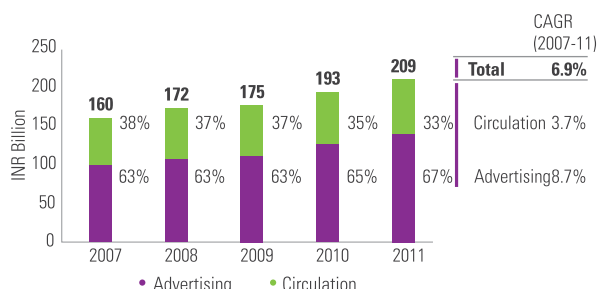
Exploring New(s) Frontiers

03

2011 Print review

In the calendar year 2011, the INR 209 billion print industry grew by 8.4 percent from INR 193 billion in 2010, slightly lower than our expectation of 9.5 per cent last year. Even though the long term growth story of Indian print industry remains promising, the sector was impacted due to the overall macro environment being depressed. The macroeconomic environment remained challenging and dampened the advertisement spends. The print players continued to adopt a cautious and pragmatic approach with the primary focus on consolidating their position in core markets.

Print industry: Advertisement v/s circulation mix



Note: The data pertains to the calendar year (from January to December of the respective year)
Source: KPMG in India Analysis

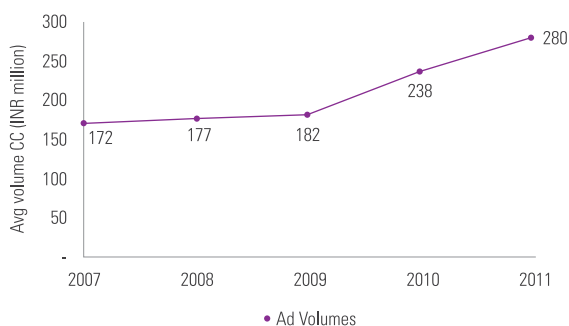
Advertisements drive revenue growth

The growth in advertisement revenues has been at a CAGR of 8.7 percent, whereas circulation revenues have displayed a CAGR of 3.7 percent between 2007 and 2011. The advertisement revenues continued to be the main source of revenue for the print industry, contributing 67 percent to industry's revenues.¹

India is no longer isolated from the global economic slowdown and movements in key economic indicators reiterate slowing economic activity in India. Losing growth

momentum over a liquidity crunch, policy paralysis and spill overs from the global financial turmoil, the economy which was expected to grow by 7.5 percent this fiscal year is now expected to barely grow by 7.0 percent² as per RBI's estimates and 6.9 percent³ as per the CSO estimates. The strong correlation between economic growth and advertisement spends was reflected through weak advertisers' sentiments. Some of the big spending sectors such as education, BFSI and retail tightened budgets.

Daily print ad volumes



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The newspaper advertisement volumes increased from 238 million column centimetre of ad space in 2010 to 280 million column centimetre in 2011. Overall, the ad volumes have increased at a CAGR of 13 percent from 2007 to 2011.⁴ The industry also saw a 22 percent increase in the number of advertisers.

Increase in number of advertisers

Total number of advertisers	(In 000s)
2010	149.5
2011	181.7
New advertisers in 2011	32.2

Source: TAM MEDIA RESEARCH PVT. LTD. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

01. KPMG in India Analysis
 02. RBI, January 2012 review
 03. Central Statistical Organization (CSO)
 04. Pitch Madison Ad Outlook 2012

Top categories advertised on Print (by volumes)

Print	2007	2008	2009	2010	2011	Change from 2010
Education	16.5	17.1	17.3	14.6	10.6	▼
Auto	8.6	6.8	7.8	7.1	9.8	▲
FMCG	6.6	5.8	7.2	7.4	8.9	▲
Real Estate & Home Improvement	7.1	6.4	6.5	8	8.4	▲
BFSI	7.8	8.3	7.9	8.7	6.7	▼
Clothing/Fashion/Jewellery	5.9	5.1	5.5	5.3	6.5	▲
HH Durables	6.1	6.5	5.3	5.3	5.7	▲
Retail	5.9	5.5	5.8	5.8	5.6	▼
Telecom/Internet/DTH	7.3	6.2	5.4	6.3	4.7	▼
Corporate	4.1	3.6	3	3	2.8	▲
Travel&Tourism	4.2	4.3	3.5	2.5	2.8	▲
Media	2.4	1.9	2.2	2.2	1.5	▼
Others	17.5	22.5	22.8	23.8	25.9	▲

Source: Pitch Madison Ad Outlook 2012

The education sector continued to be the top spender on print; however, its share declined considerably from 14.6 per cent in 2010 to 10.6 per cent in 2011. Share of BFSI, Retail, Telecom and Media also slid from the 2010 levels. BFSI's contribution to the print ad pie declined from 8.7 percent to 6.7 percent in 2011 on the back of increased interest rates on personal and home loans and stringent regulations especially in distribution of financial products which slowed down the business and thereby dampened the ad spending of the industry.⁵

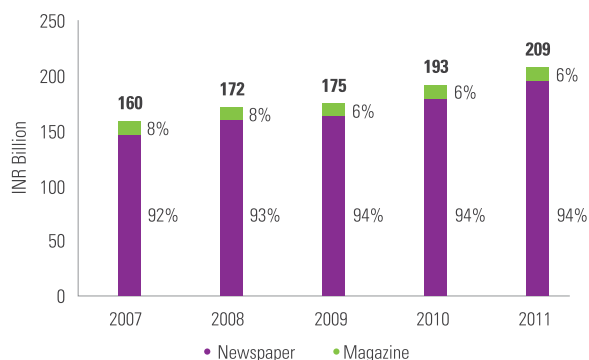
The auto sector increased its share of voice with a number of new launches and promotional activities aimed at attracting customers. The sector's contribution increased from 7.1 percent in 2010 to 9.8 percent in 2011. FMCG expanded its contribution to total print ad spending on the back of increased spend by personal care and household categories. Of the total 8.9 percent FMCG spends in 2011, personal care category contributed 5.5 percent, household category contributed 3.1 percent and the remaining 0.3 percent was by impulses category.⁵

05. Pitch Madison Ad Outlook 2012 Note: Impulses category includes FMCG items which form a part of impulse purchases such as chocolates, biscuits, snacks, etc.

The newspaper industry continues to be the largest contributor to the print industry

In 2011, 94 percent of total print revenues were contributed by the newspaper publishing sector up from 92 percent in 2007. The newspaper industry is estimated to be worth INR 197 billion while magazine industry is estimated to be INR 13 billion.⁶

Print industry: Newspaper v/s Magazine



Source: KPMG in India Analysis

affluence and a consumerist outlook. Players are gradually adopting business models which are in tune with the markets in which they operate. The industry is beginning to treat the urban consumer at par with the global citizen and developing content and delivery platforms which are in-tune with the changing times. On the other hand, the industry will have to connect with the consumer in emerging consumption centres by establishing strong relationships through local language content, quality service, innovative business models and bringing comfort of familiarity.

The rate of ad-spend growth in smaller cities has accelerated and overtaken the traditional markets. These markets have two key drivers- the local retail market, and national advertisers. Erstwhile these markets were dominated by local advertisers, however in the last few years; these territories have witnessed the emergence of national advertisers as well. In the current scenario, while the local retailers continue to do well and thrive, the national advertisers' spend have been reflective of the global sentiments.

Rise of new consumption centres

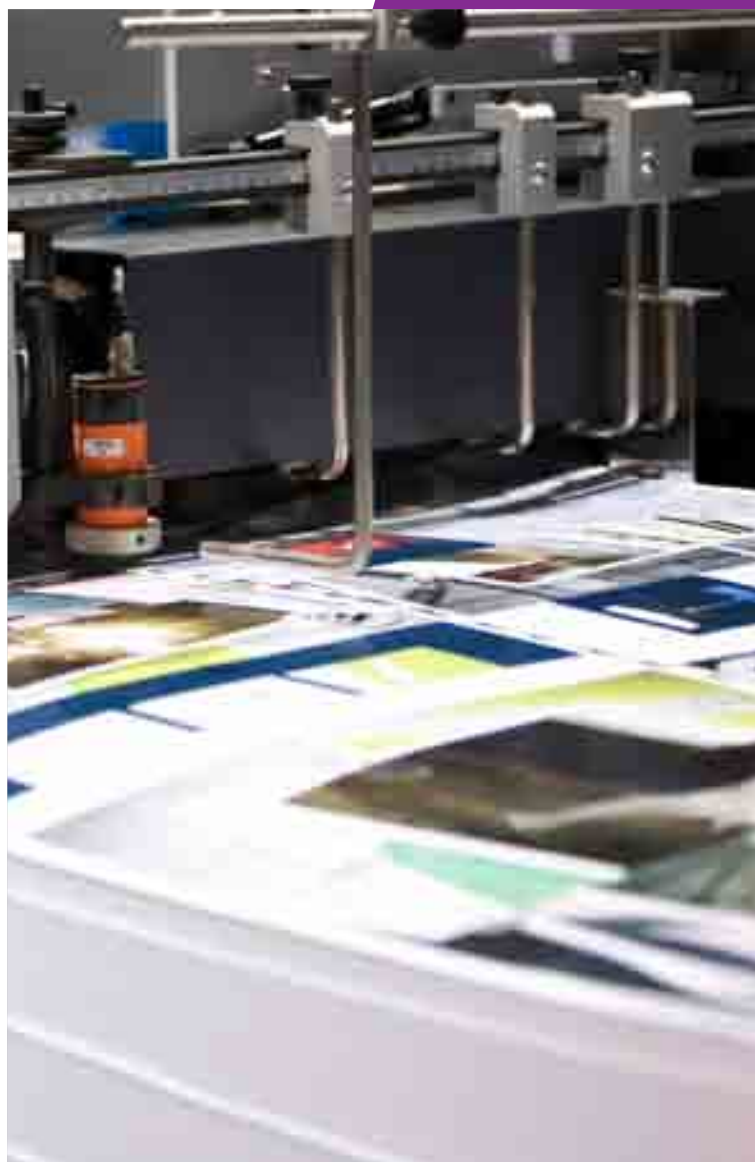
The Indian print industry has to be looked at from two perspectives- the urban centres and the emerging centres of consumption. Thus far the metros and tier I cities were the hub of economic action; however, the focus is now shifting to the next 40 cities which are experiencing rapid urbanization and a greater economic growth. Powered by strong consumerism, these centres have been insulated to a large extent from the impact of global slowdown.



Print's long term story will be driven by consumerism in Tier II and Tier III towns where country's 1100 million population lives. This is reflected in a higher consciousness amongst the media planners looking beyond urban centres and focusing on the regional markets

- Sanjeev Kotnala
Vice President Brand Communication
and National Head
D B Corp

The playing field in both these markets is quite different. The urban centres observe high levels of media penetration, faster adoption of technology, deeper penetration of internet and mobile and a rapid change in consumer behaviour and media consumption patterns. On the other hand, the tier II and tier III markets continue to be attractive due to increased



Illustrative list of national players focusing on tier II and tier III cities

Company	Sector	Regional Plans
BMW	Automobiles	Expects the contribution of Delhi and Mumbai to drop to around 40 percent of sales (from 70 percent) and the rest to come from tier II cities
Blackberry	Telecom	Plans to launch its products and services in tier II and tier III cities in India and focus on the consumer segment by introducing appropriate products
Blue Star	Consumer Electronics	Plans to focus more on the home air- conditioner segment and market it in tier II and tier III cities
SanDisk	Consumer Electronics	Planning to focus on tier-II and tier-III cities in India. The company has tied up with Inter Foto India Pvt Ltd to use the distribution channels to market its memory cards
Lenovo	Consumer Electronics	The company has launched 150-200 square-foot stores to enable the company to penetrate deeper into the small towns. There are 400 "Lite" stores across India
Dell	Consumer Electronics	The company has identified 22 small cities to capture mid-market clients for hardware, software and IT services.
Samsung	Consumer Electronics	The company has set up branch offices in Guwahati, Ranchi and Patna and is expanding its footprint in smaller markets. It is also investing in roadshows, local language advertising, exhibitions and fairs to woo the smaller areas.
CMC (Tata Group)	Education	CMC intends to create employable workforce in association with the Industrial Training Institutes and the National Skill Development Corporation in tier II and tier III cities
Bajaj Allianz Life Insurance	Financial Services	Plans to target people in tier II and III cities and rural markets for its low- value term policy
Axis Bank	Financial Services	The bank is looking to scale up its retail operations by focusing on the demand in smaller cities. It aims to increase the share of retail loans from 21 percent of total loans to 30 percent of total loans in the next three years
Barclays Wealth	Financial Services	Plans to target high net-worth individuals in tier II and III towns in India
PepsiCo	FMCG	Plans to expand the market for its breakfast cereals by entering smaller cities in India with its 'Quaker Oats' brand
Herbalife	Healthcare	Plans to expand its presence in tier II and III cities. The company has tied up with 1.5 lakh distributors from cities such as Vijayawada, Indore, Guntur and Madurai and intends to establish its presence at locations such as Jalandhar, Ludhiana and Siliguri
Parkside Hotels and Resorts	Hospitality	The company has hotels - existing and under construction - in tier II cities like Coimbatore, Madurai, Bangalore, Hyderabad, Trivendrum and Trichy. The company is expected to sign deals to take eight more hotels on lease
Best Western International	Hospitality	Intends to open 10-15 hotels a year in tier-2 and tier-3 cities

Source: Company Press Releases, Factiva database

Buoyant language markets

Hindi continues to be the key language market with 5 out of top 10 Dailies being published in Hindi language. Together Hindi and Vernacular languages have a combined readership of almost 8x of English readership. The two segments (Hindi and Vernacular) now contribute approximately 60 percent of industry's revenues and cater to 89 percent of the readership.⁷



“ We want to go deeper into our geography. Readership as a percentage of the literate population amongst regional dailies is in the range of 10 to 30 percent. There is immense opportunity with headroom of 70 to 90 percent. So the strategy is to be hyper-local and get more local advertisers ”

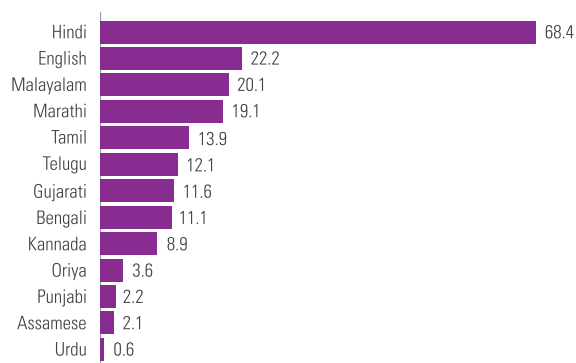
- D.D. Purkayastha
Managing Director and CEO
Anandabazar Patrika

Average Issue Readership (AIR) of top 10 Dailies

Name of Publication	Language	AIR (in 000s)
Dainik Jagran	Hindi	16,458
Dainik Bhaskar	Hindi	14,876
Hindustan	Hindi	12,033
Malayala Manorama	Malayalam	9,912
Amar Ujala	Hindi	8,836
The Times of India	English	7,467
Daily Thanthi	Tamil	7,447
Lokmat	Marathi	7,438
Rajasthan Patrika	Hindi	6,918
Mathrubhumi	Malayalam	6,630

Source: IRS Q3 2011

Average Issue Readership of publications by language



Average Issue Readership of Publications (Million)

Source: IRS Q3 2011

Language-wise revenue and readership split

2011		
	Revenue Split	AIR Split
English	40%	11%
Hindi	30%	35%
Vernacular	30%	54%

Note: AIR refers to Average Issue Readership of Any Daily

Source: KPMG in India Analysis, IRS Q3 2011

Together, the Hindi and Vernacular markets are expected to grow at a CAGR of 10.9 percent over the period 2011-16, outpacing the English language market's growth of 6.3 percent.⁸ The pan India reach of regional newspapers is 173.80 million compared to only 22.21 million in case of English newspapers⁹. At present, English enjoys an advertising premium over vernacular languages; however, experts feel

that there is a potential for the Hindi and Vernacular dailies to increase their rates. In 2007-09, the advertising rate premium commanded by English newspapers was roughly 10x times that commanded by regional languages. However this disparity has contracted from the historical 10x multiple to roughly 8x and is further expected to come down to 5x to 4x in the long term.



08. Industry discussions and KPMG in India Analysis

09. IRS Q3 2011 (Regional reach calculated on the basis of AIR of Any language publication, excluding English)

Top States by per-capita income

State	Per-Capita Income 2010-11 (INR)	MPCE Urban (INR) [^]	MPCE Rural (INR) [^]	Vernacular Readership*	Key Language
Maharashtra	62,729	2,232	1,011	86%	Marathi
Haryana	59,188	1,898	1,394	86%	Hindi
Tamil Nadu	51,928	1,679	968	88%	Tamil
Punjab	45,362	1,993	1,480	89%	Hindi and Punjabi
Karnataka	40,204	1,716	807	86%	Kannada
Andhra Pradesh	39,340	1,982	1,020	90%	Telugu
Rajasthan	25,616	1,670	1,004	96%	Hindi
Jharkhand	21,734	1,391	732	89%	Hindi
Assam	21,500	1,540	863	86%	Assamese
Uttar Pradesh	17,418	1,365	829	93%	Hindi
Bihar	13,303	1,092	681	93%	Hindi
India	35,917	1,786	928		

Source: IRS Q3 2011, CSO, NSSO 2009-10, [^]Monthly Per Capita Consumption Expenditure * Vernacular Readership includes any language readership excluding English.

Competition intensifying

In 2011, the industry participants experimented with new business models to be more relevant to their readers. In the urban centres, players employed different strategies such as launching their editions on digital platforms while some went ahead and even experimented with their print versions. Hindustan Times, for example introduced HT Mini, a half-tabloid size newspaper, targeted at readers commuting in metros.¹⁰

The competition amongst the English dailies moved into the tier II and tier III markets. Times of India launched its editions in Coimbatore, Madurai, Bhopal and Indore¹¹ and while DNA also launched its edition in Indore while Hindustan Times focused on upgrading and setting up printing facilities in Madhya Pradesh in order to tap the growth in income and consumption in these markets which have continued to show an upward trend in growth.

The Hindi market saw the launch of supplements on the lines of English dailies. Hindustan launched a supplement like Brunch called 'Anokhi' targeted to cater to its women readers and a Jobs supplement targeted at the Hindi belt.¹²

HT Media has a lot of focus on innovation. This year we have launched a supplement like Brunch in Hindi, called 'Anokhi'. We have launched Hindustan Jobs, not as a supplement but rather a weekly newspaper targeted at readers in tier 2/3 cities. We have also launched HT Mini, a half-tabloid size for people on the move

- Vinay Mittal
Chief Financial Strategist
HTML

Dainik Bhaskar entered the Marathi market by launching four editions in Aurangabad, Nasik, Jalgaon and Ahmednagar and strengthened its position in Rajasthan and Jharkhand by launching more editions. Jagran Prakashan expanded its newspaper to a fifth language – Punjabi, by launching Punjabi Jagran in June 2011¹³. It also extended its Urdu daily 'Inquilab' to four new cities - Lucknow, Delhi, Kanpur and Bareilly this year¹⁴.

10. HT Media launches 'HT Mini' for Delhi Metro commuters, Hindustan Times, 17 Jan 2012

11. TOI to enter MP, www.afaqs.com, 10 Feb 2011; Times of India, 15 Jul 2011

12. Industry discussions

13. http://www.mediamughals.com/News/1/2/Article/7561/Jagran_Prakashan_launches_percent22Punjabi_Jagran_percent22_for_gurmukhi_readers.htm

14. <http://www.afaqs.com/media/story.html?sid=30766>

Top 5 publications by readership

State	Name of Publication	% of total readership	Readership of top 5 publications (%)
Gujarat	Gujarat Samachar	34%	90%
	Divya Bhaskar	27%	
	Sandesh	24%	
	The Times Of India	3%	
	Saurashtra Samachar	2%	
Andhra Pradesh	Eenadu	35%	85%
	Sakshi	30%	
	Andhra Jyoti	13%	
	Deccan Chronicle	4%	
	Swati Sapari Vara Patrika	2%	
Rajasthan	Rajasthan Patrika	38%	81%
	Dainik Bhaskar	36%	
	Dainik Navjyoti	3%	
	Pratiyogita Darpan	2%	
	Balians	1%	
Tamil Nadu	Daily Thanthi	31%	73%
	Dinakaran	22%	
	Dinamalar	11%	
	The Hindu	5%	
	Kumudam	4%	
Bihar	Hindustan	36%	69%
	Dainik Jagran	21%	
	Saras Salil	6%	
	Prabhat Khabar	4%	
	Pratiyogita Darpan	3%	
Uttar Pradesh	Dainik Jagran	28%	68%
	Amar Ujala	22%	
	Hindustan	12%	
	Amar Ujala Compact	3%	
	Saras Salil	2%	
Karnataka	Vijay Karnataka	23%	67%
	Prajavani	22%	
	Kannada Prabha	9%	
	Samyukta Karnataka	7%	
	Udayavani	6%	
Kerala	Malayala Manorama (Daily)	29%	66%
	Mathrubhumi	19%	
	Vaniitha	7%	
	Deshabhimani	6%	
	Malayala Manorama (Weekly)	4%	
Maharashtra	Lokmat	23%	53%
	Daily Sakal	13%	
	Pudhari	7%	
	The Times of India	6%	
	Punya Nagari	5%	
West Bengal	Ananda Bazar Patrika	26%	51%
	Bartaman	12%	
	The Telegraph	5%	
	Karmakshetra	4%	
	Sangbad Pratidin	4%	

Source: IRS Q3 2011



In states such as Gujarat, Andhra Pradesh and Rajasthan, the market power is concentrated with the top three publications which account for 75-85 percent of the market. Other markets such as Maharashtra and West Bengal are relatively more fragmented with around 50 percent of the market share lying with the top five publications.

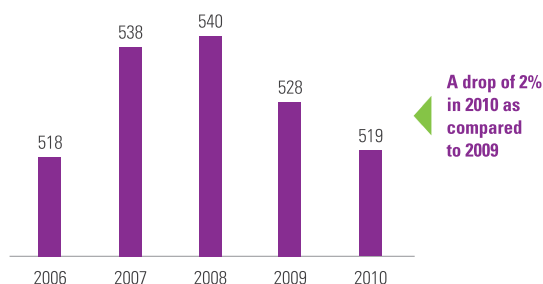
Global trends in advertisement and circulation

India continues to be one of the few markets where print is still growing. Globally, with some minor exceptions, newspapers are facing a double setback with falling subscriptions and advertising revenues and inability of online advertising to make up for the losses. Some of the key issues faced by the industry are as follows:

- **Audience shift from print to online** - Offline revenues continue to decline as consumer preferences shift from print to online platforms. Publishers are contemplating charging for online news as advertising-supported content loses viability
- **Content aggregators corner a larger slice of the advertising pie** - Some of the large content aggregators are taking away advertising revenue from the publishers
- **Online channels of distribution continue to explode** - A number of online news websites, along with blogs and social networking websites, are emerging as timely and trusted sources of news
- **Younger generation demands on-the-move accessibility** - The new generation wants to access news in real time and on the move, either on a smartphone, e-reader or a laptop. Newspaper publishers need to offer a high level of personalization and convenience to cater to their needs. The printed newspaper does not fulfil these requirements, a factor that is contributing to declining sales.

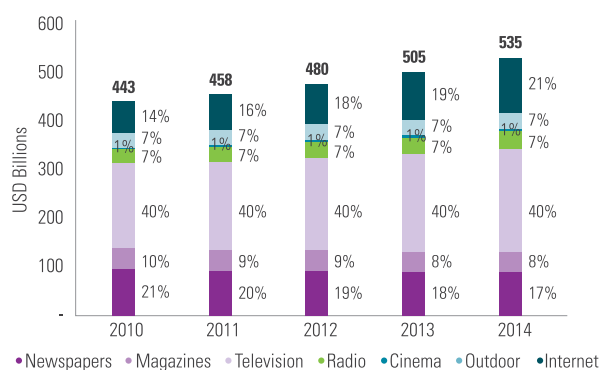
Global print subscriptions declining

Global Circulation (Paid Dailies in Million)



Source: WPT 2010, WAN-INFRA articles 2011

Globally advertising dollars shifting more rapidly to alternate, direct and interactive marketing channels



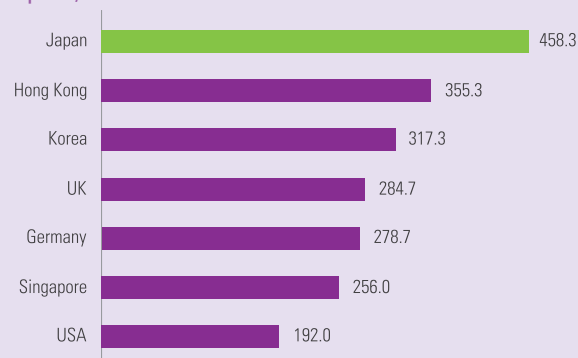
Source: ZenithOptimedia, December 2011

With time share shifting in favour of alternate media platforms, print has already begun losing its share of advertisement revenues to new media channels. It is estimated that by 2014, print's share in total advertisement market would shrink to 25 percent from 31 percent in 2010. During the same time frame, the Internet will be a major gainer with ad dollars growing at a CAGR of 16 percent.¹⁵

Case Study: Japanese Newspaper industry

The country has the second-largest newspaper readership in the world, with 92 percent of the population picking up a paid-for daily newspaper even with high internet penetration of approx 78.4 percent¹⁶. With an average circulation of newspapers at 461,000, and 67 million copies sold daily (about 1.4 papers per household), the figures on Japan's newspaper readership far surpass those of other countries¹⁷.

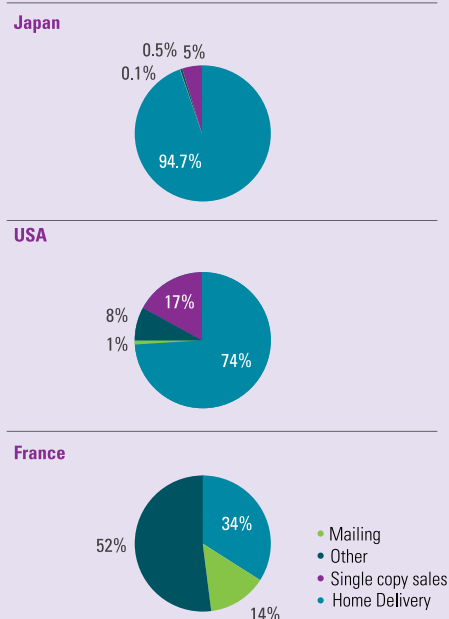
Paid for dailies: Circulation per 1,000 adults (Unit: Copies)



Source: WAN "World Press Trends 2010"

The strength of the Japanese newspaper industry can be attributed to two key reasons:

• Home delivery business model¹⁸



The Japanese newspaper industry relies heavily on the home-delivery system, which is quite different from sales at kiosks in other countries.

15. ZenithOptimedia, December 2011

16. <http://www.internetworldstats.com/top20.htm>

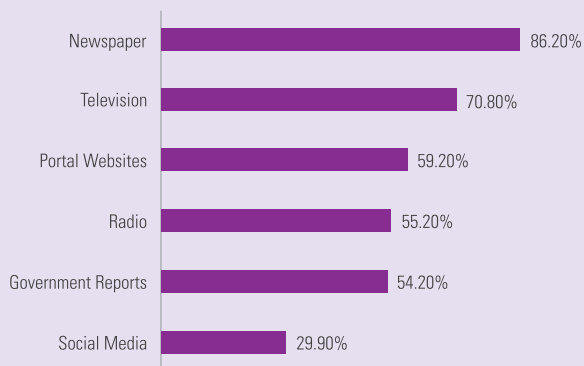
17. WAN "World Press Trends 2010"

18. <http://adv.yomiuri.co.jp/m-data/english/newspapers/readership.html>

Established credibility of the medium and connect with the readers

Another factor behind the strength of the industry is their focus on securing people's trust in their newspapers. In a survey conducted immediately after the earthquake disaster, newspapers were ranked first as the most reliable source of information.¹⁹ During the March 2011 tsunami and earthquake disasters, Ishinomaki Hibi Shimbun- a local newspaper could not produce a newspaper because its printing presses were submerged in the floods. However, the paper's journalists continued to deliver the daily news writing it by hand and delivering it on foot to the local disaster shelters.

Reliability of information mediums



Source: Yomiuri Shimbun: Connecting with 25 million readers a day, 21 Nov 2011, Manila Bulletin

However, similar to the newspaper industry across the world, Japanese newspaper industry has also begun to witness declining circulation and falling advertisement revenues. In the last decade (2001 to 2011) Japan's circulation has declined by 10 percent²⁰ with share of advertisement revenues shrinking from 35.7 percent in 2000 to 23.3 percent in 2010²¹. The Japanese newspapers have recognized the potential risk of losing young readers to new media platforms and have accordingly redrafted their business strategies to include digital media platforms in their offerings.

For example, Sankei Shimbun, a national daily, adopted a unified Customer Management System for its print and online publications and made publishing online more efficient. Nikkei, Asahi and Yomiuri, three of the major newspapers, decided to group together and form **Nikkei-Asahi-Yomiuri Internet Business Partnership**. Together they launched a website and later mobile apps that featured all their articles at one place and allowed consumers to browse and compare the coverage of news stories by the different papers within a single interface²².

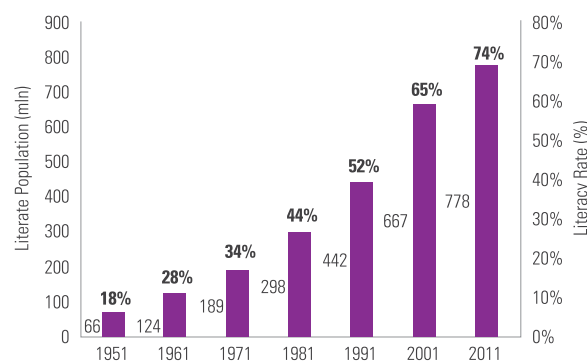
While the threat from new media continues to loom over the entire industry, however, the timeframe and level of impact differs across markets. Similar to Japan, even India follows a home delivery model for newspaper distribution which is working in favour of both the markets. However, both the markets will have to usher the digital era and develop strategies which complements the print medium.

India avoiding the global trend

One of the largest newspaper markets in the world, India is displaying a robust performance compared to its global counterparts, which have experienced declining revenues over the past few years. The industry continued to grow at a healthy rate on the back of rising literacy, current low newspaper penetration, low internet penetration and strong home-delivery business models.

India's literate population base of 778 million provides a huge target audience to the print companies. Literacy rate has increased considerably over the last decade with some states such as Kerala at 94 percent and the National average at 74 percent.²³

Strong literate population drives print media consumption



Source: Census India 2011



There is a structural change in the newspaper industry in the West. India has still got 15 years for the print industry but there will be challenges. It is only when the Internet penetration reaches 50-60 percent is when we may see a slowdown and decline in the industry

- Jayant Mammen Mathew
Director
Malayala Manorama

The all India newspaper penetration stands at approximately 20 percent (36 percent in urban and 13 percent in rural India) signifying enough headroom for growth²⁴. While the internet penetration is still low at 2 percent (wireline connections) in 2011²⁵ it is expected to increase rapidly over the next few years.

19. Yomiuri Shimbun: Connecting with 25 million readers a day, 21 Nov 2011, Manila Bulletin

20. http://98.139.168.220/babelfish/translate_url_content?intl=us&lp=ja_en&trurl=http%3a%2f%2fwww.pressnet.or.jp%2fenglish%2fdata%2fcirculation%2fcirculation01.php

21. Annual survey by Nihon Shinbun Kyokai (NSK), or the Japan Newspaper Publishers & Editors Association

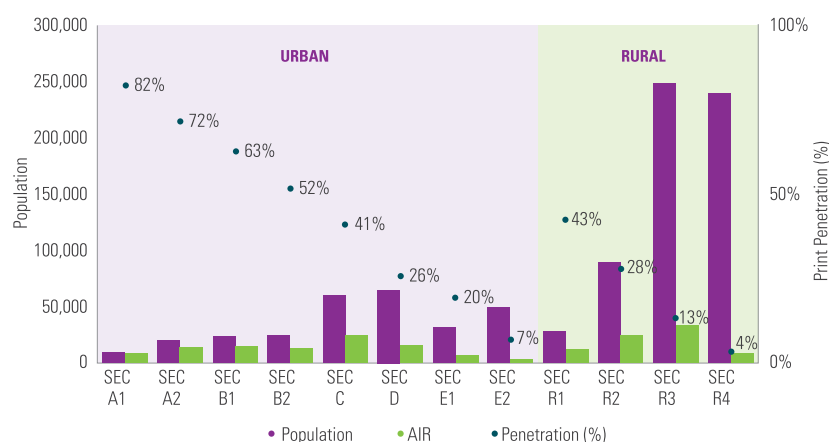
22. How Japanese Newspapers are Trying to Save Themselves, 19 Feb 2009, ReadWriteWeb.com

23. Census India 2011

24. IRS Q3 2011, KPMG in India Analysis

25. TRAI

Print penetration (Urban v/s Rural split)



Source: IRS Q3 2011, KPMG in India Analysis

Note: SEC – Socio Economic Classification is a system to classify households based on two variables: Education of chief earner and Number of “consumer durables” (from a predefined list) owned by the family.

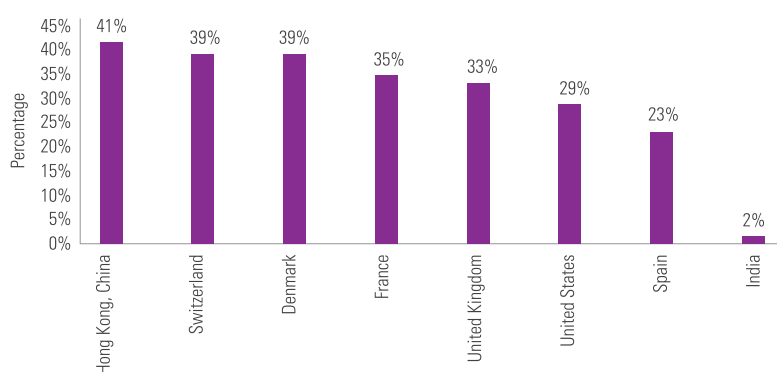
IRS Q3 2011 results highlight robust print penetration across SECs A and B with SEC A1 readership penetration being highest at 82 percent. However, the rest of the population remains largely underpenetrated giving enough headroom for expansion.

Digital frontier

With the spurt of technological advances, the channels of consumer engagement are rapidly evolving. While Internet penetration is still low in India (2 percent²⁶) as compared to the mature markets such as Hong Kong (41 percent), France (35 percent), US (29 percent), etc., the next phase of technological progress is stimulating the industry. As broadband, smart phones and tablets proliferate, the print medium, must prepare to meet this challenge head on. The future of the industry depends on effectively exploiting the digital opportunity as well as improving efficiency by employing innovative business models.

The challenge is more prominent for English print players who focus on large cities and essentially SEC A and B segment of the population. The high penetration levels of dailies in these cities and rapid adoption of new technology by these segments necessitates the development of an alternate business plan especially for the English print players. Hindi and regional print may not have to worry about the online threat for a while as both are expected to grow at a robust rate of 10.1 percent and 11.6 percent (2011 to 2016) respectively. However, it may be warranted for regional players to recognize the potential threat from the medium and hence prepare early on.

Fixed internet penetration



Source: International Telecommunication Union

26. Wireless and Wireline internet connections, KPMG in India Analysis

27. KPMG in India Analysis

Although the digital era poses a number of challenges, it also brings with it significant opportunities for publishers.

Publishers need to reinvent their content models and adapt technology in order to exploit new opportunities. The winners will be those who can create value for their content and facilitate on-demand aggregation far more efficiently than they have done till date.



“Digital media is seen as an opportunity for players like us as in the long term content driven companies will need to provide content across all platforms. Recently, Lokmat has tied up with Yahoo to offer Marathi content online. However, monetization is a long way off.”

- Jwalant Swaroop
COO – Publishing
Lokmat Media Ltd.

Most players recognize the need for an effective online strategy and have accordingly built an online presence. However, this is not sufficient unless the same is adequately monetized to compensate for revenues lost through traditional means. With availability of free content on web, building a robust online business model will involve focus on two key aspects:

• Building deeper customer engagement

Print publications can create an enhanced and engaging online experience for their readers by developing better presentation formats, focusing on analysis driven content, ensuring reader engagement and targeting focused or niche interest groups.

- **Presentation formats:** The print edition provides readers with select content in a capsule format that can be easily read by flipping through pages. The Internet and broadband now provide an opportunity to present readers with increasing multimedia content to enhance audience immersion. From video interviews to ‘the feel of flipping’ pages, all these can be adopted to enhance the overall experience.

For example, Wall Street Journal’s iPad application was able to recreate the experience of reading the print edition, with newspaper like pages. Further, by integrating multi-media content (For example videos are played from photo like positions on the page), it has been able to enhance the user experiences. The iPad application generated 64,000 active users in first month²⁸ of its launch. By the end of 2011, Wall Street Journal had more than 200,000 readers who subscribed to the newspaper via iPads or Android tablets.²⁹

- **Analysis driven content:** Wire reports and major breaking stories do not vary significantly across news sources. These are often better covered by content aggregator sites, which can pick up select reports from different sources.

Newspapers could focus more on analysis driven content and in-depth reporting. These can help differentiate from other new sources and build a loyal reader base. For example, the ability to provide high quality investigation and analysis driven journalism has been one of the contributing factors behind the relative success of the Wall Street Journal’s online model and relative resilience of ‘The Economist’ in the face of the online threat.

- **Reader engagement:** The rise of social networks has taken ‘citizen journalism’ to the next level. Print publications can now engage with their readers through social networking platforms, source stories and strengthen relationship with their readers. Websites such as YouTube Direct allow news organizations to pick-up user generated content and share it on their websites.³⁰ Players such as Journal Registry Co. invite bloggers to be trained and to contribute content to the newspaper and its Web site.³¹

- **Focused or niche interest groups:** Publications can target focused or niche interest groups as part of their online strategy. Such groups have a deep interest in a particular area (financial services or sports), around which information and analysis can be provided, to create a high level of engagement.

Another approach is to focus on hyper-local content. For example, Metromix (launched by Gannett and the Tribune), a local nightlife and entertainment guide caters to the interests of 21 to 34 year olds with ‘significant disposable income’.³² Other examples of the hyper-local concept include Gatehouse Media’s WickedLocal.com, AOL’s Patch.com and ‘The Local’ sites by the New York Times.³³

Many Indian newspapers also went hyper-local to target specific segments in specific cities. For e.g. In September 2011 Times of India launched ‘My Times – Powai’ in the Powai area of Mumbai³⁴, Mid Day had launched a similar edition ‘MidDay Local’ in 2010 targeting the Gujarati population in Borivali, Kandivali and Malad areas of Mumbai.³⁵ Patrika also launched hyper-local editions in Bhopal and Indore cities in January 2011, dividing the old and new parts of the cities with its Golden and Metro editions.³⁶

28. Murdoch: WSJ iPad App Has 64,000 Active Users—And We Keep The Money, Paidcontent.org, 4 May 2010

29. News Corporation Annual Report 2011

30. Youtube company website

31. Journal Registry Co. company website

32. Metromix company website, Gannett to Join Tribune and Partner on National Network of Local Entertainment Sites, Tribune, 29 Oct 2007

33. Gatehouse Media and New York Times company website

34. Times of India launches its Powai Edition: My Times Powai, Times of India, 10 Oct 2011

35. Gujarati MidDay to come up with ‘hyper local’ editions in Mumbai, exchange4media.com, 28 Oct 2010

36. Patrika launches hyper-local editions in Bhopal and Indore, 19 Jan 2011

• Better monetization of reader base



Everyone has passed the phase of website and blogs. In the West, no one knows how to monetize online media but money has to be paid for content. The New York Times initially made its online content free however last year they created pay walls and are doing quite well. Even FT, WSJ have got pay walls. In the coming years, people will have to pay for accessing the content across all platforms: Internet, Tablets and mobiles. The greatest gift Steve Jobs gave to the media industry is to make people pay for content //

- Jayant Mammen Mathew
Director
Malayala Manorama

publishers an opportunity to monetize content. Availability of high speed Internet access through 3G services is expected to provide the necessary thrust to early adoption of these platforms. The 3G user base is expected to rise to 237 million by 2015-16³⁶. A large proportion of these subscribers would be affluent urban consumers and hence constitute part of the potential subscriber base for English newspapers.



Print companies need to be platform agnostic and focus on being a media company in order to be successful. Readers will be willing to pay for value added content //

- Bhaskar Das
President
The Times of India Group

- **Building hybrid pay models:** There has been a lot of debate internationally on the merits of paid v/s free models for online news. However, newspapers can aim to build a dynamic user experience by adopting a hybrid model which is a combination of paid and free experience. The editorial content, in depth investigative journalism, specialized business coverage and local city news which readers may not get readily through other information sources can potentially be moved behind a pay wall to build subscription revenues while the commoditized content may be offered free of cost to drive traffic towards the website.
- **Value proposition for advertisers:** Newspapers can provide a distinct value proposition to advertisers by taking online advertising to the next level. Currently, most of the advertising online focuses on direct response. According to a ComScore estimate, direct response advertising accounts for ~80 percent of global advertising spends online, with search alone accounting for ~47 percent of the spends³⁶. This is in sharp contrast to traditional media, where a majority of spend by the advertisers is for brand building. The challenge with direct response advertising is that revenues are driven largely by the number of clicks generated by the site. It does not hence reward publishers for premium content, or for delivering a high quality audience. ESPN, for example, has effectively done this in sports on the mobile platform through co-branding initiatives. It branded its highlights package for the mobile platform 'Bing decisive moments', to help Microsoft promote the Bing decision engine.³⁷ News players can hence position themselves to advertisers as a brand building platform online, leveraging their strong offline brand and customer base of their print publications accompanied with engaging online content.
- **Target new platforms:** Unlike the Internet, where consumers have become accustomed to accessing content free, smart phones and tablet users provide

The big advantage for the Indian print media is that unlike its counterparts in the West, it has time to experiment and develop the right online business model. The strategies described above may not guarantee immediate success. However, there is a need for print players to start focusing on these areas as their counterparts in the West have found, building the right model can take a long time.



36. Comscore

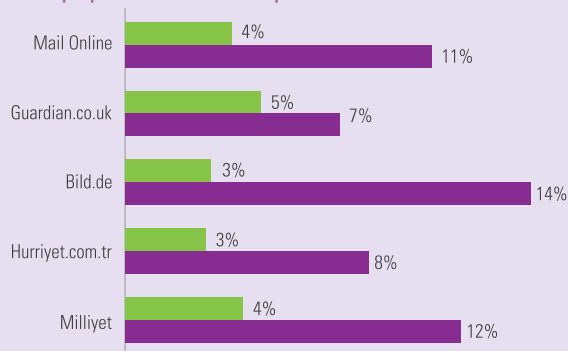
37. ESPN and Bing Team Up to Highlight Decisive Moments in the Lives and Careers of World Champion Quarterbacks, Microsoft News Center, 24 Jan 2011

38. Crisil Research

The power of Social Media- An opportunity or threat?

• Opportunity

Percentage of Incoming Traffic From Facebook to Newspaper Sites in Europe



Source: Comscore Media Metrix, Europe

Social media acts as a promising source of news consumption and dissemination. It drives traffic to the newspaper websites through the articles and videos shared by users. For example Facebook accounted for at least 7.4 percent traffic going to top 5 Newspaper sites in Europe. There are millions of users who follow the individual reporters on Twitter. This also adds to the popularity of the journalists.³⁹

Social media is also promoting user-generated content, which is changing the way journalism is done. For example 'Twitter For Newsrooms' (#TfN) provides journalists with tools for finding sources, verifying facts, publishing stories etc.⁴⁰ 'Facebook and Journalists' is a community of journalists on Facebook which allows newspapers to reach out to their readers directly.⁴¹ 'YouTube Direct' was launched by YouTube to facilitate instant news sharing and connect news organizations with user generated content and videos.⁴² The above examples highlight some of the ways in which the print industry can leverage the social media platforms and to engage with their readers online.

• Threat

While there is no doubt that social media is a way of increasing readership, it risks cannibalizing the advertising income of the publisher. The growth of Internet and rising popularity of social media networks in India are prompting companies and marketers to advertise directly on these mediums, thus resulting in loss of advertising revenues for print players. The advertisers feel that the social networking sites have the potential of reaching a wider audience, as compared to the individual news sites. Also, social media is more cost-effective as compared to the other forms of online advertising. The average Cost per Milli (CPM) across online media formats is over USD 2.50, while the cost for social media is the lowest at USD 0.56.⁴³

Source: 'India Online Advertising Industry growth and Forecast 2016' by AM Mindpower Solutions

Exploring alternate revenue streams for print players

The print industry is in the midst of a fundamental change and is looking at ways to adapt to it. As old business models are becoming obsolete, new ones need to be employed. The industry is revisiting its existing business models and accordingly developing a long term strategic vision. We observe differentiated models being developed by industry participants to generate additional revenue streams.

Brand extension

Print players have been exploring alternative revenue streams by leveraging newspaper's brand which attracts significant loyalty from its readers and often come to be associated with certain attributes, reliability being a central one. Players are building brand families to leverage the brand name in areas which may or may not be related to media. Brand extension in media related domains involves players leveraging their core-competency of dissemination of news to build products which provide insights on niche areas.

Print media houses have diversified into non-media sectors and are building on their existing brand goodwill. For example, Dainik Bhaskar has diversified into the Hospitality, and FMCG industry and leverages on its brand name "Bhaskar".⁴⁴ HT media has been organizing a luxury conference under the brand name "Mint Luxury Conference".⁴⁵ The Times Group has been releasing "The Times Food Guide" since 2003.⁴⁶

Expansion in other media platforms

Most print players have been investing in alternate media platforms such as television, radio and Internet. Many national and regional players now own media properties across platforms. To quote few examples, Rajasthan Patrika has forayed into the Radio industry by acquiring licenses for Jaipur, Kota and Udaipur⁴⁷ in Rajasthan while Dainik Bhaskar operates a radio station by the name 94.3 MYFM.⁴⁸ National dailies such as Times Group have established a diversified portfolio of media properties; Radio Mirchi, Times Outdoors, Mirchi Movies, ET Now, SimplyMarry.com, TimesJobs.com etc. to name a few.⁴⁹ The company continued to expand its digital portfolio by launching a magazine for tablets called 'Tweek' and expanding on availability of its news apps on Symbian platforms.⁴⁹ Hindustan Times also launched apps for its Hindustan Times and Mint titles.⁵⁰

Innovative business solutions

Private treaties have been an innovative business model developed by print players. In return for advertising inventory, the print companies acquire an equity stake in the advertiser. The business model proves to be beneficial to advertisers with insufficient cash to spend on advertising and brand building, small and emerging businesses, entrepreneurs etc as their products and brands get nationwide reach. The print companies are also in turn able to monetize the highly perishable ad inventory. Time of India Group, being the pioneer, has in six years of its existence worked with more than 400 companies through its 'Brand Capital' venture in the private treaty space.⁵¹

39. Comscore Media Metrix, Europe

40. Twitter company website

41. Facebook company website

42. Youtube company website

43. 'India Online Advertising Industry growth and Forecast 2016' by AM Mindpower Solutions

44. Dainik Bhaskar company website

45. HT Media company website

46. TOI launches Food Guide, Awards on Thursday, 1 May 2003, The Times of India

47. Industry discussion

48. Times of India company website

49. TIL launches India's first tablet magazine, Times of India, 16 Feb 2012

50. Press Releases by HT Media, 05 Oct 2011 and 06 Dec 2011

51. Brand Capital website

Brand activation

The natural progression for the print industry has been to progress from a plain vanilla ad-vehicle to provider of 360 degree solutions to its clients. Brand activation is at the heart of any brand building exercise and print players have been tapping on this opportunity by providing solutions to media planners. Due to its local nature compared to a national medium like television, print players have been able to provide customised solutions to advertisers. The industry is providing activation solutions to brands for promotions, brand/product launches, brand awareness campaigns, consumer fairs, exhibitions and other mega social events.



“ We need to be an effective medium for advertisers to reach out to the target audience. Rather than just selling space on our paper, we are looking at developing multimedia solutions tailor made for our customers ”

- M V Shreyams Kumar
Director
Mathrubhumi Printing & Publishing Ltd

‘Win Big with 100% Original’

Microsoft + Times Red Cell

Times Red Cell, the activation division of the Times Group, promoted Windows 7 through a combination of on-ground activities, print and radio advertisements across 7 cities, namely: Hyderabad, Bangalore, Chennai, Lucknow, Nagpur, Ludhiana and Ranchi

‘Get Grip on your Fear’

Mountain Dew + Jagran Solutions

Jagran Solutions, the activation arm of Jagran Prakashan Ltd. carried out the campaign to showcase the new Mountain Dew grip pack to the consumers. It included on-ground activities such as road shows & consumer interactions and was supported by Dainik Jagran for print publicity and FM channels like Radio Mantra, Radio Mirchi and Red FM in different cities

Source: Times Red Cell manages Microsoft's Win Big with 100 percent Original campaign, Event FAQs, 22 Mar 2011, Jagran Solutions company website



“ The events and activations have a huge potential for the publications as well as for the advertisers. For example we did an innovative brand activation campaign with Cadbury promoting sweets with Cadbury ingredient. The campaign helped Cadbury to make a mark in Calcutta. We will continue to do such campaigns in future ”

- D.D. Purkayastha
Managing Director and CEO
Anandabazar Patrika

Engaging with the next generation

The proliferation of electronic media is dragging the new generation away from reading habits, which is a cause of concern for the print industry. The young generation looks forward to the social media, television and online channels for its dose of daily news.

To quote few examples⁵²:

- Jawa Pos, an Indonesian newspaper publishes a three-pager youth section called ‘DetEksi’. Along with providing editorial content, DetEksi also organizes various engagement activities for the young readers. It organizes an annual youth conference, student education programmes and journalism competitions, sports events and concerts.
- Media Labs, is a project by Portugal newspapers – Jornal de Notícias and Diário de Notícias, which organizes workshops to enhance the critical thinking among students and develop news-writing skills.
- Brazilian newspaper ‘Gazeta do Povo’ organizes a programme ‘Read and Think’ which promotes habits of reading newspapers, improvement of education in schools and prepares young people to exercise full citizenship. The effectiveness of the initiative was judged by the results of the IDEB (Index Basic Education Development), the national exam of Brazilian Education which showed an improvement in educational skills of students who read newspapers in schools.

There were several similar initiatives taken by the Indian print players, which have been recognized by WAN-IFRA at the annual World Young Reader Prize competition 2011⁵³.



“ As a media house we need to understand the emerging generation, their needs and requirements. So whether it is print, online, radio or television space, the consumers are using all mediums. Most of us have started moving out from being just a print player to a media house ”

- M V Shreyams Kumar
Director
Mathrubhumi Printing & Publishing Ltd

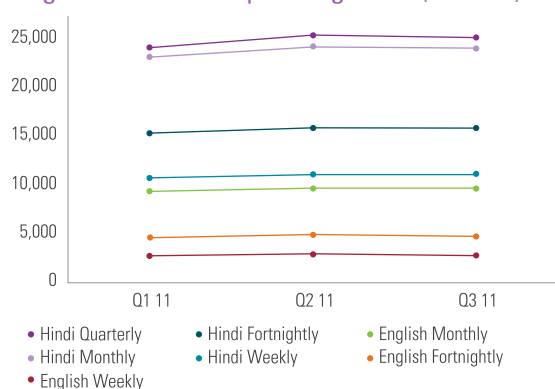
- The Hindu organized a book donation event in Chennai, branded as an opportunity to impart knowledge to the unprivileged.
- Mathrubhumi carries out SEED (Student Empowerment for Environmental Development) project, which has an aim to create awareness among the students about environment protection and promote reading habits among the youth. In its first year, SEED had 3,087 member schools, which has increased to over 5,000 schools in 2010.
- Dainik Bhaskar launched The Brain Hunt 2012 with an aim to develop reading habits among the school students. The activity is being promoted across 13 states – Madhya Pradesh, Chhattisgarh, Chandigarh, Punjab, Haryana, Jammu, Himachal Pradesh, Rajasthan, Jharkhand, Gujarat and Maharashtra.

52. The 2011 World Young Reader Prizes: About the winners, www.wan-ifra.org

53. Engaging young readers with innovations, www.allaboutnewspapers.com

Magazines

Average issue readership of magazines (In 000's)



Source: IRS Q1 2011, Q2 2011 and Q3 2011

The magazine industry witnessed a CAGR of 1.1 percent from 2007 to 2011 and was valued at INR 13 billion in 2011⁵⁴. The general content category continues to decline as readers demand more focused content. The industry feels that general content magazines is a fading segment, whereas special interest magazines and niche content magazines have good potential to be of interest to readers with a monetization potential in the long run.

Top 10 Hindi magazines by readers

Name	Type	Q2 2011 (000s)	Q3 2011 (000s)	Q-o-Q Growth
Pratiyogita Darpan	Monthly	2,154	2,025	-6%
Saras Salil	Fortnightly	2,039	1,941	-5%
Meri Saheli	Monthly	1,174	1,209	3%
Crickets Samrat	Monthly	1,213	1,159	-4%
India Today	Weekly	1,144	1,116	-2%
Grih Shobha	Fortnightly	1,008	990	-2%
Grehlakshmi	Monthly	1,010	983	-3%
Champak	Fortnightly	873	859	-2%
Vanitha	Monthly	764	777	2%
Nirogdham	Quarterly	763	773	1%
Total		12,142	11,832	-3%

Source: IRS

As per the latest results of IRS, the Hindi and English magazines have lost readership in Q3 2011 as compared to Q2 2011. While the decline is more visible in the general interest magazine, the niche magazines are increasing in readership with new genres beyond the women and fashion genre being explored. The readership of celebrity magazine 'Hello' increased by 25 percent in Q3 2011 as compared to the previous quarter and that of automotive magazine

'BBC Top Gear' grew by 10 percent during the same period. The travel magazines are also gaining in popularity. Outlook Traveller increased its readership to 204,000 readers in Q3 2011 from 184,000 readers in the last quarter⁵⁵.

Top 10 English magazines by readership (AIR)

Name	Type	Q2 2011 (000s)	Q3 2011 (000s)	Q-o-Q Growth
India Today	Weekly	1,724	1,636	-5%
General Knowledge Today	Monthly	977	1,087	11%
Readers Digest	Monthly	998	998	0%
Competition Success Review	Monthly	654	657	0%
Outlook	Weekly	456	444	-3%
The Week	Weekly	396	387	-2%
Stardust	Monthly	342	385	13%
Business Today	Fortnightly	333	345	4%
Femina	Fortnightly	339	331	-2%
Filmfare	Fortnightly	366	327	-11%
Total		6,585	6,597	0%

Source: IRS

The industry has become fragmented and highly competitive with players entering niche categories and looking beyond advertising revenues. Some of the key trends observed in the magazine space include:

- **Entry of international titles:** With the easing of entry norms for international magazines, foreign publishers are entering the Indian magazine market, which has expanded despite the global economic recession. The market has become particularly attractive for international luxury magazines with titles such as Atelior and Robb Report being launched. The year also saw international magazines acquiring equity in Indian publications. In August 2011, Gruner + Jahr International acquired majority interest in MaXposure Media Group, India.
- **Strengthening of cover prices:** Most publishing groups increased the cover prices of their magazines. The trend is dominant in English language category than in any other language. The mainline periodicals hiked their cover prices by INR 5 to INR 10. Prominent English general interest magazines, including India Today, Outlook and The Week, hiked their cover prices by INR 5 per copy. Business periodicals such as Business Today and Outlook Business also joined the suit. Niche category also witnessed strengthening of cover prices in the range of 10-50 percent⁵⁶.
- **Looking beyond advertisement revenues:** Thus far approximately 70 percent of the magazine revenues were generated from advertisements leaving the industry highly vulnerable, especially so in case of B2B category.⁵⁷

54. KPMG in India Analysis

55. IRS

56. Exchange4media, Positive IRS trends buoy magazine industry; cover prices hiked, 20 Sep 2011

57. Industry discussions

However, the industry is observing magazine players moving towards alternate revenue sources such as events, activations, online lead generation and digital media platforms.



“ Advertisers are now tying up to the objectives. Rather than just giving a display ad, they are launching activation and lead-generation programs. There is more of a 360 degree demand from the marketers. The billing models in the online segment are also moving from cost-per-click to cost-per-lead models ”

- Pradeep Gupta
Chairman
Cyber Media

- **Expansion of niche in regional market:** The year saw expansion of niche category magazines in the regional market. Better Photography, a specialist photography magazine from Infomedia18, launched the Hindi version of the magazine while its sister publication Entrepreneur was released in both Hindi and Gujarati. After launching Femina in Hindi version, three years back, the Times Group launched its Tamil version in April 2011. Some players like Autocar India have also entered into content syndication agreements with regional players⁵⁸.

Key risks and challenges

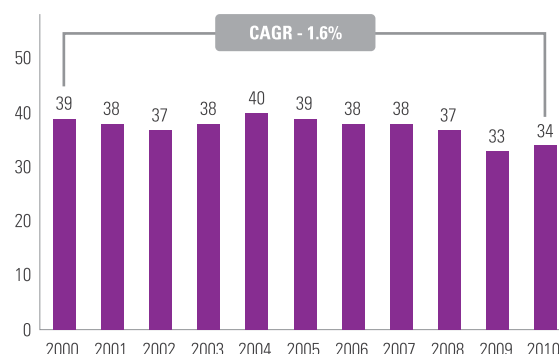
Scaling operating costs

• Newsprint

Newsprint is the most important raw material used for the production of newspapers and typically constitutes 40-50 percent⁵⁹ of a publisher's cost base. The total newsprint demand in India was 1.5 million MT in FY 2010. Of this, 0.8 million MT of newsprint was produced and procured locally, while 0.7 million MT (approximately 47 percent of total demand) was imported from international newsprint producers. Driven by the growth in newspaper circulation, the newsprint demand in India is expected to reach 3 million MT by FY 2016⁶⁰.

Newsprint manufacturers in India rely on recycled paper as the raw material for manufacture of newsprint. This is due to relatively low supply of virgin fibre / forest cover in India. The quality of newsprint manufactured in India is comparatively inferior to that manufactured in fibre rich nations such as Canada, USA, and Russia. Therefore, India has a significant dependence on imports for meeting its requirement for a higher quality of newsprint.⁶¹

Global newsprint consumption (Million tonnes)



Source: Food and Agriculture Organization (FAO Stat)

Globally, the demand for newspapers (and hence newsprint) has significantly reduced in developed world due to improved digital penetration and relative ease of content delivery by digital media vis-à-vis the print media. However, developing countries like India and China have witnessed growth in print circulation, and are expected to continue to grow in near future. Given the falling demand in developed world, global newsprint production has been witnessing consistent decline.

Newsprint manufacturers in traditional exporting nations such as Canada, USA have started shutting down their newsprint manufacturing capacities and /or curtailing production in order to maintain the newsprint prices, and hence, profitability. This has resulted in shortage of supply of newsprint especially in countries like India which are net importers of newsprint.



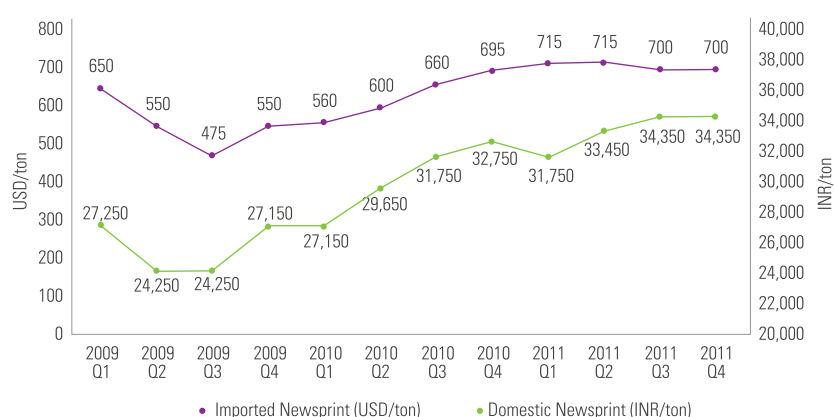
58. <http://www.livemint.com/2011/08/16203831/Niche-English-magazines-plan-v.html?atype=tp>

59. KPMG in India Analysis

60. FAO

61. Industry discussions

News print prices



Source: Market Intelligence (Times of India) & RISI

Further, in recent years, there has been a significant volatility in global newsprint prices, which has adversely impacted the publishers. This volatility is driven primarily by unpredictable global supply, given rampant capacity shut-downs and production curtailments in newsprint exporting nations. Volatility in energy prices and exchange rates has further exacerbated this volatility in newsprint prices.

The Indian publishers are now in a situation where the high global newsprint prices and associated price volatility pose significant risks to their profitability (given the high contribution of newsprint in their respective cost structures). The typical contract tenure of around 3-6 months for imported newsprint and recent exchange rate fluctuations have further added to this price volatility. The price of newsprint manufactured in India is pegged to international newsprint prices and exhibits a similar volatility trend. Further, given the relative inferior quality of Indian newsprint, it can hardly be deemed as a potential solution for this problem.

• Likely impact of wage bill

The proposed recommendation of Wage Board is expected to have a severe impact on the economics of the industry. Till now, the salaries of employees in the newspaper industry were around 10 percent of the gross revenue of the company. The proposed recommendation divides the newspaper companies into certain classes as per their gross revenue and has introduced a variable pay component which including many allowances for the employees. As a result of the variable pay, there would be around 35 percent and 20 percent increase in the wages of employees working in the newspaper companies falling in classes I to IV and classes V to VIII respectively⁶².

The recommendations are expected to make dent in the industry's profitability and could even render some of the players financially unviable. As per our discussions with industry participants, the players estimate share of wage costs may increase from current 15-20 percent⁶³ to be in the range of 20-25 percent of their total cost⁶⁴.

The following table provides a broad comparison between old and new wage structure:

Comparison of wage structures

Salary component	Old wage structure	New wage structure
Basic	As per old Wage Board Structure (2000) and increment every 5 years	As per new Wage Board Structure and increment every 5 years and promotion every 10 years. Wef 1 July 2011. New Basic is sum of old Basic plus DA plus IR, and then placed in new band
Variable Pay	n/a	35 percent of New Basic
Interim Relief (IR)	30 percent of Basic	Abolished (merged in new basic)
House Rent Allowance	Max 4,500 (30 percent, 20 percent, 10 percent based on city)	No limit, 30 percent, 20 percent, 10 percent
City Compensatory Allowance	As per old Wage Board Structure	Abolished
Medical	INR 500 max	INR 1,000
Transport	INR 800	20 percent of basic (20 percent, 10 percent, 5 percent based on city)

Source: Press Trust of India, Wage Board Notifications

62. Ministry of Labour and Employment Order Published Gazette Nov 11

63. KPMG in India Analysis based on listed companies results

64. Industry Discussion

Talent availability

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

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

Fragmented industry

There are more than 82,000 registered newspapers in India as on March 2011⁶⁵. Each state has 2-3 large players and dozens of smaller ones. While the desire to build a national portfolio exists, unavailability of desirable titles is hindering consolidation in the industry. Many experts believe that complex shareholding structures with ownership of many of the print titles vesting with families hinders availability of titles. The industry expects to see consolidation across mediums in the long term. We may witness acquisition of digital companies by large print players to gain technical expertise and provide content across platforms.



// We don't see consolidation happening in the print industry but there will be several partnerships emerging with digital and other media players to monetize content across platforms //

- Bhaskar Das
President
The Times of India Group

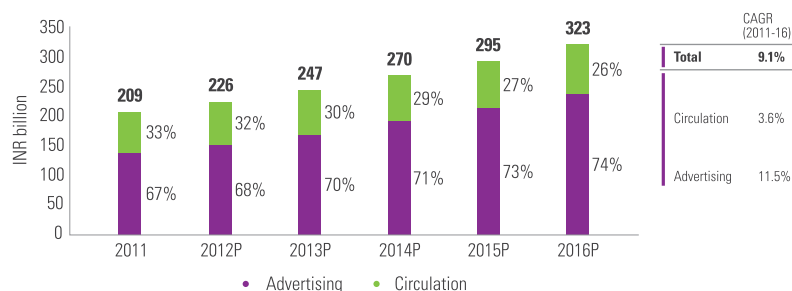
Future outlook

Print media market	2011	2012p	2013p	2014p	2015p	2016p	CAGR (2011-16)
English	83	88	94	100	106	113	6.3%
Advertising	57	61	66	72	78	84	8.0%
Circulation	26	27	27	28	28	29	2.0%
Hindi	62	68	75	83	91	101	10.1%
Advertising	41	45	51	58	66	74	12.9%
Circulation	22	23	23	24	25	26	4.0%
Vernacular	63	70	78	87	98	109	11.6%
Advertising	42	48	55	63	71	82	14.5%
Circulation	21	23	24	25	26	27	5.0%
Total print market	209	226	247	270	295	323	9.1%

Source: KPMG in India Analysis

65. Office of The Registrar of Newspapers for India

Print industry: Advertisement v/s circulation mix



Note: The data pertains to the calendar year (from January to December of the respective year)

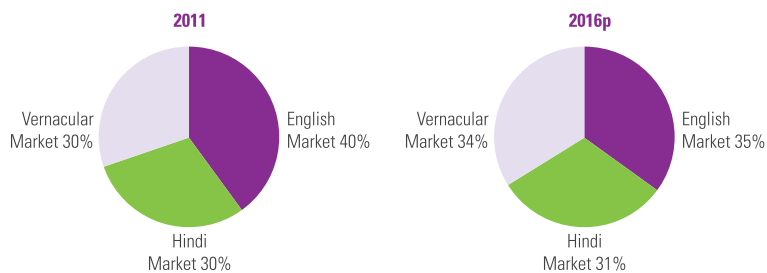
Source: KPMG in India Analysis

Compared to the rest of the world, the long term story of the print industry continues to be promising with the sector projected to grow at a CAGR of 9.1 percent and touch INR 324 billion by 2016.⁶⁶

Increase in advertisement spend will continue to drive the overall growth of the industry. Projected to grow at a CAGR of 11.5 percent from 2011 to 2016, the advertisement spend is expected to contribute 74 percent to the total pie. Circulation revenues are expected to grow at a CAGR of 3.6 percent from 2011 to 2016 on back of increased penetration in regional markets.⁶⁶

The revenue pie is expected to further tilt in favour of the regional markets with approximately 65 percent of the revenues being contributed by Hindi and Vernacular language.⁶⁶

Language-wise revenue mix



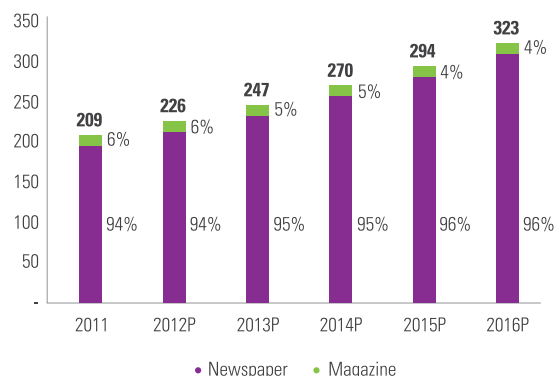
Source: KPMG in India Analysis

⁶⁶. KPMG in India Analysis



The revenue mix between newspaper and magazines is further expected to shift in favour of newspapers from 94:06 in 2011 to 96:04 in 2016.

Print Industry: Newspaper v/s Magazine



Source: KPMG in India Analysis

The industry believes that the Indian print has at least 10-15 years ahead. Following are some of the themes which may emerge in near future:

- **Digital printing of newspapers:** Going forward, there may not be a million copies of newspapers printed but limited copies for a target market or a target segment. As communication channels migrate to a personalized, on-demand model and changing market conditions place pressure on traditional news media, individualized newspaper may soon become a reality. Digital printing would be a good cost-effective solution for publishing short-run editions for a tightly defined geographic region. It would also provide enough flexibility to newspapers intending to expand internationally into newer markets by enabling printing at near the point of distribution of dailies
- **Owning the last mile:** The last mile in newspapers is still not organised, as the newspapers continue to be delivered through hawkers and pavement sellers. Unlike television, where both production and distribution are organized, there are no such distributors for newspapers. The industry expects the print distribution to get corporatized and make the sector more organised



“Newspapers would be required to build on their strengths such as segmentation / personalization of markets, enhanced reader engagement (preferably interactive), opening up new categories of advertising (especially individual-driven) etc. for sustenance and growth. However, one would need to balance the Marketing Risk vs Manufacturing Risk. Going forward, Digital printing technology is expected to enable fulfillment of market disaggregation need at acceptable cost of printing”

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

• Migration of advertising from corporate to individuals:

Print advertising is currently driven by corporate rather than individuals. For individuals, the advertising is limited to classifieds such as matrimonial ads. However, the industry expects to see the segment moving to display ads. For example, personal information such as wedding or birth of a child being shared in community newspaper

- **Interactive and engaging:** In order to survive and thrive in the digital arena, the newspapers would have to be more interactive and the engagement level has to be far more intense than before.

Industry's wish list⁶⁷

Discussions with the industry participants indicate support from Government in overcoming the challenges faced by the industry and restore its growth trajectory. A summary of the wish-list:

- **Wage board bill:** The Wage board bill is being challenged by the industry participants. Anand Bazaar Patrika and Indian Newspaper Society are amongst the various industry participants who have moved the court. The industry hopes that the ruling will not leave the industry unprofitable
- **Service tax:** Presently service tax is not applicable on sale of space for advertisements in print media. However, the revised concept paper on negative list proposes to exclude advertisements in newspapers from the negative list of services. The industry expects that the Union Finance Ministry would drop the proposed levy of service tax on the sale of advertising space in newspapers. If imposed this could have the effect of advertisements in newspapers being brought within the ambit of service tax and thus increasing the cost of placing advertisements in newspapers
- **FDI limit:** Some participants expect the Government to increase the FDI limit in both newspaper and magazine industry from 26 percent to 49 percent
- **Custom duties on capital equipment:** The current generic effective custom duties rate on imported capital equipment (including printing machinery) is 23.89 percent. The industry expects the Government to reduce the capital duty imposed on the import of capital equipment.

Conclusion

Although the overall Indian print industry scenario looks promising, capitalizing on future potential will depend on how the industry deals with the present challenges. The opportunity lies in tapping the growth potential of the market through expansion and deeper penetration while simultaneously building additional capabilities to explore alternate sources of revenues.

04

Films

Spot-light on growth





Films

Spot-light on growth

04

Introduction

The Indian film industry has recovered from a two year slowdown in 2011. With the cricket world cup and IPL taking away four months in the first half of 2011, there were only about 40 available weekends for film releases. "Bodyguard", "Singham", "Ready", "Ra.One" and "Don 2" breached the INR 100 Crs mark in domestic theatrical collections¹. The industry took just one year to more than double the count of films in this elite club of high revenue generating Hindi cinema. A steady increase in average ticket price on account of the growing multiplex culture, increasing content with mass connect, star-power and digitization facilitated country-wide releases, all contributed their part in this turnaround.

In the year gone by, not only did A-list star cast films do well, but niche/focussed content from independent film-makers also gained widespread acceptance. "Ragini MMS", "Murder 2" and "Tanu weds Manu" performed well at the box office in 2011. Entertaining stories were appreciated across genres. Themes that were women oriented such as "No One Killed Jessica" and "The Dirty Picture"; horror based "Haunted"; urbane life based "Zindagi Na Milegi Dobara", "Delhi Belly" and romance based "Ladies v/s Ricky Bahl"² were all box-office hits.



For the film industry's upswing in 2011, content has been the key driver. What is interesting is how the year has overruled some of the industry myths and seen maturing of audience preferences and renewed acceptability towards diverse content.

Films which are termed as 'Mass' such as Singham and Bodyguard, and expected to perform well in Tier 2 & 3 locations have also done extremely well in urban centers with Tier 1 audiences also cheering the Alpha hero. Alternately, the urban centric stories such as Zindagi Na Milegi Dobara and Rockstar which were traditionally targeted towards metro audiences have done extremely well in smaller centers.

Cinema reflects society and this diverse customer acceptance of film product across the country reflects the deep penetration of cinema across various strata of society //

- Anil Arjun
CEO

Reliance MediaWorks Limited



The Indian audience has definitely evolved. There is no sure-shot genre for commercial success, but the incredible performance of movies as diverse as DELHI BELLY, THE DIRTY PICTURE, NO ONE KILLED JESSICA and ZINDAGI NA MILEGI DOBARA, has proved that the audience is thirsting for high quality, differentiated entertainment, irrespective of the genre or the star-cast. A few years ago, a film with a subject like NO ONE KILLED JESSICA would have been considered an art film, but its resounding box office success is testament to the fact that such cinema works at box-office, provided it guarantees entertainment to the audience //

- Siddharth Roy Kapur
CEO
UTV Motion Pictures Limited

01. EconomicTimes - January 2012

02. Industry discussion



2011 was a good year for regional cinema as well. In a first for Punjabi cinema, "Jihne Mera Dil Luteya" (JMDL)³ generated over INR 12 Crs in revenue. Srijit Mukherjee's "22nd Sraon" in Bengali, Fox distributed "Engaeyum Eppothum" in Tamil and Rajesh Pillai's "Traffic" in Malayalam were critically acclaimed successes⁴ on account of their strong and differentiated content.

Opening up new overseas territories was a winning strategy for the film industry in 2011. New pockets were developed in Eastern Asia (China, Taiwan, South Korea), Western Europe, Australia and Latin America.⁵ The 2009 blockbuster "Three Idiots" followed last year's "My Name is Khan" to the South Korean market. Roughly 45 percent of Punjabi blockbuster JMDL's revenue³ was estimated to have come from the overseas market.

Cable and satellite revenues continue to account for a sizeable pre-release recovery of high budget Hindi films. C&S rates for "Ra.One" and "Don 2" went past the record⁴ set by "Three Idiots" in 2009. Continuing the trend⁶, "Agneepath" and under production "Taalash" garnered over INR 40 Crs each in C&S revenue by end of 2011. Albeit on a much lower base, C&S revenues for regional cinema also strengthened during the year.

Aggressive marketing and promotion tactics became a commonplace in 2011. While Ra.One had the longest and most elaborate marketing campaigns in the history of Indian cinema, even medium budget films spent increasingly higher amounts to get strong pre-launch visibility⁴.

Some of the other key themes of 2011 were increasing digitization of theatres, widening acceptance of 3D exhibition, increasing multiplex footprint, rising trend of cinema advertising, imposition of service tax on film exhibition and a growing presence of Hollywood.

Although film budgets have increased sharply over the years, the commercial success ratio of films has remained roughly the same at 15 percent to 17 percent⁷. Spending more did not necessarily increase the likelihood of commercial success. Patiala House, Mausam and Game did not do as well as anticipated despite having star casts, supporting budgets and wide marketing.



“ The growing number of Multiplexes clubbed with saturation releases is ensuring that big star cast well-promoted films are grossing over 100 Crores in net revenues in theatrical releases. This phenomenon is likely to increase and augurs well for the industry ”

- Ravi Gupta
CEO
Mukta Arts Limited

With a variety of highly anticipated releases lined up for 2012, the industry expects several more films to cross INR 100 Crs in domestic box-office revenues. However, it would be wise to remember that most, if not all, the INR 100 Crs grossing films required the patronage of both single screen and multiplex audiences. With a focus on early entrapment of cash-flows driven by high marketing budgets to create hype and big openings with 2500+ prints, we may witness films collecting over INR 200 Crs at domestic box office in 2012.

03. Business Today – November 2011

04. Industry discussion

05. Business Standard – August 2011, Indian Express – January 2012

06. Times of India – October 2011

07. Koimoi – January 2012

Industry performance and projections

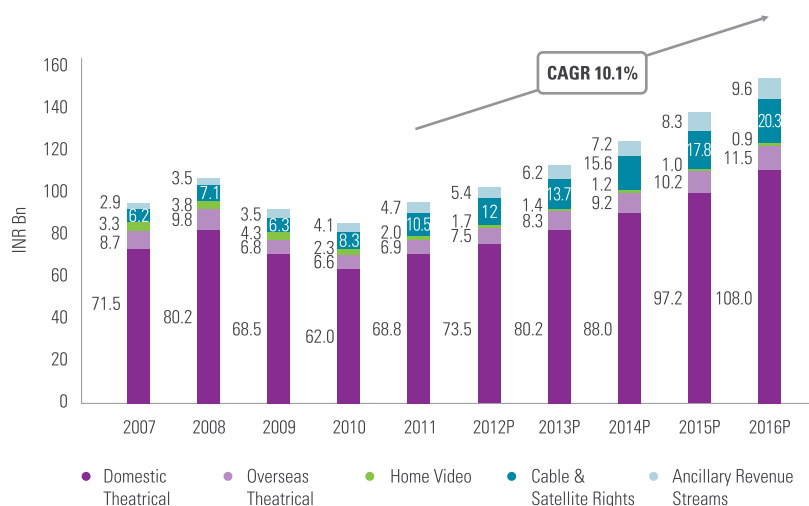
The Indian film industry was estimated to be INR 93 Billion in 2011 indicating a growth of 11.5 percent vis-à-vis 2010. Quality content combined with the revival of Hindi films with mass connect improved the occupancy rates which in-turn increased domestic box-office collections. Competitive bidding by broadcasters for large budget films resulted in 26 percent growth of Cable and satellite rights. Albeit

on a small base, ancillary revenues such as licensing and merchandising, in-cinema advertising and pay per view also displayed strong growth in 2011. The Home video segment was the only exception to the growth trend with most filmmakers ceasing to consider this as a major line-item in their revenue estimations.

Size of the Indian film industry												
Film Industry (INR Billion)	2007	2008	2009	2010	2011	CAGR (2007-11)	2012P	2013P	2014P	2015P	2016P	CAGR (2011-16)
Domestic Theatrical	71.5	80.2	68.5	62.0	68.8	-1.0%	73.5	80.2	88.0	97.2	108.0	9.4%
Overseas Theatrical	8.7	9.8	6.8	6.6	6.9	-5.5%	7.5	8.3	9.2	10.2	11.5	10.5%
Home Video	3.3	3.8	4.3	2.3	2.0	-12.0%	1.7	1.4	1.2	1.0	0.9	-15.0%
Cable & Satellite Rights	6.2	7.1	6.3	8.3	10.5	14.0%	12.0	13.7	15.6	17.8	20.3	14.2%
Ancillary Revenue Streams	2.9	3.5	3.5	4.1	4.7	12.3%	5.4	6.2	7.2	8.3	9.6	15.4%
Total Industry Size	92.7	104.4	89.3	83.3	92.9	0.1%	100.0	109.7	121.1	134.5	150.3	10.1%

Source: KPMG in India analysis and industry interviews

Overall industry size

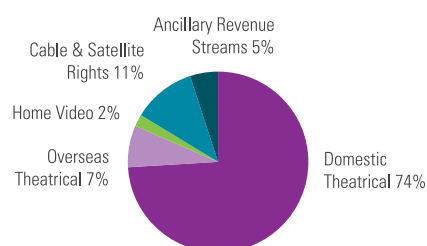


Source: KPMG in India analysis and industry interviews

With several high budget Hindi releases lined up across the year, 2012 is expected to sustain the growth momentum witnessed in 2011. The Indian film industry is projected to grow at a CAGR of 10.1 percent to touch INR 150 Billion in 2016. The industry expects domestic theatrical revenues to

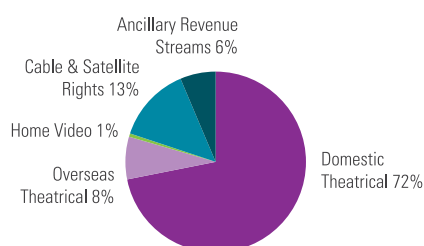
continue dominating the overall pie. However, C&S rights and overseas theatricals revenues are expected to increase their share. Strong marketing of films in the International market could further accelerate the growth of overseas theatricals revenue.

Revenue split – 2011



Source: KPMG in India Analysis and industry interviews

Revenue split – 2016P



Source: KPMG in India Analysis and industry interviews

Segment wise performance

Production

Indian production houses such as Eros, Reliance and UTV⁸ along with joint ventures of foreign media houses such as Fox and Viacom 18 have brought in increased sophistication across the industry value chain through processes such as stricter financial discipline, regular audits, scientific methods for marketing and distribution and developing new talent. In addition, they continue to explore additional monetization channels to tap latent demand for Indian films. Production houses are getting involved right from the scripting stage till release for large budget films to control costs, where as they continue to directly source quality smaller budget films from independent producers.



Companies such as Eros Intl have led to integration of sub entities that enabled creation of proficient production film content and an interdependent relationship between all parts of the film value chain. This has resulted in a completely new dimension of how films are marketed and distributed. Content is now being monetized across several platforms creating additional revenue streams for the producers and enabling the consumer enjoy and experience content through multiple channels in a customized manner. Indian film entertainment was never linked to corporate environment and had limited association with potential investors. Change brought by corporatization has revitalized confidence amongst all investors and shareholders who have validated their interest in this space

- Kamal Jain
CFO

Eros International Media Limited

Investments made by the industry in developing talent⁹ seem to have paid off as evidenced by the rise in the number of bankable stars.

08. Industry discussions

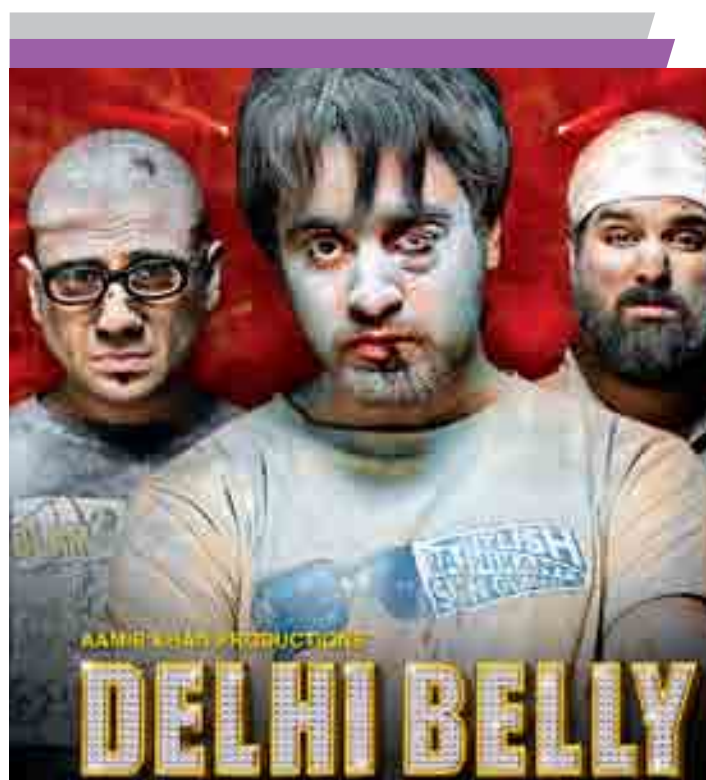
09. FICCI KPMG 2010 Report



There is an increasing trend towards opting for co-productions in the Indian market as it seen to provide a win win situation for both the production house and the studio. Each get's to leverage his strength – the production house get's to focus entirely on the task of producing a good quality film with the studio simultaneously exploring and implementing the best distribution and marketing strategies for its release

- Apoorva Mehta
CEO

Dharma Productions (P) Limited



While production houses such as Eros and Reliance¹⁰ already have some presence in regional markets, others have also started evaluating similar opportunities for further expansion. Besides mitigating the risk of dependence on Hindi cinema alone, the industry expects the 1000-film strong regional cinema to be a growth driver for several years into the future. Some examples of the expanding footprint of Hindi and Hollywood studios are:

Production Studio ¹¹	Regional Market	Activity during the year
Eros	Tamil	Co-production with Photon Katha
Eros	Punjabi	Co-production with Jimmy Shergill Production
Reliance	Tamil	Partnered with Vensat and Annapurna Studios
UTV	Tamil	Co-producing Muran, Announced Mugamoodi, Re-making Delhi Belly
Fox Star	Tamil	Forayed into co-production with Engaeyum Eppothum

Taking a cue from their Indian counterparts, foreign studios such as Fox, Disney, Viacom 18 are also exploring opportunities in the regional space. Besides the traditionally strong Tamil and Telugu market; Bengali, Malayalam and Bhojpuri markets are being watched closely by these players. Disney's recent acquisition of UTV is expected to provide them a strong opening in these markets. With growing confidence levels, regional film budgets have also displayed a rising trend.

Distribution

Larger film budgets supported by aggressive marketing campaigns and promotional tactics have further increased the stakes for distributors going into 2012. Traditional distribution territories (Bombay Area, Delhi-UP East-Punjab and Rest of India) are getting redrawn with large producers now preferring to deal on a specific state or city basis. As the GDP in key cities and states in India has increased steadily over the past few years and there is growing importance of having local presence, there are larger opportunities for producers to unlock the complete potential of a given geography.

With the commercial success ratio of films remaining roughly 15 percent to 17 percent¹², larger film budgets and reduced distribution territories the business case for early entrapment of cash-flows through widespread releases is clear. While small budget films continue to struggle for screen space, the number of domestic and international screens for big budget films has more than doubled in the last year. Medium budget films have also observed a steady growth in domestic screens. The industry expects this number to increase further

as producers and distributors aim to shorten the recovery cycle of cash-flows and mitigate the risk of piracy.

A similar trend has also been observed in regional markets such as Tamil Nadu where the number of domestic screens is estimated to have tripled in the last couple of years. However, most other regional films continue to open on a much smaller scale due to a limited target audience.



“To minimize the piracy effect and also to garner huge collections in the first week end itself, the film-makers in Tamil Cinema want to exploit maximum screens during the opening. Star category films are being released in about 350 screens instead of 120 screens a few years ago. 60 percent of domestic collections come from first five days. Other films continue to release with 80-90 prints”

- Thyagarajan Govindarajan
Vice President
Tamil Film Producers Council

While Hindi films continue to do well in the conventional international markets of US, UK, Canada and Middle East, previously untapped territories in Latin America, Western Europe and Pakistan are also opening up. 2011 observed a strong “Go-East” phenomenon with Indian films doing well in Taiwan, South Korea and China. Big budget films such as Ra.One and Bodyguard opened simultaneously in 50 countries.

2009 film ‘Three Idiots’ had a 29 weeks theatrical run in Taiwan collecting over INR 3 crs in 2011. Buoyed by the success of the film, it was released with subtitles in 230 screens in South Korea and across 900 screens in China with dubbing in Mandarin. The film had over USD 1.5 million¹⁴ of print and advertising expense in the country equivalent to that of a Hollywood release. Distributors are also looking to release the film in Russia, Italy and a few other European nations¹⁴

Despite the emergence of new territories, the total number of films released overseas continues to be small. Overseas theatrical releases are limited to a few high budget films primarily based on star power and the ability to invest in marketing activities. “Ra-One” was released in about 1100 prints¹³ outside India and is expected to break the record set by “My Name is Khan”. Some production houses have also started monetizing ‘repeats’, where old films are sold on a standalone or bundled basis in new territories. UTV¹⁵ has sold terrestrial TV rights on a limited-run deal of five popular films to a Seoul based media firm. UTV has also struck a limited-term deal for non-exclusive telecast rights in non-Indian languages for 13 films with Zee Network in overseas territory.

Average number of screens for theatrical release ¹³	Big Budget		Medium Budget	
Market	2010	2011	2010	2011
Domestic	1200	2500-3000	600	1000+
International	250	400-500	100-120	100-120

10. Economic Times – August 2011

11. Press releases

12. Koimoi – January 2012

13. Industry discussion

14. Business Standard – August 2011

15. Boxoffice India

Similar to Hindi cinema, the overseas market is limited to a handful of A grade films in regional languages. While Punjabi continues to do well in pockets of US, UK and Canada; there are few established markets for Bengali films. Some Bhojpuri films have been sold in Fiji and Mauritius. Malayalam films, on the other hand, continue to perform well in Middle East due to their strong Indian diaspora. Telugu films have strong traction in the US market. Besides their base in US, Canada and South East Asia, Tamil film producers are developing markets in France, Germany and Netherlands¹⁶

Shemaroo Entertainment released "Super K", a 95 minute animation film on Yahoo! Movieplex. Similar to Studio 18's "Striker" last year, this could be watched for free by viewers. The producers tied up Parle G, Zica, RobinAge, Diamond comics, Magic Holidays, Wow Retail, My FM, Radio One and Global Advertisers associate for the first ever exclusive online release of this genre of children's animation film. Most of the publicity was done through Facebook and Twitter.¹⁷

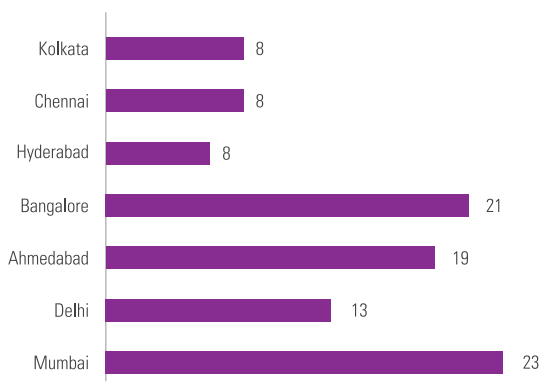
In keeping with this trend, it is highly likely that going forward we will see more releases on alternate platforms such as i-pads, internet and television in the coming years. Paid models for releasing films to international audiences online are already being evaluated by the industry.

Exhibition – Multiplex

The growth of multiplex chains continued through 2011. Despite representing less than 15 percent of the total screens in India, multiplex screens accounted for a third of the total box office collections in 2011. Larger chains such as PVR, INOX and Cinemax added about 70¹⁸ screens in 2011 with significant investments underway over the next few years. Mukta Arts forayed into this segment with a 4 screen multiplex in Vadodara¹⁹. The firm plans to add 15 properties in 2012-13. Mexican multiplex chain Cinopolis is planning to introduce 14-screen megaplexes to India. Megaplexes aim to offer more flexibility and choice to the consumers irrespective of the time of the day. Additionally, a larger bouquet of films can be screened¹⁶. Despite the overall surge in multiplexes across tier I cities, the industry believes that urban centers are still away from saturation.

However, unlike the rest of India, the South Indian market continues to be dominated by single screens. Price caps on ticket prices in the Tamil Nadu and Andhra Pradesh market have been a growth inhibitor for multiplexes in these markets. Additionally, the strong performance of regional cinema on single screen theatres has not incentivized the government to encourage multiplexes. However, having established their footprint in the rest of India, the industry expects the next growth phase of multiplexes to be driven by the South and East Indian market. On a comparative basis, the multiplex density by city is among the lowest in the South Indian cities with the exception of Bangalore. The industry expects the gap between Chennai, Hyderabad, Kolkata and the other urban centers to narrow over the next few years.

Screen density per million population

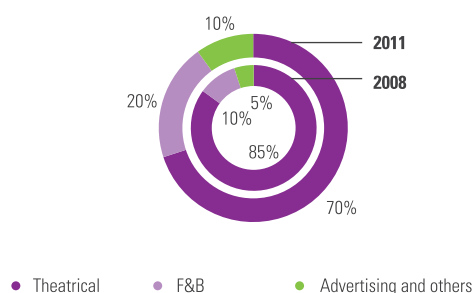


Source: RMW Corporate presentation, 2011

The industry is expected to double the multiplex screens over the next five years taking the total tally to over 2,200 screens²⁰ in 2016. An increased number of shows on account of reduction in film duration combined with growth in properties and quality of the film-going experience continues to drive overall footfalls at multiplexes as evidenced by improved occupancy rates in 2011. In addition, the contribution of regional cinema to multiplex chains has continued to increase. In 2011, regional cinema accounted for a third of Cinemax's total box-office revenue.

In India, the revenue pie of a typical multiplex chain is shown below for 2008 and 2011. Although tickets account for the majority of total revenues, contributions from Food & Beverages and Advertising has increased substantially over the past three years. 2011 saw an increase in the average number of purchase incidences and the average ticket size of the F&B purchase at multiplexes.

Shift in average revenue mix of multiplex, 2008 to 2011



Source: Industry interviews, Investor presentations of listed multiplex chains and data shared by Reliance Mediaworks

*Actual figures vary with multiplex location, genre of film and time of the day.

16. Industry discussion

17. Business Standard – November 2011

18. Investor Presentations, Annual Reports – PVR, Cinemax and Inox

19. India Infoline – July 2011

20. KPMG in India Analysis and industry interviews



“ At INOX we continuously innovate to create an audience pull. Patrons come to our multiplex for not just a movie, but for a holistic experience in entertainment. Needless to say, in our industry ‘Content’ is the absolute ‘King’. However, we make sure that we are able to draw our patrons through our strengths in:

- a) The ability to Program different movies at different and comfortable time-slots
- b) Market the movies with lots of innovation and
- c) Flexi-price our tickets with different pricing matrix throughout the day & week

As one of the country’s largest Multiplex operator we take pride in our pan-India presence, and we will continue to expand across all geographical locations across the country in the years to come ”

- Alok Tandon
CEO
INOX Leisure Limited

Growth drivers for multiplex exhibitors

- **Expansion to tier II/III cities:** Having established a foothold in most metros, multiplex chains are now moving to tier II/III cities to create a better viewing experience and cash in on the increased disposable income from these cities. New entrant Cinepolis has built properties in Patna, Patiala and Surat to meet latent demand of the consumers. Through PVR Talkies, PVR is targeting tier II/ III cities. PVR Talkies are currently operating at Vadodara, Latur and Aurangabad.²¹
- **Emergence of 3D films:** 3D films are slowly gaining prominence both in Hindi and Hollywood films released in India. 3D technology comes at a price but allows multiplexes to marginally increase ticket prices and provide a differentiated experience to the viewer. Moreover, this viewing experience cannot be readily replicated on the television and internet²².
- **Reduction of cricket black-out window:** A sub-par cricketing year has the potential to further bolster the fortunes of the film industry. In 2012, four large budget films are scheduled to be released during IPL²³ - a bet almost no large producer wanted to wager till last year. These include Sajid Nadiadwala’s “Housefull 2”, Vidhu Vinod Chopra’s “Ferrari Ki Sawari”, Priyadarshan’s “Tezz” and Mukesh Bhatt’s “Jannat 2”. Hollywood has also slotted the release of “Men in Black 3”, “Titanic 3D” and “Avengers 3D” overlapping with the IPL calendar in 2012.²³



“ Cinepolis believes that multiplex sector is poised for healthy growth over the coming years given the relative potential of the market. The biggest challenge to growth will be the pace at which new shopping malls can come up ”

- Milan Saini
Country Head and Managing Director
Cinepolis India (P) Limited

Key challenges for multiplex exhibitors

- **Ensuring a continuous supply of quality content and promotions to drive footfalls:** To improve the dismal footfall over weekdays, multiplexes owners have innovated in unique ways to generate audience interest and drive footfalls during non peak hours. For example, Cinemax and Uninor (a mobile service provider) collaborated in a campaign called “Super-hit Wednesday” in which Uninor subscribers could get one free ticket for every ticket purchased mid-week at Cinemax. This was similar to the Vodafone Tuesday offer across multiplexes²².
- **Slowing mall market:** The success and expansion of most multiplexes is intricately linked with malls. High property prices and recent recessionary conditions have slowed the expansion of malls and corresponding footfalls growth which has directly affected the growth of multiplexes. While an extended slowdown may create further delays in expansion of new properties for multiplex players any improvements such as support from the Government for FDI in organized retail may come as a peripheral boost to multiplex chains.
- **Reducing Theatre to TV window:** To reduce piracy, films are opting for a shorter release window. For example, the critically acclaimed small budget film “Stanley ka Dabba” was released on Star Plus within weeks of its theatre opening leaving limited time for the film to gain popularity by word-of-mouth publicity²⁴. Although the film producer’s aim may have been to reduce risk by selling the C&S rights early, multiplex chains may not have got an opportunity to exhibit the film to its complete potential. During the year, there were clashes between Producers and the Multiplex Association to put a minimum cap on the number of days after which a film can be premiered on TV.

Exhibition – Single screen

The Single screen market continues to lose revenue share to multiplexes in the film exhibition space. Over the last few years, the action genre had been marginalized in Hindi cinema. The revival of this genre in 2011 as demonstrated by the success of Bodyguard and Singham has bolstered the enthusiasm of a few single screen owners. Buoyed by the content and theatre digitization, some single screen owners had invested between INR 0.5-1 million²⁵ in refurbishing their property. It remains to be seen if mass market action films will make a comeback for a meaningful period of time.

Unlike multiplexes, single screens lack programming flexibility and provide minimal choices to the viewer, thus reducing their viability over the long term. They have several other disadvantages; such as air conditioning has to run for the entire large format hall (irrespective of occupancy) and owners must employ support staff to cater to 500-800 people²⁵. Additionally, reduced mid-week prices of multiplex shows in the first half of the day have taken away a sizeable chunk of middle class viewers. Hence, the net-addition of single screen theaters has been negative over the past decade and the trend is expected to continue over the medium term.

21. Business Line – December 2011

22. Industry discussions

23. Economic Times – January 2012

24. Livemint – May 2011

25. Industry discussion – Single screen owners

Contrary to this trend, South India is primarily a large single screen market. Multiplex growth has been slow due to price caps and an unfavorable regulatory structure. Regional films from the south may be released with a much higher density compared to north Indian languages²⁶. On the other hand, Bengali cinema, which comprises of a large proportion of “middle of the road” (thought provoking but still commercially viable) films are not popular among the local single screen audience beyond tier I cities.

Exhibition – Digital cinema

The share of digital prints continued to grow during 2011. Over the last five years, there has been a reversal of the split between analog and digital prints. Analog constituted 85-90 percent²⁷ of film release prints till a few years ago.



“Technology is reducing the business case for piracy in theatres. Digitization has ensured that a film is released with over 2000+ prints as against 500+ few years ago. This number can go up to 4000 prints meaning that the film is available on the same day across a much larger audience. In older times, movie would have released after a month in hinterland.”

- Sanjay Gaikwad
Managing Director
UFO Moviez India Limited

Currently, digital accounts for over 80 percent prints of all Hindi film releases²⁷. In addition to significant cost savings (~ INR 50,000 per analog print vis-à-vis INR 10,000 for digital), digital prints provide producers the flexibility to add or decrease screens according to their availability in real-time. The industry expects the analog print format to fade away by 2016.

Digital prints have spear-headed the 2000+ opening day release for big budget films. As opposed to physical prints traveling from town to town, digital prints facilitate a simultaneous all-India or even a global release. Today, digital prints constitute a significant proportion (~90 percent²⁷) of South Indian and Bengali cinema releases.



“Conversion to digital has given single screens some of the advantages of flexible programming that multiplexes have. They can now schedule film releases, even if for just one show per day, on account of the significantly lower ‘print costs’ -- a possibility that simply didn’t exist before digital cinema.

In Tamil especially, the digital penetration has hugely helped low budget films with a strong regional or rural flavor gain significant popularity with many of the hits of the recent times being amongst such films... a reversal of the ‘multiplex-movie’ culture that the industry had seen nationally”

- Senthil Kumar
Co-Founder
Real Image Media Technologies (P) Limited

Number of screens

Market ²⁸	2008	2011
UFO Moviez	1300	3500
Real Image	~750	~2500

Exhibition – Cinema advertising

Unlike yester years, there is a marked improvement in transparency of ticket sales in India. This can be mainly attributed to the superior processes and systems introduced by multiplex chains and the digitization of theaters and prints. One off-shoot of this transparency has been the gradual adoption of cinema advertising in India. Advertisers now have better access to occupancy rates and film revenues of film goers. The cinema advertising market has grown at a robust 18 percent²⁹ in 2011 to reach INR 140 Crs. Digital cinema providers such as UFO Moviez and Real Image have cornered the bulk (~ 70percent) of this advertising revenue while film exhibitors take the rest of the pie. However, the potential for cinema advertising both inserted in the film and banners, hoardings displayed in the theater is still in a nascent stage of development. Advertising revenue is expected to contribute to 30 percent of total digital cinema revenue this year as compared to 24 percent²⁸ in the last financial year.

Although, cinema advertising has demonstrated a strong growth trend in India, it still has a long way to go and is way behind the western world. The high recall quotient of cinema advertising has not been completely exploited. The inability to ascertain the characteristics of the audience remains a hindrance to the growth of cinema advertising in India. Capitalizing on this opportunity, Komli Media³⁰ has set up a research center to develop measurement and calibration solutions for cinema advertising.

Cinema advertising is projected to account for a sizeable share (~ 40 percent²⁷) of revenue for digital cinema providers in next few years. In order to maximize the network benefits and to provide complete flexibility to advertisers, the industry players sell their inventory in bulk instead of a film by film basis.



“There is growing acceptance of TV channel-like approach from key advertisers using the cinema as a medium. From the era of taking just a few key theatres as an one-off activity; to a period of taking 50 and 100 theatre orders; to the present day norm of buying-the-network, either across a single state or across the country -- cinema is on its way to become a key adjunct medium to TV for high impact communication with the added advantage of leveraging consumer engagement where required with a campaign”

- Arvind Ranganathan
CEO
Real Image Media Technologies (P) Limited

26. Industry discussion – Production House

27. Industry discussion

28. Data compiled by UFO Moviez and Real Image

29. Pitch Madison Outlook - 2012

30. Hindu Business line – January 2012

Cable and satellite rights

Cable and satellite (C&S) rights reached a new high in 2011. Broadcasters continued to bid aggressively and raised the price for big budget films. Rights to almost all the big budget films were sold prior to release. C&S rates for "Ra.One" and "Don 2" went past the record set by "Three Idiots" in 2009. Continuing the trend, "Agneepath" and under production "Taalash" garnered about INR 40 Crs each in C&S revenue by end of 2011. In line with the growing theatrical collections, we had four films crossing the INR 30 Crs barrier in 2011 compared to one in 2010³¹.

Data for top three films at box-office

Year ³²	2008	2009	2010	2011
Average C&S Rates (INR Crs)	18	19	14	34

In 2011, several broadcasters spent significant sums on a few big budget films to grow their film libraries in anticipation of increased advertising revenues. Sahara³³ re-started C&S rights purchases for films while StarTV bought rights in the secondary market from Colors. Digitization of the broadcasting industry is expected to further increase the penetration of film channels in the Hindi heartland. Industry participants are optimistic that this may lead to a sustainable pipeline of revenues for broadcasters.



It is reality now that the TRP of movie channels are second only to GECs in the Hindi speaking markets. Competition is intense between the major movie channels. In addition to the content library that the channels need in order to run the show, the rights of many films from the libraries of these channels expire every year forcing them to be on continuous look-out for quality content. Need for having a strong library has driven up the costs of C&S rights due to limited production of compelling content in the current industry. As a trend, rights of the films are re-purchased much before their actual expiry. Growth in overall advertising pie has also increased the value of every incremental TRP point

- Hiren Gada
Director

Shemaroo Entertainment Limited

Studios selling a bouquet of films have created a win-win situation for players in the industry value chain. These studios get better value for their pool of films by bundling them with high budget films. Broadcasters in turn get revenue visibility for the entire year by purchasing a bundled package and can plan their budgets accordingly. Rather than negotiating with multiple producers, they get access to a wide variety of films through a few studios. Depending on the quality, genre and target audiences for the films in the bundled package, advertisers can buy slots in advance and build campaigns that may run over several weeks or months. In 2011, TV premieres



of most box-office hits generated good TRPs (Bodyguard: 10.3, Singham: 8.8)³⁴ giving advertisers increased confidence in the viability of this rising trend.



Indian audiences have adapted to consuming diverse content but this content still does not have enough outlets with multiplex growth having spread only across top 50 cities. A super hit release in India gets around 35 million admissions against the population of 1 billion, whereas a major release in USA would get around 70-80 million admissions against the population of 300 million - clearly indicating the yet untapped growth potential for the cinema sector in India. The limited availability of theatrical infrastructure has probably resulted in satellite growing strongly as an alternate consumption platform. In past couple of years there has been a strong increase in satellite prices for film rights, which have gone up by 30 percent for mid-sized films and by 40 percent for big budget films

- Anil Arjun
CEO

Reliance MediaWorks Limited

Unlike Hindi cinema, sale of C&S rights has not actually taken off in regional cinema. However, with the increase in the number of Marathi and Bengali GEC channels, the industry believes there will be some improvement in C&S rates.



For Bengali Cinema, it is a very good time now. There are a number of new Bengali Channels that have opened up in the last two to three years, and complementing that the interest generated in the audience both young and old to watch quality cinema have increased

- Mahendra Soni
Director

Shree Venkatesh Films Limited

31. Financial Express – February 2012

32. Press coverage of top three films of 2008-11

33. Times of India – September 2011

34. Business Standard – 16 September 2011, EconomicTimes – 24 February 2012

Home video

The small theatre to TV window along with unchecked piracy continued to erode the Indian home video market. The contribution of the Home Video segment to the overall film industry's revenue reduced to 2.1 percent during 2011 from 3 percent³⁵ in 2010. De-growth of this segment is expected to continue over the next few years. The industry meanwhile is evaluating alternate digital formats for meeting home entertainment requirements.



“Downward growth of home video has been stemmed to an extent in 2011. Considering the large penetration of the hardware in the market, and on account of several demand pockets, this stabilization should continue over the next few years before it migrates to the next platform, that is digital. Digital will ultimately be a much more cost-effective and efficient way to reach consumers”

- Hiren Gada
Director
Shemaroo Entertainment Limited

Continuing from last year, the bulk of successful films released on home video belonged to the studios that released films under their home label. As such, limited film rights were available for acquisition even in 2011. Acquisition rates reduced to about INR 2, 1 and 0.5 Crs for A, B and C³⁶ class films respectively.

Stringent laws on curbing piracy may provide some spike in the home video segment. However as observed in the global market, there may be a shift towards streaming content on various digital devices such as internet enabled TV computers and tablets. Indian market has started gradually moving towards online streaming as demonstrated by Reliance supported BigFlix's shift towards subscription based video on demand³⁷.

In 2002-11, US consumer home entertainment spending has been on the downward trend. During, first half of 2011, packaged home video and rentals from brick & mortar stores observed de-growth of over 18 percent³⁸ and 27 percent respectively over the same period in 2010. TV and film studios are exploring new revenue sources in content licensing space. Complementing them, subscription video streaming service providers such as Netflix, Amazon and Hulu are serving heavily on content licensing to expand their library to attract more subscribers.



“Home video in its physical form has lived its life. To satiate home entertainment requirements, Moser Baer is evaluating alternate formats with a sustainable delivery model”

- Harish Dayani
CEO
Moser Baer Entertainment Limited

Ancillary revenue streams

Despite accounting for only 5 percent of the total film industry revenue in 2011, filmmakers and producers may miss an important revenue augmentation channel if they overlook ancillary revenue streams. Primary sources of ancillary revenues include licensing and merchandising (L&M) and pay-per-view. L&M channels also have the potential of creating a marketing buzz for the film before the opening weekend and can help build loyal communities and fan-bases. Rapid digitization and the much anticipated broadband connectivity through fourth generation technology (4G) supported with the growth of tablets & smart-phones has the potential to create additional monetization opportunities for films through ancillary revenue streams.

Gone are the days when a film-maker could adapt the film on these platforms as an afterthought. The format of the films content on these alternate platforms must be kept in mind right from the conceptualization stage of the film. For example, images meant for big screen release would be a misfit on the Smartphone. There is a need for separate creation of content and display mechanisms for these platforms.

Ancillary revenue stream – Licensing and merchandising

Licensing and merchandising (L&M) continues to be viewed as a marketing tool in the industry with only few A category films actually considering the option as a revenue stream. Ra.One has been a notable exception. By actively exploring merchandizing options through gaming (playstation), digital comics, costumes, novels, action figures, toy, stationery, accessories, etc., the film made approximately INR 15³⁹ Crs. Sizeable revenue was also received from the promotional tie-up of the film with a plethora of brands already associated with Shah Rukh Khan. Ra.One also tied up with the Home Shopping network to sell its merchandize on television. Similarly, Salman Khan starrer Bodyguard had promotional tie-ups with Audi, Blackberry, Reliance 3G, Maxo, Phillips styling range and Tupperware⁴⁰. If handled appropriately, the Industry believes that licensing and merchandising revenues could potentially contribute 10-15 percent of the total revenue of A category films. Creation of franchisee films on lines of Harry Potter and Batman series in Hollywood is also expected to bolster this trend.

Ancillary revenue stream – Pay Per View (PPV)

Despite a sizeable base of DTH households (~ 37⁴¹ Million and growing) in the country, Pay per view still has a limited but rapidly growing user base. Industry participants believe it is more of a habit-forming issue since subscribers tend to wait for the TV premiere of new releases that they may have skipped or missed in theatres. However, these habitual patterns are slowly changing with micro-pricing. Recent releases are now available for family viewing for as little as INR 25-50⁴² making PPV affordable and consumable for a wide audience on DTH.

With reducing theatrical windows, DTH poses stiff competition to the home video segment. Moreover, it helps in minimizing piracy in the hinterland areas where households get access to quality prints for family viewing at the cost of a pirated VCD. A good new release typically gets a minimum of 1 lakh purchases. This segment has displayed double digit growth rates and the trend is expected to continue. With a higher likelihood of getting assured views, advertisers are also warming up to the concept of PPV.

35. KPMG in India Analysis and Industry interviews

36. Industry discussions

37. Medianama – November 2011

38. Digital Entertainment Group

39. DNA India – October 2011, Live Mint – September 2011, Discussion with Eros Intl.

40. Livemint - August 2011

41. KPMG FICCI Frames 2011

42. Times of India – October 2012

Themes

Emergence of higher marketing threshold

Over the past three years, the average marketing cost of a film has more than doubled due to the diversity in methods for promotion, rising advertisement rates and the pressing need to create sufficient weekend hype and publicity just prior to release. Even to get a word of mouth campaign going, a film must have a good opening at the box office since theatrical revenues usually halve with every successive week after release. As such, producers are forced to invest a minimum amount of INR 3-5⁴³ Crs to make their product visible and attractive in the market place even for small and medium budget films. For high budget films, this number could be much higher reaching upwards of INR 10 Crs. Industry participants believe that P&A costs for small budget films may be equal to or even greater than the production cost. A concerted effort is underway by the industry to utilize marketing budgets more effectively through cost effective channels to reach the target audience of the film.



Marketing budgets are skyrocketing as a percent of overall costs. A wider theatrical release means you need to ensure more people on seats. Moreover, there has been a sharp increase in media costs. Big budget films generate substantial revenues from the box-office in the first two weeks and can afford to spend heavily on P&A. It is the small and medium budget films that risk going unnoticed at lower P&A spends. On the other hand, they also risk investing a disproportionately high percentage of their overall costs on P&A for a crack at competing with the bigger films at the box-office

- Rajjat A. Barjatya
Managing Director & CEO
Rajshri Media (P) Limited



Marketing costs have increased significantly as audiences get scattered across various platforms and mediums, forcing high visibility across all these platforms and mediums to ensure the "big opening weekend" collections for the film. The correct marketing mix and strategy assumes greater significance now more than ever, as like Hollywood films, Indian films are earning 60 percent upto 80 percent of their total theatrical collections in the first week of the release. So innovative marketing strategies, catchy promotions and high visibility are necessary to get that big bang weekend

- Apoorna Mehta
CEO
Dharma Productions (P) Limited

Early entrapment of cash flows

With rampant piracy, reduced theatre to TV window and limited screen space at multiplexes, producers are going all out to trap cash flow as early as they can. This works well for distributors as well since total outlays have increased significantly and there is an urgent need to recover and rotate cash flows over shortened cycles. A few years ago, 1000+ prints were considered adequate for large budget films. This has now become the average scale for releasing medium budget films. The number of domestic prints for large budget films has tripled to 3000+ and industry sources believe that this number will still continue to rise.



The acceptance of digital projection systems and satellite delivery to service in theaters has facilitated releases of big budget movies in 2500 plus screens ensuring early creaming of market in the first weekend

- Ravi Gupta
CEO
Mukta Arts Limited

Under these conditions, it comes as no surprise that the first week accounts for the biggest contribution to box office collections. Collections are further skewed towards collections on the first three weekend days. An analysis of the top three successful films over 2008-11 establishes the importance of early entrapment of cash flows.

Data for top three films at box-office

Year ⁴⁴	2008	2009	2010	2011
Average number of domestic prints	1020	980	1330	3000
Share of first week collections	54%	54%	58%	78%



A wider theatrical release with more prints helps in getting a faster go-to-market, reducing the impact of piracy and greatly enhancing box-office revenues, particularly in the first two weeks

- Rajjat A. Barjatya
Managing Director & CEO
Rajshri Media (P) Limited

43. Industry discussions

44. Press coverage of top three films of 2008-11

Growing pre-release recovery of cost for high budget films

Depending on the genre and star-cast of the film, studios are able to recover anywhere between 40-80 percent⁴⁵ of their production costs before the film is released. Rights for cable and satellite, music, home video and select merchandizing are all sold prior to release of the film in theatres. In select cases, even overseas rights are sold upfront. Reduced dependence on box office collections to recover money has mitigated business risk for production houses and provides an upfront return for much before the actual release date.



“The increased efficiencies, transparency, track record and balance sheet strength have been key enablers for Film entertainment companies to secure organized funding through Financial institutions. Banks have been increasingly gaining comfort in film financing and pursuing other Innovative financing products like Securitization of IP receivables / Discounting and last mile funding for select production houses”

- Karan Ahluwalia
Country Head
Media and Entertainment, Fine Arts, Luxury & Sports Banking Group, Yes Bank

Through this approach, the downside risk is limited even in the case of films that may not perform as well at the box-office. Many of the top actors have also entered into revenue-sharing contracts with production houses. This creates a risk and profit sharing model that is beneficial to both the actor and the production house. However, this phenomenon is mostly limited to films being produced by the large studios due to their size and scale of operations; Individual producers still have to bear the bulk of production and associated P&A expenses alone which makes it all the more risky. A string of successes followed by a few failures could have a devastating impact on the individual producer. Some studios have also started purchasing and supporting innovative scripts from independent film-makers.

New pockets in regional cinema

Besides the strong bastion of South Indian cinema, the industry has witnessed some growth in Marathi, Bengali and Punjabi cinema. The number of Bengali films produced has almost tripled in the last five years.

Total number of Bengali films					
Year ⁴⁶	2007	2008	2009	2010	2011
Number of Bengali films	44	66	84	110	122

Though all these three belts have to compete with Hindi cinema, they have created their own audience and fan bases. Content in regional cinemas is being based on issues affecting the common man in the hinterland.



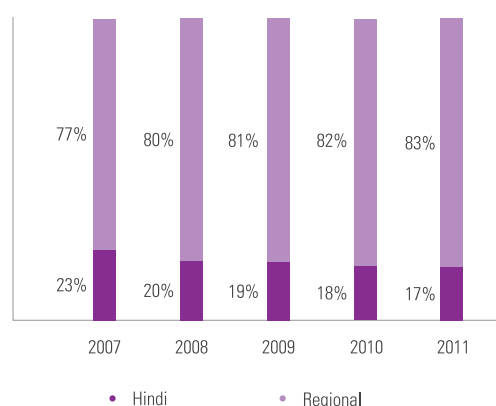
“Definitely, there is a new found interest that has got generated in the minds of the audience to watch Bengali Cinema again and the credit goes to good cinema being made these days. There has been a surge of new fresh ideas, new directors and able marketing and promotion, Bengali Film lovers are coming back to the theatres. They are more than willingly accepting experiment cinema coming out of Bengal along with commercial films”

- Mahendra Soni
Director
Shree Venkatesh Films Limited

Many of the new-age Bengali cinema's revenue continues to come from the tier I towns. There is scope for taking them to the tier II / III towns. Multiplexes have started contributing within last few years. Marathi cinema is usually a single screen story. Multiplexes have only recently begun experimenting with Marathi content in their programming but initial results show that occupancy levels have not been very high even for films screened during prime-time slots.

In the International market, Punjabi cinema has some viewers in the US, UK and Canada. Bengali cinema is exploring territories and has had limited success in US and Canada market. However, Marathi cinema is still dependent on domestic theatricals. Though the mandate is not yet out on these pockets within regional cinema, there are encouraging signs of growth in near future.

Certified films by language

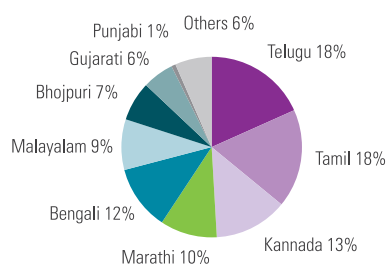


Source: Central Board of Film Certification

45. Industry discussions

46. Central Board of Film Certification

Split of regional language films, 2011



Source: Central Board of Film Certification

The success of Hollywood films in India can be attributed to a number of factors such as an ever rising English speaking population⁴⁸, the growth of multiplexes, increased international exposure through internet, television and tourism, Hindi and local language dubbing and simultaneous global releases. Given the rising importance of India for Hollywood producers, a large number of films are being released in India prior to the US release to play on the prestige factor of watching films before the rest of the world. Ten Hollywood films were pre-released in India in 2011.

To avoid clashing with big budget Don-2, Tom Cruise starrer Mission Impossible 4 was released six weeks in advance in India. The film was distributed in India by Viacom 18. It was released with 1000 prints and was dubbed in four local languages. The film had a strong pre-release campaign with the lead actor and star-cast flying to Mumbai for promoting the film. MI-4 had combined net collections of INR 19 Crs (for all versions) from its first weekend at the box-office.⁴⁹

Growing popularity of Hollywood

The Indian audience is getting increasingly comfortable with Hollywood films. Strong P&A spending by Hollywood distributors has been able to create enough publicity prior to launch. The total number of Hollywood films being released in India has increased year after year. Franchise films with high recall value and quality animation films have continued to perform well in India. 2011 was a particularly good year for Hollywood in India with the top ten films having strong box-office collections.

Film ⁴⁷	Net Collections (INR Cr)
Mission Impossible 4	40
Harry Potter and the Deathly Hallows	36
Transformers: Dark of the moon	36
Pirates of the Caribbean: On Stranger Tides	34
Fast Five	29
Kung Fu Panda 2	27
Adventures of Tintin: The Secret of Unicorn	24
X-Men First Class	22
Battle Los Angeles	20
Hangover	15

Increasing in-film tourism advertising

In the past, many Indian films were shot in Switzerland which also continues to be the preferred destination for Indian tourists. In Zindagi Na Milegi Dobaara⁵⁰ Sky-diving at Seville, scuba diving at Costa Brava, running with the bulls at Pamplona and La Tomatino at Brunol combined with a Villa stay and a scenic road-trip was a fitting glimpse into Spain tourism. It was a seamless integration of destination marketing in the production and plot of an Indian film. The Spanish Embassy saw monthly visa applications multiply three times to 2500⁵⁰ after the box-office success of the film. 2011 recorded a 65 percent increase in the number of Indian tourists visiting Spain as compared to 2010. Germany has also started a special tour titled "On the Trail of Don 2"⁴⁸ after the sequel was released in December. UK, South Africa, Ireland and Czech Republic have all offered subsidies to Bollywood producers.



47. Koimoi

48. EconomicTimes – February 2012

49. EconomicTimes – December 2011

50. AdAge Global – February 2012

Case Study:

Ra-One : Many “firsts”⁵¹

Shah Rukh Khan starrer Ra-One was one of the most widely anticipated films of 2011. Co-produced by Khan's Red Chillies Entertainment and Eros Intl, the film, made at a budget of about INR 100 Crs, was released on the five day Diwali weekend. Another INR 55 Crs was invested in marketing and promotion of the film. The bulk of this large spend was subsidized by revenue from associated brands. The festive season combined with Khan's star-power gave Ra-One a strong opening with the first week accounting for over 85 percent of domestic box-office collections. In fact, Ra-One had many firsts to its credit.

- **Used state-of-the-art animation:** Contrary to original trend of India being the outsourcing hub for VFX work of Hollywood, Ra-One observed reverse outsourcing in VFX technology. Lead studio Red Chillies VFX worked in collaboration with teams from international studios at Paris, London and Thailand. The film had 3500 VFX shots with 800 committed to G.One making it comparable to that in Cameroon's "Avatar".
- **Created a huge anticipatory hype:**⁵² Ra-One had the longest and the most elaborate marketing campaigns in the history of Indian cinema. An aggressive campaign began almost nine months in advance of the actual release. It was kicked off with unveiling of the first look on twitter and full page ads in leading newspapers followed by 10 second trailer in the high profile India-Australia world cup quarter final. The trend of launching trailers in theatres with multi city tours was started with this film. Marketing expense was subsidized by big brand tie-ups of the film with brands such as Volkswagen, Tag Heur, Western Union, Ducati, Videocon, Godrej, Coca-Cola, HCL, Horlicks, Home-shop, Nokia and Google. Three weeks before the actual release, the associated brands spent millions of dollars on mass media campaign including Western Union which targeted NRIs across the International market. With many TV reality shows in their final stretches, Shah Rukh Khan appeared as a celebrity guest on most of them generating strong TV publicity for the film.
- **Smartly leveraged digital and merchandising platform**⁵³: Ra-One was the first film website in the Bollywood Industry to hit the highest Alexa India Rankings. An in-house e-store was developed selling 64 original Ra-One merchandise items. Another first, a 100 page style guide was created for the character G.One including a miniature G.One which formed the basis of all creatives for the merchandise and digital assets. A weekly online graphic novel strip led up to the release date including a print graphic novel which was distributed to 33 million homes with a leading newspaper. Exclusive videos and promos posted on Ra-One's custom made you-tube film channel got over 2.5 lakh views on the first day of release and was the number 1 channel for consecutive weeks. Shah Rukh Khan interacted with his fans through the channel and for the first time a string of television ads were produced by Google for the promotion. Media planners also actively used social media to reach out to his 4.2 Million followers. Besides, a social media action game was created and simultaneously adapted

to various media including smart phones, feature phones, DTH, tablets and Facebook.

- **Large distribution standards:** In keeping with the on-going trend of wide releases, the film was released with 3100 prints (400 in 3D) for domestic theaters and 1100 (200 in 3D) prints in overseas theaters. This was the single largest release for any Indian film.
- **"Lock in" Exhibition:**⁵⁴ For the Diwali weekend, it is alleged that Ra-One was on every screen in entire multiplexes across the Hindi speaking regions. The film's producers convinced the programming heads of multiplexes that Ra-One was a never seen before saga in Indian cinema. And that, they stand to lose out on revenue by missing any shows. There was hardly any alternate option to a viewer during the Diwali weekend. Ra-One had almost monopolized the last mile.



“Hollywood has technical, business and financial prowess to infiltrate our film industry. Industry faces danger of being marginalized if we do not evolve on similar lines. Lot of lost ground has to be covered on technology front plus we need to create our own super-heroes. Ra-One is our first step in this direction. It is just a matter of time before our industry masters world class technologies and audience gets used to the 3D concept. Currently, we are in the habit-forming process”

- Shah Rukh Khan
Actor, Producer & Owner
Red Chillies Entertainment (P) Limited

- **Re-wrote overseas records:** The film has already crossed INR 50 Crs in gross theatrical revenue by year end 2011 and also has one of the highest collections for Indian films in the International market. Starting with the conventional markets of US, Canada, UK, Australia, Africa, Germany, New Zealand and Middle East; distributors intend to release the film in South Korea, Hong Kong, Taiwan, Russia, Lebanon, Jordan, Syria, Palestine, Brazil, Spain, Italy and Greece over the first quarter of 2012.
- **Monetization across revenue streams:** Ra-One was one of the five films crossing net box office collections of INR 100 Crs. Star India bought the satellite rights for INR 38 Crs and T-Series paid INR 15 Crs for music rights. Over 25 brands associated with the film paid a total of INR 52 Crs. The UK government gave a grant of INR 20 Crs for co-producing the film with a UK based firm. The film made INR 15 Crs from gaming and merchandising. Sony has developed the Ra-One game for their PS2 and PS3 platform. UTV India games developed digital games based on the film's characters. Fast food chain McDonald's India offered Red Chillies manufactured Ra-One toys to their patrons.

51. Economic Times – October 2011

52. Business Today – September 2011

53. Inputs from Red Chillies Entertainment

54. Industry discussions

Challenges

Cannibalization

The cricket world cup and IPL (to a lesser extent) almost blacked out a wide four month period from February to May in 2011. This was followed by the examination period which meant that only about 40 weekends were available for film releases during 2011. Typically, any given week during the rest of the year has about three Hindi releases, one regional release, one Hollywood release and some films running from previous weeks. As a result at any point in time about 7-10 films are jostling for screen space⁵⁵. With all three major festival weekends of Diwali, Id and Christmas falling in the last quarter of the year, the industry continues to have a large share of big budget releases during this period. All three top grossing films in last year were released in this period. These films were well dispersed providing a good two-to-three week running window.

Unfavorable tax regime

With theatre viewing limited to 3-5 percent of the Indian population, the film industry stands to gain immensely by increasing the overall size of the addressable market. Firstly, India is a severely under-screened market (12 compared to 31, 81 and 131 in China, Europe and USA respectively⁵⁶). Though there have been recent attempts to improve this scenario, the process is capital and time intensive and return on investment cycles may drag on with higher real estate prices and stagnant occupancy rates.

Another reason for the same can be attributed to Average ticket prices (ATP) which are still beyond the purchasing power of common man. Tax multiplicity continues to hurt the industry. There is a lack of standardization across the country with entertainment being a state subject. It varies from 0 percent in Punjab and Rajasthan to as high as over 50 percent in Bihar and Uttar Pradesh. Additional service tax of 10.3 percent will further inhibit industry growth⁵⁷. Rationalization of the tax structure across the country may increase the total pie of cinema going audience, avoid distortion in theatre density and support the overall growth of the film industry especially for national theater chains and pan-India film production houses.

Lack of quality shooting infrastructure

Across the country, the old-time small studios are being converted into real-estate properties for commercial gains. In addition to the Kamalistan and Natraj and a part of Filmaya studios in Mumbai; Gemini Studios in Chennai, Innovative Film City in Bangalore and Indrapuri⁵⁸ Studio in Kolkata have all been converted into commercial properties. The smaller studios find it increasingly difficult to compete against the integrated and well-equipped studios such as Reliance and Yash Raj.

Despite being a huge film-producing nation, there are only four major film cities in the country which are located at Mumbai, Hyderabad, Noida and Chennai. A rapid growth in broadcast and advertising requirements has exerted strong pressure on each of these cities. On a daily basis, there is a demand-supply gap of 100⁵⁹ studio floors in Mumbai alone which is home for Bollywood and Hindi GECs. Though there is a clear potential for absorbing additional floor space, high real estate prices have made this option increasingly unviable.

In addition to Shree Ashtavinayak Cine Vision supported Studiocity, the government has green-lighted setting up of film cities in Goa⁶⁰ and Gujarat⁶¹.

Themes going forward

Stabilization in 3D

3D technology is in a transition phase in the country. While the audience is getting used to the concept of watching 3D, Indian filmmakers are yet to master the art of making a quality 3D film. Complete shooting in 3D is the only way of getting quality content. However, it is prohibitively expensive thus forcing filmmakers to convert 2D content to 3D. India already has emerged as an outsourcing base for 3D related conversion of Hollywood. Hence, there is ample talent being developed in the country for 2D to 3D conversion.

Released in 2011, Haunted is the first 3D stereoscopic Hindi film which was made using the latest digital 3D technology. Though released only on roughly two hundred 3D compliant screens, the film was a hit at the box office with net collections of INR 20 Crs⁶². It was filmed by 3DCC team (Incredible Hulk and Resident Evil fame) of technicians from Canada. Extensive special effects were executed by Prasad Studios. Including Haunted, the co-production team of BVG Group, DAR Group and UFO Moviez plans to launch three next generation 3D films at an investment of INR 100 Crs over the next few years.⁶³

Four capital intensive technologies are concurrently supporting 3D. Any direction on the success of the technology in Indian conditions will probably come after at least another year of experimentation. 3D content is usually not suitable for all genres. 3D films usually belong to the action, superhero, animation and horror category of films.

Currently, the additional expense of 3D conversion is compensated by the incremental ticket prices in theatres and not by adding to the audience base. However, a bunch of Bollywood films combined with at least one monthly release of a 3D Hollywood film is definitely shaping the taste of Indian audience. Digital cinema and multiplex players have also been slow in increasing 3D screens given the limited demand.

While adults are still getting used to the concept, 3D is a strong draw for children. Globally, there is a far better acceptance of 3D films. With sufficient quality and sufficient 3D screens, 3D films would have accounted for more than 20 percent⁶⁴ of the theatrical revenue of the US film industry.

55. Industry discussion

56. RMW Investor presentation – February 2011

57. Indian Express – February 2012

58. Economic Times – October 2011

59. KPMG in India Internal Analysis

60. Times of India – November 2011

61. Times of India – June 2011

62. Boxoffice India

63. Haunted – Official press release

64. Boxoffice – January 2011

Rising overseas contribution

While the US region, UK and Middle East continue to account for the bulk of overseas revenues; markets in South Korea, Western Europe, Taiwan and Africa are gearing up for Hindi films. Studios continue to seed new markets for Indian films. For example, Vijay's Tamil film was screened in Denmark and Kites was screened in Latin America⁶⁵. In 2011, Ra-one and Bodyguard were released with over 900 prints in the overseas market. The industry believes that it is a question of influencing consumption patterns and cultivating relationships with the local partners.

The contribution of overseas revenue in the total film's revenue can go up from its current levels of 10-15 percent to upwards of 40 percent⁶⁵. While most benefits from these markets would accrue to the star cast big budget films, there would definitely be a trickledown effect to quality content in medium and low budget films.

Along with identification of new markets, Industry believes that growth would also be driven by enhanced overseas marketing campaign and increased penetration in existing areas.



"We have witnessed an increase in demand for Indian film content across the UK, USA, Africa, and many other eastern regions. Increased demand has led to dubbing of Hindi movies in several languages and content creation keeping world-wide markets in mind. This content is backed by robust production model, strong marketing and widespread distribution channels. Today, even high profile Tamil and Punjabi movies are being successfully distributed overseas. I believe that this is just the beginning, international markets and opportunities are huge and we will witness sustained demand of Indian films across global markets."

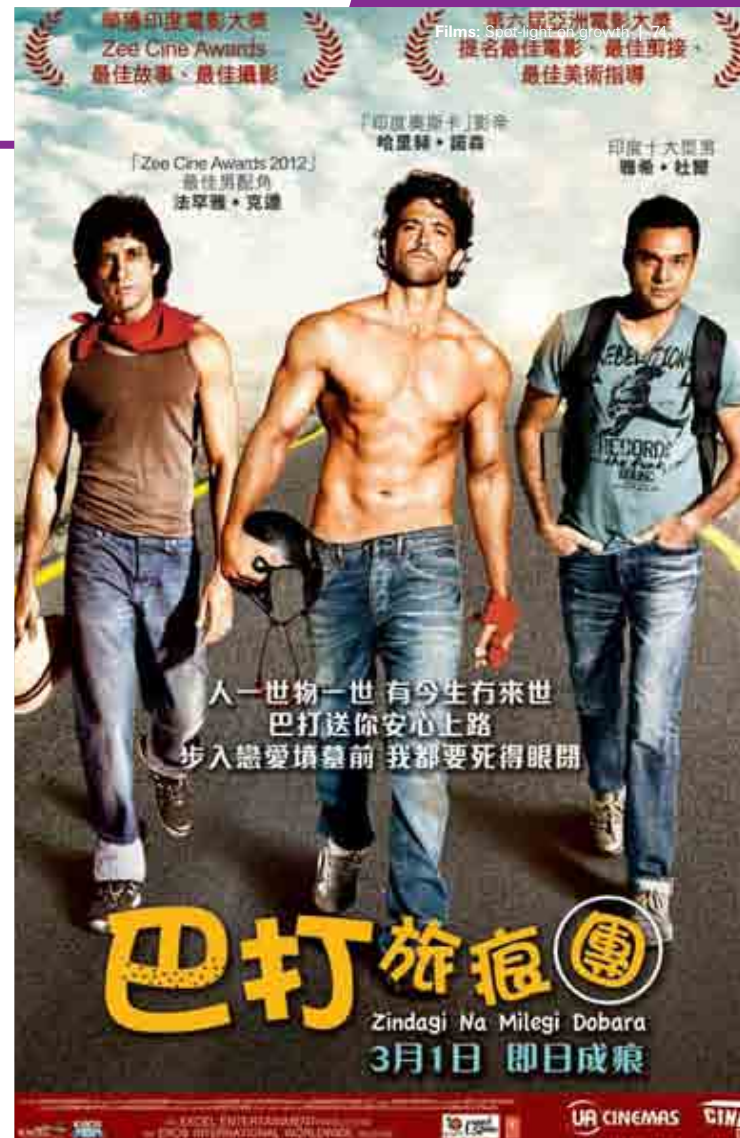
- Kamal Jain
CFO
Eros International Media Limited

Growing sequels

With over two dozen sequels scheduled 2012 may well be labeled as the year of sequels⁶⁶. The industry believes that on account of their strong recall and familiar cast (in most cases), sequels usually perform well at the box office. Rather than trying their luck in uncharted territories, filmmakers seem to be taking the tried and tested route of making sequels of successful films. Moreover, sequels have historically made more money than the original film at the box office. Dhoom 2 did business of INR 150 Crs compared to INR 70 Crs for Dhoom. With most of the franchisee films such as Matrix, Star Wars and Harry Potter doing well in Hollywood market, there is a strong case for these being successful in Indian market as well.

65. Industry Discussion

66. Telegraph India – February 2012



The industry believes that this is the next phase in the step by step monetization process of the film's brands. The launch of film merchandises can be followed by DVDs, ringtones and sequels.

Long List of sequels for 2012⁶⁶

Kya Super Kool Hain Hum	Dhoom 3
Once Upon A Time in Mumbai 2	Gyarah Chalis Ki Last Metro
Dedh Ishqiya	Housefull 2
Tanu Weds Manu 2	Raaz 3
Shootout At Wadala	Munnabhai 3
Race 2	Dostana 2
Wanted 2	Mr India 2
Ghayal Returns	Krrish 3
Jannat 2	Yamla Pagla Deewana 2
Jism 2	Rock On!! 2
Dabangg 2	1920 — Evil Returns
Shabri 2	No Entry 2
Raajneeti 2	Golmaal 4
Total Dhamaal	Judwa 2

Digital marketing

Without making a big dent in the overall marketing budget, digital marketing is fast emerging as a mainstream marketing tool for Indian films. One hypothesis suggests that the digital marketing rupee travels farther than conventional mediums. It has almost become mandatory for filmmakers and music labels to upload film trivia, reviews, wallpapers, songs, etc. to social networking web sites. Hollywood films have dedicated URLs for several years now.

Conventional marketing led by TV promotions is overcrowded and the viewer has the option to filter the content. To gain stronger reach, a producer would have to provide advertisements on a big bouquet of channels which usually come at a heavy price. On the contrary, content on the internet is far more flexible and interactive.

Within weeks of launching, "Tanu weds Manu" had 80,000 fans⁶⁷ and their web-site had over 30,000 hits. While Kolaveri Di became an overnight hit on social media; songs from Bodyguard, Ra-One and The Dirty Picture generated immense pre-release publicity for these films on social media. Ladies Vs Rickey Bahl created a video blog with 20 short bytes from Ranveer Singh⁶⁸ on how to trick women. Within 48 hours of launch, the ZNMD YouTube trailer recorded 55 million hits after having sent fee promos to Aircel subscribers⁶⁹.

Digital marketing is here to stay and would continue to grow in significance with increasing internet penetration in the country. To create and sustain strong awareness on social media, original digital content needs to be created and published across the promotion life-cycle of the film. Digital marketing strategies are here to stay and will require significant expertise to unlock additional value for films.



“Digital marketing has become a mainstream activity for any film’s marketing campaign. However, working on an afterthought basis does only limited justice to the platform’s potential. Filmmakers should start considering this in their scheme of things from the very inception of the project since every big brand whether it is stars or production houses have the potential to become digital media publishers and reach out to millions of users directly”

- Shailja Gupta
Country Head USA & Digital head
Red Chillies Entertainment (P) Limited

In summary, the Indian film industry has recovered from a recent two year slow-down. However, India continues to be a severely under-screened market resulting in competitive jostling by films to garner domestic theatrical revenues – roughly 10 films struggle for screen-space every Friday. In addition, an unfavorable tax regime and lack of quality shooting space have hampered the industry’s growth to its full potential.

In 2012, the film industry may be bolstered by the release of over two dozen sequels of previously successful films. Hindi films worth INR 200 Crs at the box-office could be a distinct possibility in the coming year primarily driven by content with mass connect, big openings and widespread marketing. While domestic theatrical revenues are expected to remain the mainstay; alternate streams such as C&S rights, audio, merchandising and a growing overseas market would continue to be key revenue sources for large budget films. Albeit on a lower base, the trends in Hindi Cinema would be mirrored in regional cinema. Going forward the spot-light is certainly on growth!



67. Exchange4media – March 2011

68. Times of India – December 2011

69. Nextweb – May 2011



05

New Media

Riding the digital wave



New Media

Riding the digital wave

05

Digital media in India is coming of age

New media continued its growth trajectory in 2011, with estimated growth in advertising revenues in excess of 40 percent¹ over last year. Coming in at approximately INR 15.4 billion in revenue in 2011, digital adspend reached approximately 5 percent of total media and entertainment industry advertising revenue². This share is expected to continue to grow over the coming years, driven by significantly higher growth rates in online advertising spend compared to traditional media.

This is good news for the industry as it comes to terms with the impact of the internet on its traditional business models and begins to evolve them for monetizing its content in the digital world.

The digital media ecosystem in India is evolving rapidly. Continued growth in internet penetration and mobile device access is expected to drive consumption. This will further drive adoption by advertisers and developments in the payment ecosystem to facilitate better monetization, and hence revenue growth.



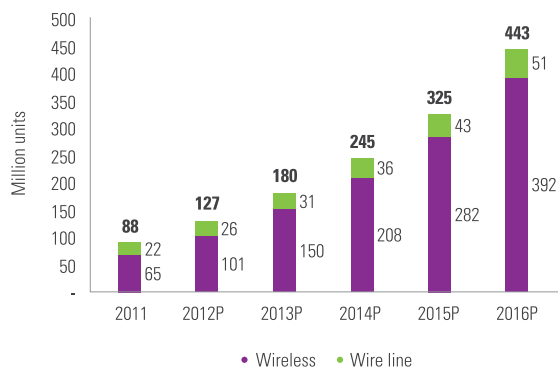
“ Mobile, social and local will be the collective theme for the digital media wave that will inevitably hit India in the next two to three years, if not sooner ”

- Mohanjit Jolly
MD
DFJ India

Mobile connectivity will drive the next phase of growth

The next phase of growth in Internet usage will largely be driven by mobile and wireless connections. The number of internet connections in India was estimated to be approximately 88 million in 2011 and is expected to grow to over 400 million by 2016². By then, wireless connections are expected to constitute about 90 percent of all internet connections. The number of broadband wireline connections are expected to grow 25 percent annually from 14 million today to 43 million by 2016.

Internet connections



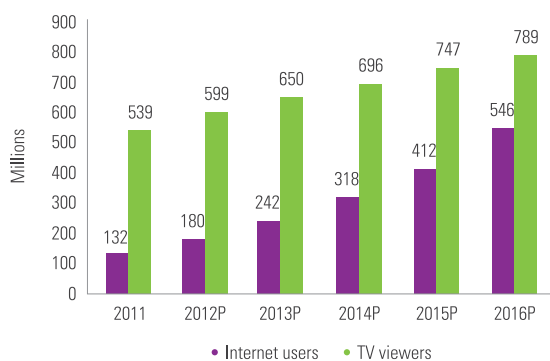
Source: KPMG in India Analysis based on Industry discussions, TRAI, IAMA and Analysys Mason data

01. Industry Interviews and KPMG in India Analysis (excludes classifieds)
02. KPMG in India Analysis



Number of Internet users will come close to number of television viewers by 2016

Internet vs TV penetration



Source: KPMG in India Analysis, TRAI, IAMAI, Analysys Mason estimates

Notes: For TV viewers we have assumed an average of 4.5 people per Household

Taking into account multiple users for a single wireline connection, the number of internet users reached 132 million in 2011, about 25 percent of the size of the total TV viewers in the country and is expected to reach about 70 percent of total TV viewers by 2016.

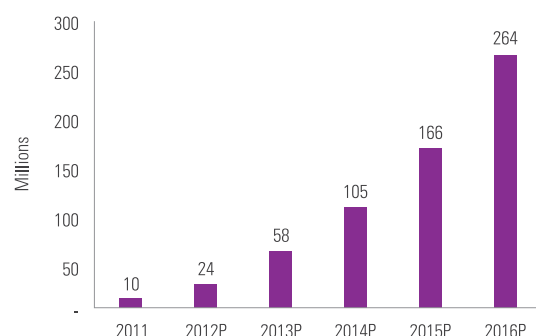
This will mean that over 500 million users will have internet access by 2016 - around 40 percent of the population in the country (China is at approximately 38 percent today³). In comparison, the reach of television is currently about 45 percent⁴ of the total population today.

Smartphones and tablets will drive online media consumption

A large number of these mobile internet users will access the internet using smart phones and tablets and will have access to a wide range of content online.

In 2011, there were about 10 million internet enabled smart phones in India⁴. The balance mobile internet users accessed content over feature phones. Annual shipments of smart phones are expected to reach 301 million by 2015⁵. Using these estimates, the installed internet enable smart phones could reach approximately 264 million by 2016.

Active internet enabled smart phones



Source: KPMG in India Analysis

At the same time, tablets are also likely to see exponential growth in sales, as prices fall further and they become increasingly affordable.

03. China Internet Network Information Center

04. KPMG in India analysis

05. IDC Q3 2011 Mobile PhoneTracker release

Tablet prices

Model	Retail Price (INR)
Mercury Mtab	9,499
HCL ME Tablet X1	10,990
Viewsonic Viewpad 7e	12,990
Spice Mi Tab Mi-720	12,999
MSI Windpad 7	12,999
Reliance 3G Tab	12,999
iBall Slide	13,450
Samsung Galaxy Tab P1010	13,999

Source: EconomicTimes Wealth dated 5th March 2012, Flipkart.com, OEMs

While it is difficult at this stage to predict what the mix of usage between tablets, mobile handsets and PCs will be, as users spend more time accessing media through these devices, companies will have to relook at how they provide and monetize their content on these platforms.

Converting traditional content to an online format and driving ad spend is not going to be enough. The interactive nature of these devices will facilitate high growth in content like gaming, social networking and apps. Also, increasing fragmentation of operating systems (Android, Windows Phone, iOS etc.) will mean content owners will have to cater to multiple formats and screen sizes.

As content providers build their presence in the digital world, they will need to augment existing internet and app store presence with functionality across other emerging platforms. Further, in order to develop the next generation of their online strategies, media companies need to start understanding what consumers are doing online.

What are people doing online today?

While systems to track online behavior and consumption, especially on the mobile platform are not widely developed and implemented in India yet, some studies are beginning to shed light on what the Indian consumer is doing when they are connected

The average time spent online has increased from 21 minutes per user per day in 2010, to 26 minutes per day in 2011⁶. In comparison, the average time spent per day on television is 154 minutes⁷.

Internet use and consumption habits in India also appear to be quite different between urban and rural users of the Internet. While activities like Communication and Social Networking have a higher penetration among urban users, rural users are more inclined towards entertainment related activities like music and videos.

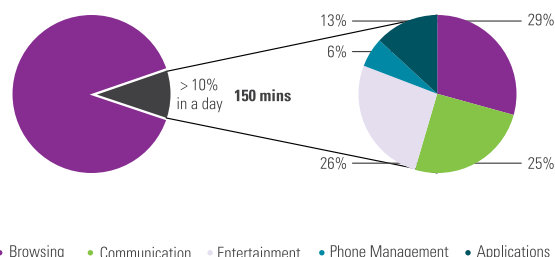
Penetration of activities amongst internet users

Activity	Urban	Activity	Rural
Email	89%	Music/Videos/Photos	46%
Social Networking	71%	Email	38%
Education	64%	General Information Search	29%
Text/ Voice/Video Chat	55%	Education	27%
Music/Videos/Photos	49%		

Source: IAMAI I-Cube report

As per a Nielsen Informate Mobile Insights study, smartphone users are spending about 150 mins a day on their phones and more than 50 percent of this time is on Browsing, Entertainment and Applications⁸.

Time spent on the smartphone



Source: Nielsen Informate Mobile Insights

These usage patterns present an interesting opportunity for content creators to develop content suited for mobile consumption. For example, a TV content producer could potentially create short videos out of its episodes for audiences who want to catch up on their favorite show. Such short format videos need to be suited for mobile viewing which can be watched while traveling. These "catch up" videos act as fillers for viewers who cannot view entire episodes but want to keep up with the storyline.

06. Comscore Data on Indian Internet Usage

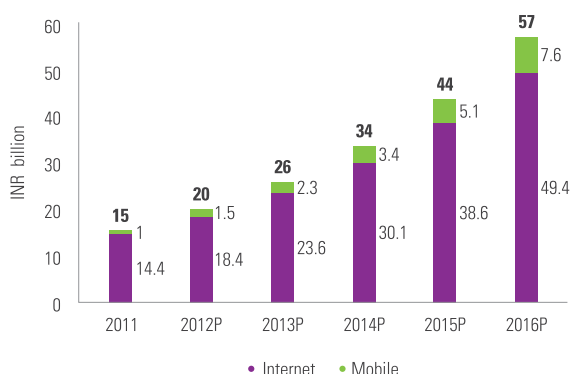
07. Range for Metro-Non Metro viewers is 120 and 180 minutes. Source: KPMG in India Analysis, TAM. Copyright reserved with TAM Media Research Pvt. Ltd. Any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

08. Nielsen Informate Mobile Insights

Online advertising

Today, the primary means of monetization in the digital world continues to be advertising. As mentioned earlier, the online ad market (excluding mobile) in India stands at about INR 14 billion currently, and is expected to grow at a 30 percent CAGR to reach INR 57 billion in 2016⁹. Mobile advertising currently accounts for a small share of the market, estimated at INR 1 billion¹⁰ but is expected to grow significantly over the coming years.

Digital Advertising Market



Source: KPMG in India Analysis

Advertising online has so far been dominated by search and display and while growth rates in these categories have stabilized somewhat (albeit still high compared to off-line), social marketing and video will see strong growth over the coming the next few years.

On the back of rising internet penetration and content consumption, online and mobile advertising have seen increased interest from categories that have historically had a limited presence in this space. Large advertiser categories on traditional media like Automobiles, Telecom and FMCG are increasing their ad spend online, resulting in some share shift from traditional media to digital.



“The digital medium in India has hit the scale of English language print and television. In addition, it offers targeting, interactivity at a lower price to other media”

- Gulshan Verma
VP
Komli

The digital empire of one - Sameer Pitalwalla, Senior VP, UTV Interactive

A number of digital initiatives on mobile and the web have, over the past couple of years, created new opportunities for celebrities to not just reach out to their fan base, but also monetize interactions in the digital world. In addition to traditional forms of advertising online, we now have innovative avenues for advertising using a celebrity's presence. Some of these include official YouTube channels, platforms such as UTV Sponsored Tweets and paid digital events such as voice chats and voice blogs on mobile operators' sites.



Conversing with movie stars is now a USD 20 million business for Indian mobile operators. Subscribers now pay to listen in on snippets of self-published celebrity voice blogs. Coupled with direct access to audiences, the cult of the celebrity can be a powerful proposition for advertisers in the digital space. A celebrity on twitter can, for instance, get as many clicks on a single ad in a day as a day-long ad campaign on the homepage of a news portal. Their combined following on social media platforms can fill up venues, garner pre-orders and even generate ticket sales. People queue up with digital rupees for a chance to speak with their celluloid idols.

For example, stars such as Priyanka Chopra have a significant following of fans across Twitter, Facebook and mobile voice blogs. UTV leveraged this following to set up a coffee date contest with the star as a 360 degree digital campaign. The date was streamed live online along with live audience interaction. Priyanka was asked questions on her mobile voice blog, via Twitter and her Facebook page. Highlights of the event were then telecast on UTV Stars and Bindass.

Our industry is built around the cult of celebrity. It is constantly looking at ways to fill our movies, TV screens and magazines with current stars, while finding ways to discover and promote new talent. If the past year is any indication, our ability to build, control and monetize these avenues is now undergoing an irreversible transformation. It is heading towards an empire of one, built not on the back of cable and satellites, printing presses or distribution might, but on tweets and chats, followers and likes.

09. KPMG in India Analysis

10. KPMG in India Analysis

Internet advertising trends – Rajan Anandan, Managing Director, Google India

The Internet advertising business in India in 2011 saw robust growth and continues to remain the fastest growing medium in the country with over 30 percent yoy growth expected to sustain.



The biggest driver has been the critical audience base that the medium has reached in India. At over 120 million Internet user base and growing, advertisers have started to take the medium much more seriously. There is better understanding of the medium by agencies & marketers and they're increasingly investing time to understand how they can create more value from the digital medium in their marketing mix. In display advertising the rise of the video on the web has brought in a newer set of advertisers on board.

Trends

Consumers will grow even more demanding about the content that they are exposed to online - expecting advertisers to engage and entertain them with personalized, targeted marketing messages. These days, the right ad at the right time isn't just a marketing strategy; it's the only way to make sure your message gets out online. On the web, consumers decide what to watch and increasingly, when; the era where marketers could dictate the terms on which people would consume their message is gone. Coke Studio is one such example. YouTube's new ad format is another. It rewards you for sticky content. TrueView Video Ads are a family of ad formats that give viewers choice and control over which advertisers' messages they want to see and when. The advertiser is only charged when a viewer has chosen to watch the ad, not when an impression is served. Since they pay only when viewers watch the video ad, advertisers can easily increase or decrease your budget depending on objectives. This format of Ads put the message at the forefront. For the first time, it's the creativity that wins out. It's not about being funny or clever—it's about delivering the right message to the right person at the right time.

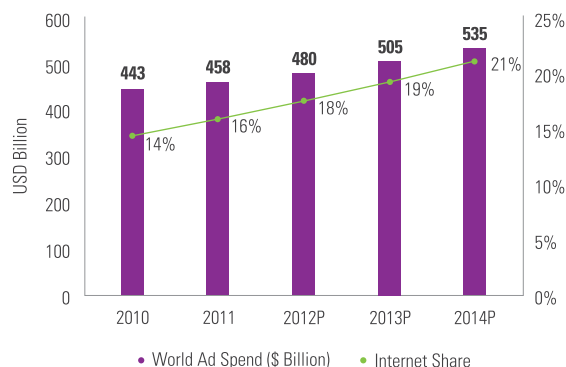
Advertisers will be able to go beyond the click, harnessing even more extensive insight into their ads' performance, through tools that show whether, where and how consumers engaged with their ads. In a world where consumers influence and even choose how they'll experience digital ads, marketers need to look for new sources of insights on how and where people engaged with their ads—and not just whether or not they clicked on it. New ad formats like YouTube TrueView let people choose whether or not to finish watching an ad before their video, granting marketers insight into what ads work and which don't.

On Search: Ads are just answers: As search engine advertising evolves, new breed of search ads are richer, smarter and even beautiful, and it will be all about giving people answers. On average, ads with three rows of links are more than 50 percent likely to get clicked on than ads without the extra links. Why? Because they get the user that much closer to what they're looking for. In fact, ads that include images of products, videos, and social information all generate more clicks for advertisers.

Continuity of information for the consumer is critical: Consumers are now using multiple devices to access the same information. And the experience across these need to be seamless for the consumer and this requires marketers to be omnipresent and not lose the customer as he/she shifts from one device to the other.

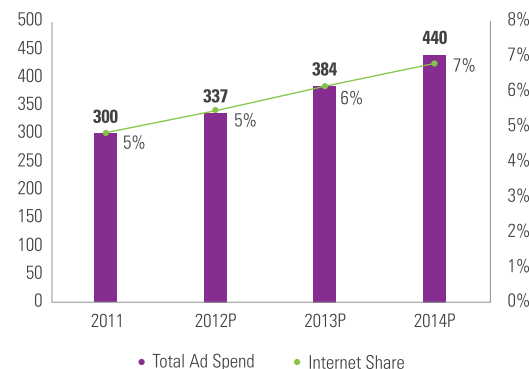
While the advertising story remains strong for the online industry in India, the share of online advertising as a percentage of the overall advertising pie still lags global benchmarks, where overall internet spend accounts for 14 percent of total ad spend¹¹.

Internet share of world ad spend



Source: ZenithOptimedia

Internet share of India ad spend



Source: KPMG in India Analysis

Indicative ad rates comparison

Country	Cost Per Click (CPC) (USD)	Cost Per Impression (CPM) (USD)
India	0.21	0.09
USA	0.77	0.33
UK	0.54	0.23
Japan	1.03	0.44

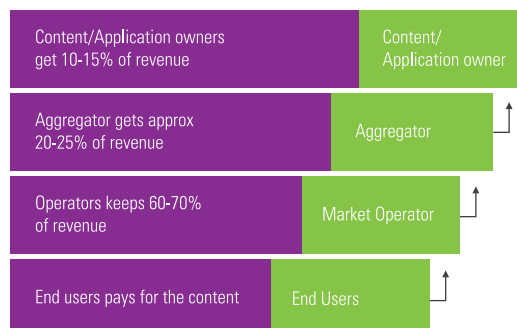
Source: Socialbakers Analytics - Facebook Ad rates

Also, given that ad rates in India are significantly lower than in developed markets and ad revenue is shared by platform providers and aggregators, pure ad based business models are unlikely to be successful for content providers in this industry in the long term. In order to be successful, companies will need to build models that involve getting people to pay for content online to substitute loss of revenue in their traditional business.

11. ZenithOptimedia Global Ad Forecast - 2011

Payments

Typical revenue sharing arrangement for On-Deck content



Source: KPMG in India Analysis, Industry discussions

Getting customers to pay online

Currently, the majority of paid revenues in digital media are generated On-Deck, through telecom carrier operated platforms with integrated billing. As smart phone and tablet penetration deepens, Off-Deck platforms (such as Android market) operated by third parties are becoming more popular. Viable Off-Deck payment solutions are either under development or not widely deployed, limiting the growth of revenues from this segment.

A basic but critical requirement to get customers to pay for content, is greater adoption of electronic payments by consumers. While the penetration of electronic payments currently remains low, this is not due to lack of choice.

Multitude of payment options

The Indian consumer today has an assortment of electronic payment options that is wider than what most advanced markets can offer. He/she also has a wide choice in terms of the mode of access to these payment options, i.e. through the PC, retail outlets ("service commerce") and mobile phones (apps / SMS) and IVR. A number of diverse entities come together to deliver these products to the consumer, i.e. banks, merchants, intermediaries, payment gateways, clearing organizations, aggregators and mobile service providers.

Indian electronic payments-wide array of choices for the consumer

What?	How?	Where?
Key use-cases	Payment methods	Access points
Mobile top-up, Bill pay	Net banking	Online-PC / Smart phone
Ticketing –Rail, Air, Movie, etc	Credit card	Feature phone - app/SMS
Merchant payments	Debit card	S-commerce outlet
Money transfer	NEFT/ RTGS	
	ECS	
	Cash card	
	M-Wallet (Full KYC)	
	M-Wallet (No KYC)	
	Mobile NFA	
		IVR

Penetration of electronic payments – A glimpse of what could be

Despite the number of options available, the adoption of electronic payments by consumers at an overall level remains low.

However, experience with a few cases indicates that consumers are willing to transact online: In 2010-11, online ticketing – at over INR 80 billion – accounted for 40 percent of reserved accommodation of Indian Railways¹². 50 percent of such ticketing payments were through the net banking route, 30 percent were through credit/debit cards and the rest were through prepaid cards¹³.

The On-Deck platform for mobile carriers has created a sizeable revenue generating industry around value-added-services such as Caller Ring Back Tone (CRBT) and gaming.

The success of non-conventional payments in ticketing and CRBT has not been an accident. The travel and mobile services sectors had little choice but to deal with the threats and opportunities represented by an increasingly digital world and are now seeing the benefits of successfully innovating their offerings accordingly.

Levers for greater adoption of electronic payments

In order to replicate such success in key segments of digital media, a three-pronged approach is necessary:

- **Educate and inform:** It is critical for the industry to invest in raising levels of consumer awareness and acceptance of safety in electronic payments and associated information privacy. There are encouraging signs in select use-cases but these will not, by themselves, translate into consumer conversion across the board. Payment companies will need to work individually and collectively (along with the government) to persuade millions of unaware or wary consumers that online payments are a safe method of payment.
- **Get the pricing model right :** Pricing models and levels will have to match consumer demographics, preferences and perceptions. Freemium models and sachet pricing (supported by electronic micro-payment solutions) will be key to getting consumers to stand in line. For example, revenues from in app purchases formed nearly a quarter of total iOS app revenues worldwide in 2011¹⁴.
- **Help the user buy:** Payment solutions today have to work with a large number of diverse applications and systems. A user frequently has to deal with clunky re-directs, multiple passwords, data re-entry and transaction time-outs when trying to transact online. For the technology to perform better (i.e. reduce processing time and failure rates), there is an urgent need for investment in interoperability and modernization to improve the user experience.

12. IRCTC Directors' Report 2010-11

13. Monthly statistics published online by IRCTC

14. Distimo 2011

Getting micropayments right is important

Ultimately, the key enabler to allow mass consumption and monetization of content online will be providers' ability to viably facilitate micro transactions at a sub-INR 10 transaction size. Distribution costs today are so high that there are hardly any viable alternatives to On-Deck platforms for micro payments. The large revenue share retained by mobile service providers (and aggregators) in On-Deck payments has meant lower incentives for content producers to create quality content on this platform.

However as smart phone penetration increases, usage of the On-Deck platform is likely to be supplanted by Off-Deck alternatives. Hence, there is an urgent need for alternative Off-Deck payments solutions. Any such solution needs to feature a low-cost distribution model (for consumers to conveniently and affordably convert physical cash to electronic cash and vice versa). This means that agents and retailers in the distribution chain should be eager to work with small-ticket transactions and micro revenue per transaction (often less than a rupee).

Telco operators appear to best positioned today

Accordingly, today, it appears that the large distribution networks of telcos (selling SIM cards and pre-paid coupons) are best positioned to grow micro-payments offerings to their theoretical potential. Having said this, there will be multiple stakeholders in the value chain of micro-payments, not the least of which is the government. For instance, the UIDAI initiative could be an important inflection point for the industry (in the form of lower customer acquisition costs and as an e-payment provider in its own right).

Digital piracy continues to be a concern

Digital piracy remains a major threat to the monetization of content on digital platforms. Digital piracy has long impacted music, and is increasingly becoming a problem in other sectors:

- Globally, India ranks 4th in terms of illegal movie downloads¹⁵
- Academic book piracy has been a major concern for years. It is now beginning to impact the consumer books sector as well. The relatively small file size of digital books and with no clear digital rights management (DRM) standards makes piracy relatively easy in this sector
- Console/PC gaming companies estimate software sales of pirated games to be at least as large as the legitimate markets in volume terms¹⁶.

One of the major initiatives that has worked in international markets is passing legislation that involves ISPs blocking access to pirated content. These laws have had mixed success globally and a policy of graduated response has been followed by markets like UK, France, South Korea and New Zealand as explained below.



International anti piracy measures

France – HADOPI Law

- Created an independent body to notify offenders about their illegal activity
- After two warnings, repeated offenders can be taken to court where sanction include fines or suspension of internet access up to 12 months
- Research company BVA, carried out a survey in October 2010 and found that since the passing of the law, 53 percent of those who had illegally downloaded stopped or cut back on their activity (29 percent stopped and 24 percent cut back)

South Korea

- Passed a law in March 2009, provides for suspension of account for up to one month for first time offender, one to three months for second time offenders and six months for repeated offenders
- Parallel to gradual response system, the portals like Naver, Daum and Nate have introduced filtering on their networks
- The government has introduced copyright classes in schools in order to increase consumer education

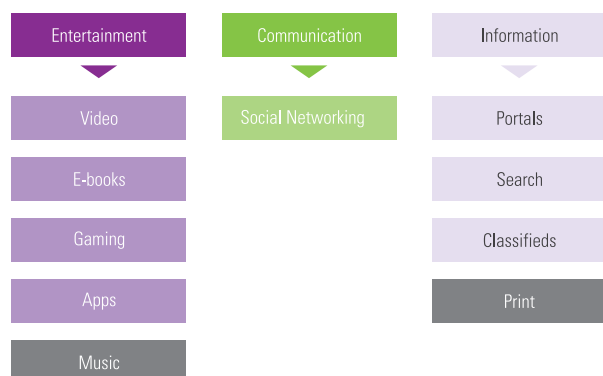
Source: IFPI Music Report 2010, 2011

Piracy is not new to this industry; however, the advent of digital technologies has resulted in making piracy a lot more widespread. There are several anti piracy tools at the disposal of companies. Besides working with enforcement agencies and educating consumers on the impact of piracy, the industry also needs to evolve strategies that involve development of quality content suited to the medium available online with appropriate security measures. Historically, it is the strength of this content that has determined success in this industry, this is likely to hold true in the digital world.

15. Survey by Motion Picture Distributors Association (MPDA) in conjunction with Envisional and DtecNet

16. Industry discussions

Overview of new media segments



Given that there has already been significant digital convergence for the Music industry, digital music has been covered in the Music chapter. Digital Print (newspaper and magazines) has also been analyzed separately in the print chapter. In this chapter we look at Entertainment, Information and Communication verticals of Digital Media covering the sub sections as illustrated in the chart below:

Video

Online video takes off in India

India saw a growth of 21 percent in unique viewers across video sites in India from 2010 to 2011¹⁷. Not only are the number of users increasing on video sites, they are spending more time watching videos online.

In India, television viewers spend an average of 77 hours a month watching TV¹⁸. In comparison, users in India spent 7.6 hours per user per month watching videos online in 2011 compared to 4.8 hours per viewer per month in 2010¹⁹.

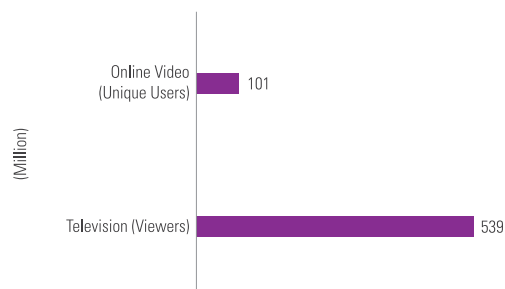
Online video – Gautam Anand, Director, Content Partnerships, APAC, Google



Users are consuming more video online than ever before and more and more want to see long form premium and live events content online. We understand the Infrastructure challenges in India but we were pleasantly surprised to see the overwhelming response we got for IPL streaming. With over 55 million views the response was beyond everyone's expectations. From 11 million unique users then, today we're at 25 million unique users a month, the growth has been exciting and we continue to see great demand for video content on the web.

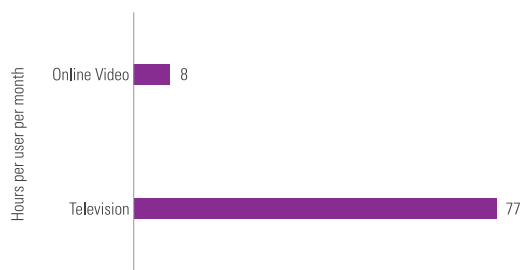
We realize that in India, Users will have always have the choice of other mediums and they will opt for the medium which suits them the best. We see web as the distribution platform of the future and users will consume content irrespective of where it comes from - most media consumption devices are IP enabled today and video consumption from the web will continue to grow.

Online video and TV audience



Source: ComScore, KPMG in India Analysis

Time spent by audience



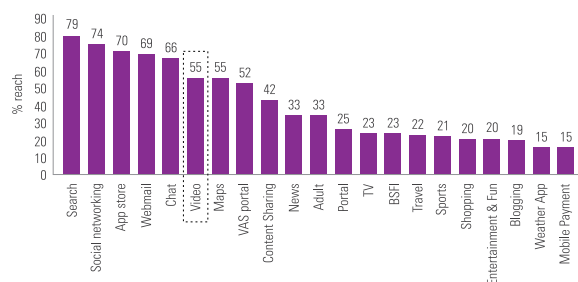
Source: ComScore, KPMG in India Analysis

Compared to maturing international markets, the Indian market still has significant potential to grow - in the US, viewers spent 21 hours per viewer per month²⁰ watching videos online and in Germany and UK viewers spent about 20 hours per user per month and 17 hours per user per month respectively²¹.

As internet speeds and quality improve and more users shift to broadband connections in India, the user experience of watching video online will improve significantly and the time spent viewing video online is likely to continue increasing. The impact of the shift to online video consumption on television viewing habits remains to be seen, and TV advertisers will be observing this carefully.

Another key enabler for online video has been the proliferation of smart phones and tablet devices. As per a Nielsen Informate Mobile Insights study, after activities like social networking, communication and search, video is the most popular activities for smart phone users in India.

Reach of online activities



Source: Nielsen Informate Mobile Insights

Note: Browser and App users considered

17. Industry Interviews and KPMG in India Analysis (excludes classifieds)

18. KPMG in India Analysis, TAM Copyright reserved with TAM Media Research Pvt. Ltd. Any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

19. KPMG in India Analysis, Comscore Data

20. Comscore Videomatrix Nov 2011 – US Data

21. Comscore Videomatrix April 2011 – Europe Data

Advertiser sponsorship cases

Hindustan Unilever YouTube sponsorship

Hindustan Lever was the exclusive sponsor for Dabangg's release on YouTube. When Dabangg, the biggest film of 2010 premiered on YouTube, channel views crossed the 1 million mark within one week. HUL took up exclusive sponsorship for the movie channel and ran a month long campaign for a hair care product across the YouTube platform.

Intel sponsorship of YouTube BoxOffice

YouTube BoxOffice is a destination for existing and new YouTube partners to showcase blockbuster movies every month. The channel is available for free and there is no restriction on the number of movies you can watch. Users can choose from a collection of over 1500 titles and partners continue to bring more movies.

Intel is the exclusive presenting partner for the channel and has seen synergies with YouTube and the "Smart visuals, brilliant performance" positioning of Intel's latest 2nd generation Core processors with this association. The channel has got over 20 million channel views so far.

India Top 5 YouTube Channels by Viewership, 2011



India Most Viewed Video Categories (% of all Viewers)

1	Rajshri
2	Telugu One
3	Eros Entertainment
4	ZoomDekho
5	T-Series
6	Bollywood Backstage
7	Shemaroo Entertainment
8	SET India
9	UltraHindi
10	Live9tv

1	Comedy	53%
2	Music	39%
3	Film Previews	38%
4	Cricket	37%
5	TV Shows	34%

Source: Google India



Globally, tablet and connected device (TV and gaming consoles) users tend to watch longer videos as compared to PC desktop viewers. As per an industry study, share of videos longer than 10 minutes was around 25 percent on desktop²². However, the share of such videos was 50 percent and 75 percent on tablets and other connected devices (TV and gaming consoles) respectively²³. The expected strong growth in such devices will further increase the amount of online videos consumed. In Dec 2011, YouTube witnessed 25 percent of its views in India from mobile devices, and has seen a 300 percent increase in viewership from mobile devices²⁴.

So what are people watching?

Penetration, bandwidth and internet speeds have all been constraints to the growth of video in India. Hence, long format content has not taken off significantly yet. A majority of the content available on video sites such as YouTube is user generated and is often short format clips.



“Our TV content is accessible both as live & Video on Demand in short form (4-5 min) & long form (22 min) across platforms and devices ranging from mobile, tablets, PCs etc. Over the last one year, we have seen a huge growth in our online viewership with a large number of repeat users coming regularly to these platforms to consume content”

- Lalit Bhagia
Vice President & Head-Digital (Internet & Mobile)
Star TV

22. Ooyala Videomind Study, Q3 2011

23. Ooyala Videomind Video Index Report – Q3 2011

24. Google Company Data

However, with broadband penetration increasing, TV and film content owners are increasingly posting content online on popular video sites like YouTube and Dailymotion. In 2011, YouTube and Yahoo Videos announced partnerships with movie production houses to stream their titles online.

On the television side as well content owners are experimenting with videos. Star has launched a Star Player application to showcase content from its channels and has seen an increase of 80 percent in viewership in the last 6 months with 70 percent of viewers returning²⁵.

While the digital video segment will continue to see robust growth as viewership increases, willingness to pay for content is likely to remain a challenge.



“We are seeing massive consumption of premium Indian entertainment and special interest content on the web. Today, we are creating 90-120 minutes of original programming exclusively for digital platforms every day. This is over and above a vast library of premium content that has been licensed from leading content owners. Digital is the platform of the future, and within this, we expect significant consumption on handheld devices in the near future. The challenge lies in understanding user behavior, creating/repurposing content for this platform and effectively monetizing this consumption.”

- Rajjat Barjatya
MD and CEO
Rajshri Films

Business models to monetize digital videos

Despite growing viewership and time spent, there has not yet been significant monetization of digital video. There are two potential revenues models for digital video online:-



“Video advertising is moving towards more richer and immersive formats. This helps attract traditional categories like FMCG and Auto, which typically spend on brand related advertising. These advertisements also command higher ad rates, helping achieve better monetization.”

- Naren Nachiappan
MD
Jivox India

- **Ad Funded Model** – Currently, a majority of the content online is largely ad funded. Digital video provides an attractive platform for such companies to advertise, giving users a more immersive experience. Ad rates for online video have also been increasing over the years. In addition, there is a move towards richer and more immersive advertisements, which command premium ad rates. The ad rates for such immersive video ads are around INR 400-500 on a CPM basis and are twice that of normal video/banner ads. However, ad rates remain low compared to television²⁶.
- **Paid Models** – Getting the Indian consumer to pay for video content online remains a challenge. With monthly cable rates as low as INR 160 for some households, the consumer is spoilt for choice²⁶. Further, as movie release windows are shortened, and movies appear on television within one to three months of their release, getting users to pay for content online becomes more difficult,

Online video ad rates

Year	CPM Rates
2009	80-200
2010	150-250
2011	200-350

Source: Industry discussions

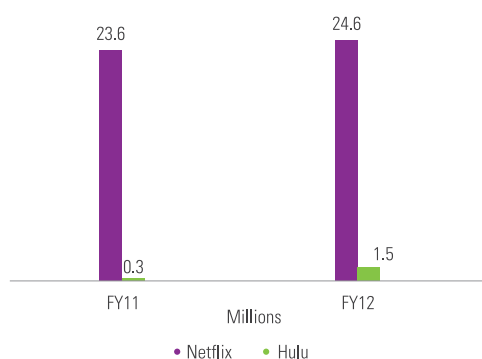
Cable v/s streaming subscription costs

	Per month Costs
Cable Subscription (India)	300
Cable Subscription (USA)	1,250+
Netflix (Streaming only)	400

Source: Company Websites

In contrast, cable prices are higher in mature markets like the US and UK, and hence streaming services such as Netflix offer an economical alternative to watch content. While Netflix has already created a substantial paid subscriber base, Hulu has also seen a sharp increase in its number of paid subscribers in the last one year²⁷.

Paid subscribers



Source: Annual Reports, Press Releases

25. Star TV – Discussion with the company

26. Industry discussions

27. Company press release

Innovative monetization models

To overcome these monetization challenges, companies are beginning to experiment with various models:

- Bundling sponsorships with television: For Kaun Banega Crorepati (KBC), Sony used the television sponsor to also sponsor the content online, in effect bundling the online rights along with the television rights.
- Supplementing TV content with online platforms: MTV customized its made-for-TV content for online viewing. "Roadies Battleground" was created to provide an interactive platform for people to participate.
- Using existing TV content innovatively online: A lot of players are looking to monetize the unedited content created while producing a TV show or a film and use that in the form of short clips and package it in order to get eyeballs for their content online.

Digital books

The overall book market in India currently stands at INR 140 billion, with educational content comprising 70 percent of the market²⁸.

However, Indian publishers are now beginning to invest in digitizing their content. Top publishing houses such as Penguin, Harper Collins and Amar Chitra Katha are expected to release e-book titles in the first half of 2012 as distribution platforms emerge for Indian users to buy e-books. They are looking to invest in digitizing old titles and will also simultaneously release e-books along with new releases²⁸.

As use of Readers and tablets becomes more widespread, penetration of e-books is likely to see a significant increase over the next five years.

While it is difficult to predict how the rise of e-books will impact the physical industry, publishers and retailers are likely to face similar challenges as the music industry related to digital piracy. They will have to invest in credible Digital Rights Management (DRM) solutions and determine appropriate price points for titles to encourage legal purchases.

Developing innovative pricing models for digital content is critical for the industry's long term success. A potential opportunity exists for sachet pricing allowing chapter-wise purchases for content in categories such as Self-help, Diet, Health and Business, which could be a significant extension to revenue streams for publishing houses. This may also impact how books are written and structured.

"The opportunities for the growth of ebooks in India in the medium term or possibly earlier are immense. A large part of this take up is going to be dependent on the availability and speed of the distribution platforms as well as the strengths of the ebook lists. Random House India already has ebook distribution of our local titles available in overseas markets and looking at the devices slated to enter the Indian market we have along with our international titles, a very strong portfolio of ebooks ready for the Indian consumer. These are exciting times for the publishing industry and Random House is committed to spearheading these efforts in India."

- Gaurav Shriganesh
Randomhouse India

E-books are yet to take off in India, but the market is expected to grow over the next 5 years

Unlike in global markets, e-book adoption is yet to take off in India. In mature markets, like the US, digital books already account for approximately 25 percent of total book sales²⁹. Although the Indian consumer has the option of buying digital books from international online retailers, the prices have been too high for mass adoption. In the absence of any large digital book distribution platform, major trade book publishers are yet to publish Indian titles as e-books.

Internationally, publishers have seen a loss of sales due to digital piracy³⁰ and traditional retailers, facing stiff competition from online competitors, are struggling to remain viable³¹. The impact of these trends in India has been limited so far.



28. Industry discussions

29. American Association of Publishers – Jan 2011 Data

30. <http://www.nytimes.com/2009/05/12/technology/internet/12digital.html>

31. <http://www.nytimes.com/2011/07/27/technology/amazons-earnings-beat-expectations-even-as-profits-fall.html?scp=2&sq=borders+amazon&st=nyt>

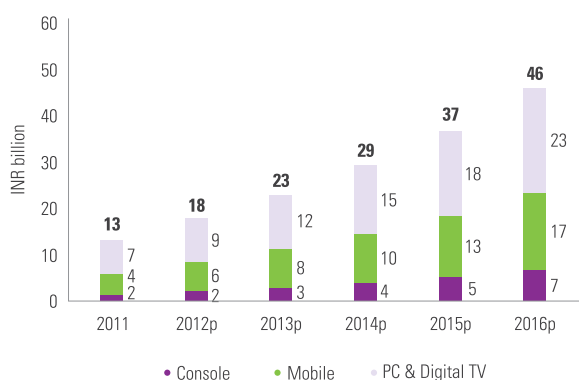
Gaming

The Indian gaming sector achieved revenues of INR 13 billion in line with last year's forecasts³². However, estimates and projections, from this year onwards exclude grey market PC and console software sales which would have further increased revenue.

The emerging trends in the gaming sector were:

- Casual and social gaming established a foothold through various platforms, appealing to a larger, diverse audience beyond the young male gaming enthusiast
- Bollywood embraced gaming, with the release of several film-themed titles such as Ra. One Genesis, Agneepath and Don 2 across multiple platforms
- Online gaming through connected devices such as PCs, feature and smart phones, and tablet computers grew rapidly as a growing base of internet enabled users took to gaming over these platforms
- The Off-Deck platform (through app stores and mobile browsers) gained significance with substantial download volumes
- Several new social gaming platforms tailored to the Indian context and incorporating micropayments, such as Games2Win's "Appuccino" and Nazara Technologies' "G-City", are currently in development or at a nascent stage.

India gaming market



Source: KPMG in India Analysis

Note: PC includes online gaming and packaged gaming software

Profile of gaming audiences by platform

The gaming market caters to diverse audiences across platforms.

Platform	Offering description	Core audience	Addressable audience in 2011 ³³
Console	'AAA' games, Casual games	Young male gaming enthusiast in top 30 cities, family gamers	Youth and family gamers in Metros, Tier I and II cities
Mobile - Feature Phones	Casual games delivered On-Deck and Off-Deck	Youth, Other connected mobile user pan India	43 million active internet enabled feature phone users
Mobile - smartphones	Casual games delivered On-Deck and Off-Deck	Youth, Other connected mobile user pan India	10 million active internet enabled smart phone users
PC – Online	Casual browser embedded games, social games, 'AAA' games	Diverse base of connected PC users	14 million broadband connected PC users
Digital Set Top Box	Casual games	Diverse base of Digital cable households	120 million Cable and Satellite television households in India
PC – Packaged games	'AAA' games	Young male gaming enthusiast	22 million home PC users



2011 saw the emergence of localized gaming content. However, gamers expect local content to be on par with international games in terms of quality

- Vishal Gondal
IndiaGames

Console gaming remained the largest segment in 2011; however, significant investments are being made to develop and monetize gaming content over online channels such as smart phones.

There are several challenges to be addressed in the sector:

- Localized gaming content faces stiff competition from international content which often tends to have better quality. However, given the success localized games such as Ra.One Genesis have seen in the past, the Indian gamer appears to be open to content that is on par with international standards.
- Revenue sharing arrangements prevalent amongst carriers and content developers/aggregators are skewed in favor of the former
- The absence of viable alternative payments mechanisms outside of the carrier billing system for online and mobile based games has suppressed innovation in content development
- There are low barriers to entry in terms of content offerings and proliferation of myriad platforms – leading to a highly fragmented market for gaming content with intense competition.

32. KPMG India Analysis and industry discussions

33. KPMG in India Analysis based on Industry discussions and data points

Console gaming

Console gaming remained the largest segment by value in 2011, given large ticket sizes of gaming hardware and software and achieved about INR 7.3 billion of revenue³⁴ in 2011, excluding sales of hardware and software imported in the grey market. Video game consoles are underpenetrated at approximately 2 percent of urban television households in India³⁵, relative to worldwide penetration rates of 13 percent of households³⁶. As penetration deepens, the market for legitimate console gaming hardware and software is expected to continue to grow at a CAGR of 26 percent to reach INR 23 billion³⁷ by 2016.



“The immersive experience of console gaming has taken the category significantly deeper, beyond the metros in India. Over the past year, the highest growth in console gaming sales came from Punjab”

- Jayant R Sharma
Chairman & CEO
Milestone Interactive Group

Moves by console makers and publishers to improve affordability have contributed to growth in volumes. However, consoles in India retail at a premium of approximately 25 percent over international prices on account of the prevalent tax and duty structure³⁴. Reach, therefore, remains largely restricted to the top 30 cities given the relatively high price points limiting affordability.

Comparison of console prices

Console	Maximum Retail Price (INR)
Sony Playstation 3 (160GB)	16,990
Sony Playstation 2	5,990
Sony Playstation Vita (Wi-Fi)	19,990
Microsoft Xbox 360 (4 GB)	14,990
Nintendo Wii	14,990

Source: MRPs as published on Flipkart.com, February 2012

India's best selling console titles, 2011

1	FIFA
2	Need for Speed
3	Battlefield
4	Grand Theft Auto
5	Call of Duty: Modern Warfare
6	Uncharted
7	God of War
8	Assassins Creed
9	Halo
10	Gears of War

Source: Milestone Interactive Group

Sony remains the market leader as a result of the competitively priced PS2 consoles, the remainder of the legitimate market largely comprises sales of Microsoft's Xbox 360 and handheld consoles³⁴.

Despite commanding a market share of nearly 40 percent globally, Nintendo lacks an official distribution presence in the Indian market, as a result of which sales are restricted to direct imports³⁴. As and when Nintendo enters the Indian market, it is likely to expand the market significantly as a result of its appeal to the family gaming segment.

The majority of next generation consoles are internet-capable. Network connectivity can be leveraged to deliver multiplayer gaming and other content to users; and Sony and Microsoft's networks have been successful in attracting an estimated 100 million users internationally³⁸. Limited penetration of low cost, high speed internet connectivity will, however, constrain the growth of such services in India over the medium term.

The availability of quality localized console gaming content continues to be limited, given high development costs and while some local titles (like Street Cricket and Ra-One) have seen limited success in the Indian market, the industry continues to be dominated by large international titles today.

Mobile gaming

The mobile gaming market generated revenues of about INR 4.3 billion in 2011, growing 55 percent from last year³⁴.

It is anticipated that the segment will grow at a 31 percent CAGR to INR 16.6 billion in 2016³⁴, driven by the increase in mobile internet users. While this growth is significantly higher than the overall media and entertainment industry in India, it does not match the expected growth in mobile users. This is primarily due to greater difficulty in monetizing Off-Deck content, as users have a much larger choice of good quality free content available to choose from.

Gaming content is accessed On-Deck through telecom operators, or Off-Deck through games pre-embedded by OEMs, mobile browsers and various application market places operated by Android, and OEMs such as Nokia and Apple.

34. KPMG in India Analysis, Industry discussions

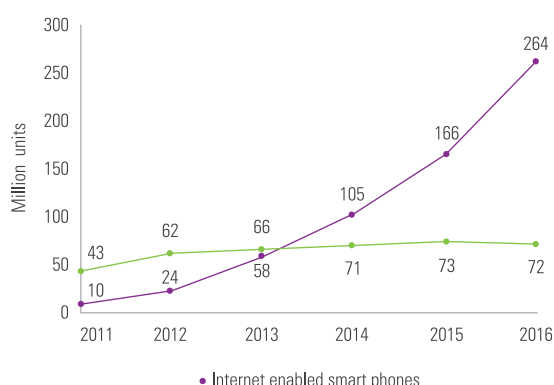
35. KPMG India analysis, industry discussions, TAM Media Universe 2012

36. IDC Worldwide Game and Interactive Entertainment Console Hardware and Software 2011 -2015 Forecast

37. KPMG in India Analysis

38. OEMs

Share of Active Internet Enabled Handsets



Source: KPMG in India Analysis

A comparison of On-Deck and Off-Deck mobile gaming

	On-Deck gaming	Off-Deck gaming
Users	Feature phone users; The feature phone is the principal entertainment platform for a majority of the population outside the top 30 cities, who have limited access to alternative platforms and intermittent power supply.	The number of smart phone handsets in use is expected to increase rapidly as phones get smarter and prices fall.
Content	Low revenue shares to content providers limit incentives to develop quality localised content	A wide range of innovative content is made available by developers globally over app stores operated by OEMs such as Nokia and Apple and Operating systems such as Android.
Typical Revenue Sharing Arrangements³⁹	Telecom operators: 70%	Youth, Other connected mobile user pan India
Content providers: 30%	App stores: 30%	Youth, Other connected mobile user pan India
Content providers: 70%	Casual browser embedded games, social games, 'AAA' games	Diverse base of connected PC users
Monetization	Monetization occurs mainly through recurring Subscription fees and one time downloads. Gaming Average Revenues Per User (ARPU) are expected to remain stable over the medium term.	The principal monetization models are free-to-download games supported by advertising ('advergaming'); upfront paid games; and games incorporating in-game micro transactions.
Growth Prospects	On-Deck gaming has sufficient potential for growth in the short term as feature phone penetration deepens and more users subscribe. However, the segment is expected to plateau in the medium term as smart phones become increasingly affordable.	As the proportion of internet enabled smart phones in India increases from the current 3% to around 35% by 2016 ⁴⁰ , improved device capabilities will allow for a shift in the consumption of gaming to the Off-Deck market.

In India, free 'advergaming', will form the majority of the mobile games downloaded, given the quality of free content available, low propensity to pay amongst users and the absence of a streamlined Off-Deck payment mechanism for making game purchases and micro transactions. However, once the payment issues are resolved and users get used to paying for content, this industry could see significant growth in its revenues.

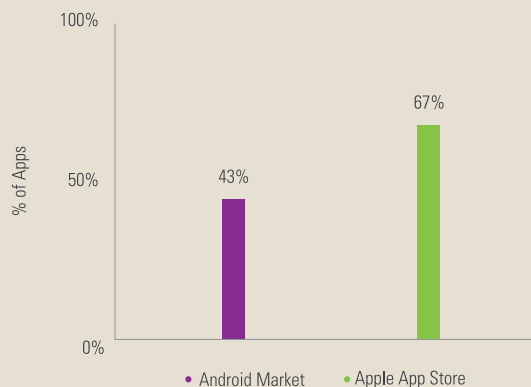
39. Estimates based upon industry discussions

40. Estimate based on industry discussions and KPMG in India Analysis

Gaming apps

- Games constitute a large proportion of apps downloaded by smart phone users on the iOS, Android and other stores

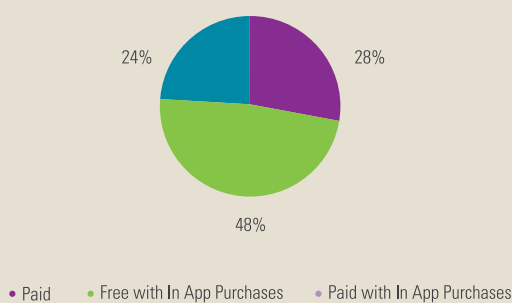
Gaming apps share of top 150 apps worldwide



Source: Analysis of Top Free Apps, Xylogix, 2011

- Over half of downloads of paid apps in 2011 globally, came from the top 10 publishers⁴¹, highlighting the intense competition and uncertainty in the app publishing space.
- App publishers often take to deploying multiple apps, fine-tuning each post-release based on user response⁴². The hit gaming app "Angry Birds" which surpassed 500 million downloads⁴³ was, for example, the 51st app that game developer Rovio released.

Global apps revenue split by monetisation model



Source: Analysis of iPhone Top 200 gross apps, Distimo, 2011



Case study – Ra.One Genesis game

2011 saw the bold entry of Bollywood into the gaming space, with Ra.One Genesis showcasing how the lifecycle of characters can be extended through filmed themed games.

Developed as an integral part of the film's digital media strategy, the game was released a month in advance of the film's release. Positioned as a prequel to the film, Ra.One Genesis introduces various major characters from the film. The game is unique in that conceptualization and development took place concurrently with the film's post production, resulting in close integration with the film's storyline.

Ra.One Genesis is available on multiple platforms: Apple iOS, Android, and Nokia Ovi app stores; Facebook and Reliance BIG, Airtel and Dish TV Direct to Home.

The game adopts on a 'Freemium' micro transaction based monetization model, with in-game ticket sizes ranging from INR 5 to 500 for various virtual goods. The developers tied up with the Parle G biscuit brand for in game advertising.

The timing of the game release vis-à-vis the theatrical release, combined with the Red Chillies team's deep involvement in conceptualization and promotion, helped create buzz amongst audiences ahead of the film's premiere.

The game achieved popularity amongst young audiences, gamers and film buffs; Ra.One Genesis has been downloaded by over 65 million users, and was one of the most downloaded games on various app stores.

The principal sponsors, Parle, benefitted from cost effective engagement achieved with various user groups, predominantly the youth, the Parle G brand's key target group. The Parle G brand was closely integrated into the game play through strategically placed banners and Parle G branded in game virtual goods.

The game aims to maintain continual engagement with users, with the likelihood of refreshes to game play (through the addition of new levels and/or characters).

The effective use of Ra.One Genesis to achieve engagement with fans has created a franchise that will outlast the film, and this trend is likely to continue with the creation of other film-inspired games such as Agneepath.

Source: Discussions with Red Chillies Entertainment, Hindu Businessline article dated 15th February 2012

41. Analysis of top 300 apps, Distimo, 2011
42. Discussions with App developers

43. ThinkDigit.com



// The Ra.One Genesis game surpassed our expectations with over 65 million downloads to date. The game has set the benchmark for bringing Bollywood into the gaming world //

- Shailja Gupta
Country Head USA & Digital Head
Red Chillies Entertainment

Online PC gaming

The online PC gaming segment achieved estimated revenues of INR 870 million in 2011⁴⁴. The sector is expected to grow steadily at a 41 percent CAGR to reach INR 4.9 billion in 2016, driven by growth in broadband penetration, enabling delivery of richer gaming content.

Casual and social gaming are the biggest segments for online PC gaming with multiplayer games such as 'Teen Patti' seeing significant take-up over the last year⁴⁵. This new class of social games (exemplified by Zynga's 'FarmVille') has piggy backed on the enormous and growing base of social networks users in order to achieve viral growth. It is anticipated that this category will attract the largest proportion of online users, as they appeal to larger audiences across demographic categories.

Revenues from such games are expected to arise from advertising and micro transactions, with in game purchases of virtual goods and additional levels.



// We see strong potential for social games with localized themes, such as 'Teen Patti'. These games appeal to audiences beyond gamers, who are drawn by the social context of live multiplayer games //

- Ashish Kashyap
CEO
ibibo Group

Packaged PC gaming

The packaged PC gaming market caters mainly to the serious gaming enthusiast and is largely comprised of pirated software. The platform offers 'AAA' gamers a taste of the higher quality, immersive experience offered by console gaming and is therefore is often a stepping stone to the higher end console segment. The legitimate packaged PC games market is estimated at INR 381 million in 2011. This is expected to grow 18 percent annually to reach INR 870 million by 2016, driven by PC penetration⁴⁶.

Set-top box gaming

Set top box based gaming content is currently offered by Airtel, Tata Sky, Dish TV, Reliance BIG, Hathaway and Den. However, the selection of content is limited and uptake has been low, generating revenues of approximately INR 350 million in 2011⁴⁶.

Going forward, the set-top box gaming segment is expected to grow 25 percent to over INR 1 billion by 2016, driven by increasing digital cable penetration⁴⁶. ARPUs are expected to remain stable over this period.

Key challenges to set top box based gaming include limited bandwidth, constraining quality of content; high costs and technical challenges involved with developing and porting gaming content; and the inherent unsuitability of the primary interface (television remote).

The potential bundling of broadband and television connections, and the introduction of Internet enabled Smart TVs could lead to interesting possibilities in delivery of high quality gaming content to TVs in future.

44. **Note:** We have not considered the class of online gaming involving cash prizes in our estimates.

45. Industry discussions

46. KPMG in India Analysis

Portals

Online portals attracted over 45 million users in 2011⁴⁷, and approximately 11 percent of total time spent online. Although portals witnessed a growth of 21.5 percent in unique visitors between 2011 and 2010, the time spent has been under pressure, primarily as a result of increased competition from social networks.

	Dec-10			Dec-11				
	Monthly unique visitors (in millions)	Total time spent (million minutes)	Average time spent (in minutes)	Monthly unique visitors (in millions)	Total time spent (million minutes)	Average time spent (in minutes)	% change in user base	% change in average time spent
Portals (Yahoo/MSN/ Rediff/ India Times), ⁴⁷	41.6	4,143	100	45.2	4,065	90	21.5%	-10

Source: Comscore

While portals accounted for 22 percent of ad spend online in 2011⁴⁸, with increased competition, this is also under threat. The emergence of ad networks has resulted in further competition for portals, as ad networks are able to aggregate inventory across a large number of sites.

Portals are making significant content investments

To differentiate and stay competitive, portals are positioning themselves as strong content platforms. This enables them to better monetize their large user base, by increasing time spent and attracting more advertisers. They are making significant investments in editorial teams and exclusive content, through tie-ups with traditional media providers. Portals are also tying up with social networking sites, to enhance access to, and consumption of their content.



“Today the online medium is much more than just a source of information; it is the consumers’ new playground. In the emerging digital world, portals are becoming ‘entertainment hubs’ and popular destinations for serious content creation and consumption. In fact, consumers today are storytellers in their own right and the proliferation of devices allows for a level of richness in their stories – with videos, images and what have you – such as was never possible before. And the smartest online publishers are those that are co-creating content with their audiences”

- Neville Taraporewalla
Director - Advertising and Online
Microsoft

Entertainment (Bollywood), News and Sports (primarily Cricket) are popular genres of content online but there is an increasing demand for lifestyle content including health, travel and wellness.

As bandwidth constraints reduce with the growth in broadband connections, portals are also investing in video content. Yahoo recently launched an online movieplex that hosts full movies and shorter movie based content. The challenge that portals currently face is to be able to adequately monetize this content.

47. Comscore data for home and work internet users over the age of 15 years (Total sample size 47 million users)

48. Industry discussions and KPMG in India Analysis



Vernacular opportunity

A large proportion of the current online population in India is English speaking. However, with the number of internet users set to increase to over 500 million by 2016, there will be an influx of users who are more comfortable with vernacular languages⁴⁹. Portals are investing in regional language content to leverage the opportunity. Yahoo, for example, has formed a number of partnerships with *Jagran*, *Lokmat*, *Dinamalar* and *Anandabazar Patrika* to provide vernacular content⁵⁰.



“The new set of Internet audience is coming from tier 2 and 3 markets in India and they are seeking to consume local content, in a language of their choice. Online news and entertainment are definitely big drivers of this demand. This clearly opens up opportunities for regional content providers to partner with established internet players and bring their content online.”

- Nitin Mathur
Senior Director and Head of Marketing
India and South East Asia, Yahoo Inc.

Search

Search continues to dominate the online advertising market, accounting for around 50 percent of the online ad revenue spend with revenues of approximately INR 7 billion⁵¹. Traditionally, internet advertising has been dominated by Direct Response Advertising (Performance Advertising) and the ability of search to provide targeting based on keywords has given it a clear leadership in this space. In advanced economies like the US, UK and Japan as well, search accounts for anywhere between 40-60 percent of total ad spends online⁵².

Usage of online search in India is growing, witnessing a 16 percent increase in unique visitors and a 21 percent increase in time spent between 2010 and 2011⁵³. Search ad revenues are projected to grow at a CAGR of 30 percent in line with the overall online advertising market⁵¹. Google accounts for 90 percent of the search market, other key players are Ask, Bing and Yahoo.

Monetization of mobile search

Mobile search has seen a significant increase in India, with over 40 percent of searches already occurring on mobile⁵⁴ and it is one of the most popular activities for mobile users. Close to 80 percent of smart phone users in India access search on their devices⁵⁵. While usage has picked up, ad revenues from mobile search are currently limited.

This is however expected to grow as advertisers start leveraging the growing mobile user base. Mobile search also enables location based advertising, which could be a key growth driver. However, the lower price points for mobile ads has made monetization of search on mobile a challenge for search players⁵⁶, even in international markets.

Threat from social networks

Search will increasingly face competition from social networks as the time spent on these sites grows. Also, as users spend more time on social networks, such networks have a rich source of user specific data which can be used to offer targeted advertising.

Social networking

Social networking sites reached 95 percent of the web audience, and accounted for 24 percent of time spent online in India in December 2011⁵³.

Multiple features like mail, instant messaging, music, videos and games contribute to the stickiness of social networks causing a significant jump of over 20 percent in the user base from December 2010 to December 2011⁵³.

49. Industry discussions

50. Yahoo India Expands into Five More Indian Languages." Firstpost. 3 Feb. 2012. Web. 24 Feb. 2012. <<http://www.firstpost.com/tech/yahoo-india-expands-into-five-more-indian-languages-203034.html>>.

51. Industry discussions and KPMG in India Analysis

52. "Online Advertising Market US." Emarketer. 8 Jun. 2011. <<http://www.emarketer.com/PressRelease.aspx?R=1008432>>, "2011 H1 Online Adspend Factsheet." IAB UK. 24 Feb. 2012. <<http://www.iabuk.net/research/library/2011-h1-online-adspend-factsheet>>, 2011 Advertising Forecast, Magna Global

53. Comscore data for home and work internet users over the age of 15 years (Total sample size 47 million users)

54. "Mobile Search Queries Highest from India at Google." Business Standard. 26 Nov. 2011. <<http://www.business-standard.com/india/news/mobile-search-queries-highest-india-at-google/456686/>>.

55. Nielsen Informate Mobile Insights

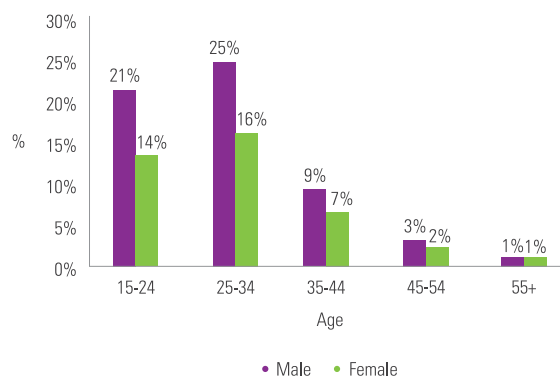
56. "Google's strong results less than expected." Nytimes.com. 20 Jan. 2012 <http://www.nytimes.com/2012/01/20/technology/googles-strong-results-less-than-expected.html>

	Dec-10			Dec-11				
	Monthly unique visitors (in millions)	Total time spent (million minutes)	Average time spent (in minutes)	Monthly unique visitors (in millions)	Total time spent (million minutes)	Average time spent (in minutes)	% change in user base	% change in average time spent
Social Networking	37	5778	156	44.5	8631	194	20%	24%

Source: Comscore

As user growth in mature markets tapers due to high penetration, social networks are focusing on emerging markets such as India and Brazil to increase the user base. Reflecting global trends, Facebook, LinkedIn and Twitter are the dominant players in the social networking space in India. Facebook saw an increase of 132 percent in monthly active users (MAU), up to 46 million in December 2011⁵⁷. LinkedIn has also witnessed significant growth in India with a subscriber base that has crossed 14 million users, up nearly 4 times from 3.4 million subscribers in 2009⁵⁸.

Demographics of users on social networks



Source: Comscore



“ We offer 3 unique value propositions to users –Identity: a platform for professionals to establish and build their professional brand, Insight: the ability to gain unique business Insights to make you better at your job, and Everywhere: easy access across your professional tools at work, home and mobile ”

- Hari Krishnan
Country Manager
LinkedIn India

Growth in ad revenues

Driven by increasing time spent on social networks, online advertising on social networks has seen a dramatic growth over the last few years. Ad spend on social networks accounted for 8-12 percent of overall online ad spends in 2011 and is expected to grow at over 75-100 percent annually in the medium term⁵⁹.

57. “Facebook Users in India Doubled in 2011.” Business Standard. 3 Feb. 2012. <<http://www.business-standard.com/india/technology/news/facebook-users-in-india-doubled-in-2011/157059/on>>.

58. “LinkedIn Launches Localised Hiring Solutions for Indian Market.” The Economic Times. 7 Feb. 2012. <http://articles.economictimes.indiatimes.com/2012-02-07/news/31034016_1_indian-market-localised-pricing-indian-economy>.

59. Industry discussions and KPMG in India Analysis

Advertising on social media: How Pepsi changed the game

The Cricket World Cup, which attracted over two billion users worldwide in 2011, is one of the most widely watched sporting events on television and an important platform for advertisers to reach consumers. In a significant move that shows the rise of social media as an important advertising avenue, Pepsi created an integrated ad campaign for the Indian audience on television and social media.

Pepsi's "Change the Game" campaign adopted a two pronged approach to reach consumers. Ads were shown on television which directed viewers to access content on Facebook. One of the ads drove people to Pepsi's application where users could upload a headshot of themselves, creating an avatar wearing an outfit with a Pepsi logo that would dance around their desktops cheering for India's cricket team.

The campaign was viewed more than 19 million times and surpassing Pepsi's estimates by 145 percent. "Change the World" went viral with one of two impressions featuring the name of a person's friend who had already liked the brand's page and over 53,000 people responding to a Pepsi poll within 24 hours.

Source: Facebook & Komli; Partners for the campaign: Group M & Komli

Social networks provide social context for ads through sponsored listings showing individuals what brands their friends like. Advertising campaigns on social networks also allow more interaction and user engagement. Hence, in addition to the growing user base and time spent, the higher levels of engagement and better targeting on this segment are driving growth in Ad Spends.



“As Social (Facebook/Twitter etc) gains dominance, the ecosystem is starting to churn out a different type of “new” content, one which is user generated, fresh, micro-targeted, more relevant, engaging, location-based and highly personalized. This “new” content is not just being created by individuals, but even by companies and all of this is getting neatly organized in a structured, monetizable way on the respective social platforms.”

- Niren Shah
MD
Norwest Venture Partners

While television still remains an important medium to reach audiences, FMCG and BSFI companies, heavy advertisers in traditional media, are seeing potential in social media as a complementary medium. This trend of launching interactive campaigns on social networks to ensure deeper engagement with consumers is now going to be a permanent feature of most campaigns.

Potential for other revenue streams

Facebook is attempting to create other revenue streams including selling of virtual games. The worldwide revenue generated from the sale of virtual goods increased from USD 2 billion in 2007 to USD 7 billion in 2010, and is forecasted to increase to USD 15 billion by 2014⁶⁰.

Social networks are also experimenting with content integration on the platform, and video is another offering that has seen traction on social networks. Sales of products such as books, movies and videos are other avenues being explored by social networks sites. For instance, Hallmark allows users to purchase greeting cards on its Facebook page and EMI launched a Pink Floyd Facebook store, allowing people to buy albums within the site. While certain brands have seen success with retail on Facebook, it has not taken off on a broad scale yet, with retailers primarily using Facebook to for marketing purposes and to direct users' to their own website.

In India, the market for paid content on social networks is still nascent but that could change, as payment infrastructure develops.

Social media on mobile

Globally, there is a shift towards social media consumption on mobile devices. Even in India, 3 out of 4 smartphone users access a social network, either via an app or the browser⁶¹.

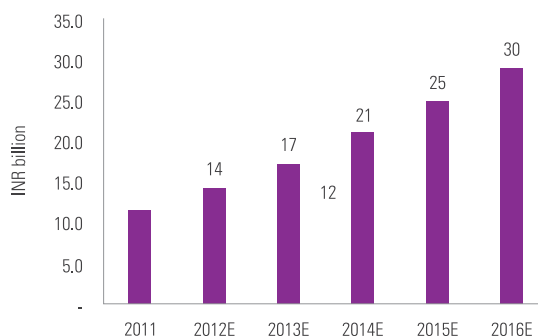
However, social networks have been unable to monetize their mobile user base⁶² as yet. A challenge with mobile ads is that users are less receptive to intrusive advertisements on a smaller screen. Given the size of audience and the advertising potential, it is only a matter of time before these issues are resolved.

Online classifieds

Online classifieds is a relatively mature category, and grew 16 percent to INR 11.6 billion in 2011. It is expected to sustain high growth at a CAGR of 20 percent, to INR 28.9 billion by 2016⁶³. Growth in online classifieds has come at the expense of print classifieds with online classifieds already accounting for 40-50 percent⁶⁴ of the overall classifieds market and this share is projected to rise as online classifieds further take market share away from print classifieds.

40-45 percent of the online population access online classifieds annually⁶³. A majority of the users are currently from metros and larger cities. However, usage in non metro cities is growing significantly.

Online classifieds market



Source: KPMG in India Analysis and Industry Interviews

60. Facebook S1 filing

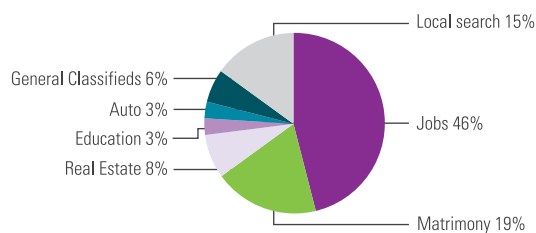
61. Nielsen Informat Mobile Insights

62. "Mobile Devices: Facebook's Achilles' Heels." The Times Of India. 6 Feb. 2012. <http://articles.timesofindia.indiatimes.com/2012-02-06/social-media/31029651_1_mobile-devices-susan-etlinger-mobile-users>.

63. Industry discussions and KPMG analysis

64. Industry discussions and KPMG analysis, India Goes Digital, Nov 2011, Avendus

Online classified segments



Source: KPMG in India Analysis and Industry Interviews

Vertical classifieds

Jobs

Jobs is the largest category accounting for 46 percent of the online classifieds market. Job classifieds witnessed slower than anticipated growth due to the economic slowdown and grew at 18 percent to become an INR 5.3 billion segment in 2011⁶⁵.

Database services for recruiters are the primary revenue stream for Jobs classifieds, accounting for over two thirds of revenues. Other key revenue sources include recruitment ads, branding solutions and premium services for job seekers.

Matrimonials

Online matrimony generated INR 2.3 billion in 2011⁶⁵. Matrimonial classifieds remain one of the only areas online in which a subscription based revenue model has been successful. Subscriptions generate over 90 percent of the revenue, and ads contribute 5 percent to the turnover⁶⁶. Users are charged a base fee and are offered premium features such as testing astro compatibility for an additional price. As consumers' paid for matrimonial classifieds in print, consumer behavior was developed to pay for the service offering.

Both matrimonial and job classifieds are witnessing high growth in sub categories. For instance, websites focusing specifically on jobs for graduates and jobs by geography have emerged. Similarly, in the matrimonial space, community and income specific websites have emerged offering users more relevant information customized according to their needs⁶⁷.

Emerging verticals

Real Estate, Auto and Education generated INR 900 million, INR 400 million and INR 300 million in 2011⁶⁵ respectively. These categories have been traditionally under penetrated online, and are now witnessing rapid growth. Key growth drivers include the rise in demand for used goods, and boom in real estate.



Emerging classifieds categories like Auto, Real Estate and horizontal classifieds are currently underpenetrated in India, and have tremendous potential for growth in the next 5 years

- Hitesh Oberoi
CEO and MD
Info Edge India

General classifieds

General or horizontal classifieds, an INR 700 million category, has also seen significant growth in user base in the last 18 months. As general classifieds develop a sizeable user base, the focus is on monetization. Given low price points for online advertising in India and less stringent data privacy laws compared to western markets, lead generation is emerging as an important source of revenue for local players, accounting for up to 30 percent of revenue. Ads and paid listings account for remaining 70 percent of the revenue.

Local search

Local search and business listings is an INR 1.8 billion category online. Indiamart is the biggest pure-play online player in the segment⁶⁸. Other players include Justdial, AskLaila, Burrp and Zomato. Premium listings are an important source of revenue for local search and business listing sites, and advertising and lead generation are emerging as popular revenue models. In this category, most players have developed offline support centers to support the online business⁶⁹.



65. Industry discussions and KPMG analysis

66. Booming Biz of online marriages, Business Standard, 22 Dec 2011

67. <http://economictimes.indiatimes.com/news/news-by-company/corporate-trends/high-end-matrimonial-portals-exclusively-for-hnis/articleshow/10547920.cms?curpg=2>

68. Warburg Pincus in talks with IndiaMart for INR 150 crore investment, Times of India, 7 May 2011

69. Justdial has not been included as the revenue model is significantly based around providing information via voice and SMS

Online classifieds	Major sources of revenue	Other sources of revenue
Recruitment	<ul style="list-style-type: none"> • Job listing and employer branding • Resume database access 	<ul style="list-style-type: none"> • Job seeker services • Google ad sense, banner ads
Matrimonials	<ul style="list-style-type: none"> • Subscription 	<ul style="list-style-type: none"> • Walk in services at offices for matching services • Premium subscriptions
Real Estate	<ul style="list-style-type: none"> • Developers, builders and brokers 	<ul style="list-style-type: none"> • Property listings and micro sites • Home page links, banners ads
Automobiles	<ul style="list-style-type: none"> • Leads generated for new cars, auto insurance and auto finance • Subscription and brokerage charge • Paid listings 	<ul style="list-style-type: none"> • Text ads • Banner ads • Google ad sense
General classifieds	<ul style="list-style-type: none"> • Paid listings • Featured listings 	<ul style="list-style-type: none"> • Text ads • Banner ads • Google ad sense • Lead Generation
Local search	<ul style="list-style-type: none"> • Paid listings • Featured listings 	<ul style="list-style-type: none"> • Ads • Lead generation

Source: researchonindia.com

Mobile classifieds

Mobile classifieds is currently a small market, but is scaling up quickly. However, usage patterns vary depending on the service offerings. Categories where users have shorter interactions on a more frequent basis are seeing higher traction on mobile. For instance, for local search, more than one third of the consumers' already access information on their mobile devices and 20 percent of the consumers' access general classifieds on mobiles⁷⁰. However, in categories such as matrimonials and jobs where users spend more time per visit, mobile usage accounts for less than 5 percent of total user base as mobile does not offer the same functionalities as a PC.



First few years of the digital revolution may have been slower than anticipated but exponential growth in the last couple of years has shown that we are now in for a fun ride. In the next few years, mobile will be the key driver for rapid growth in the user base of mass market platforms like Quikr //

- Pranay Chulet
CEO
Quikr

With over 580 million active mobile subscribers⁷¹, mobile classifieds is emerging as a significant opportunity for players and is anticipated to drive growth⁷². To target the mobile audience, general classifieds and local search players are reaching consumers through mobile applications on smart phones, text messaging and voice services on feature phones where users can post ads and receive SMS alerts when items are available. Some interesting models have emerged to tap into the mobile classifieds space with content aggregators building a library of content from online classifieds and print classifieds and making that information available to consumers via SMS on a subscription basis.

70. Industry Discussions

71. KPMG in India analysis

72. KPMG India analysis and industry discussions

Outlook for New Media

Improved measurement tools

Despite impressive growth in a relatively short period of time and access to significant amounts of data about users, the industry still struggles to generate meaningful independently verified data. Unique viewers and click throughs do not tell a story about the audience or paint a picture of their online consumption habits.

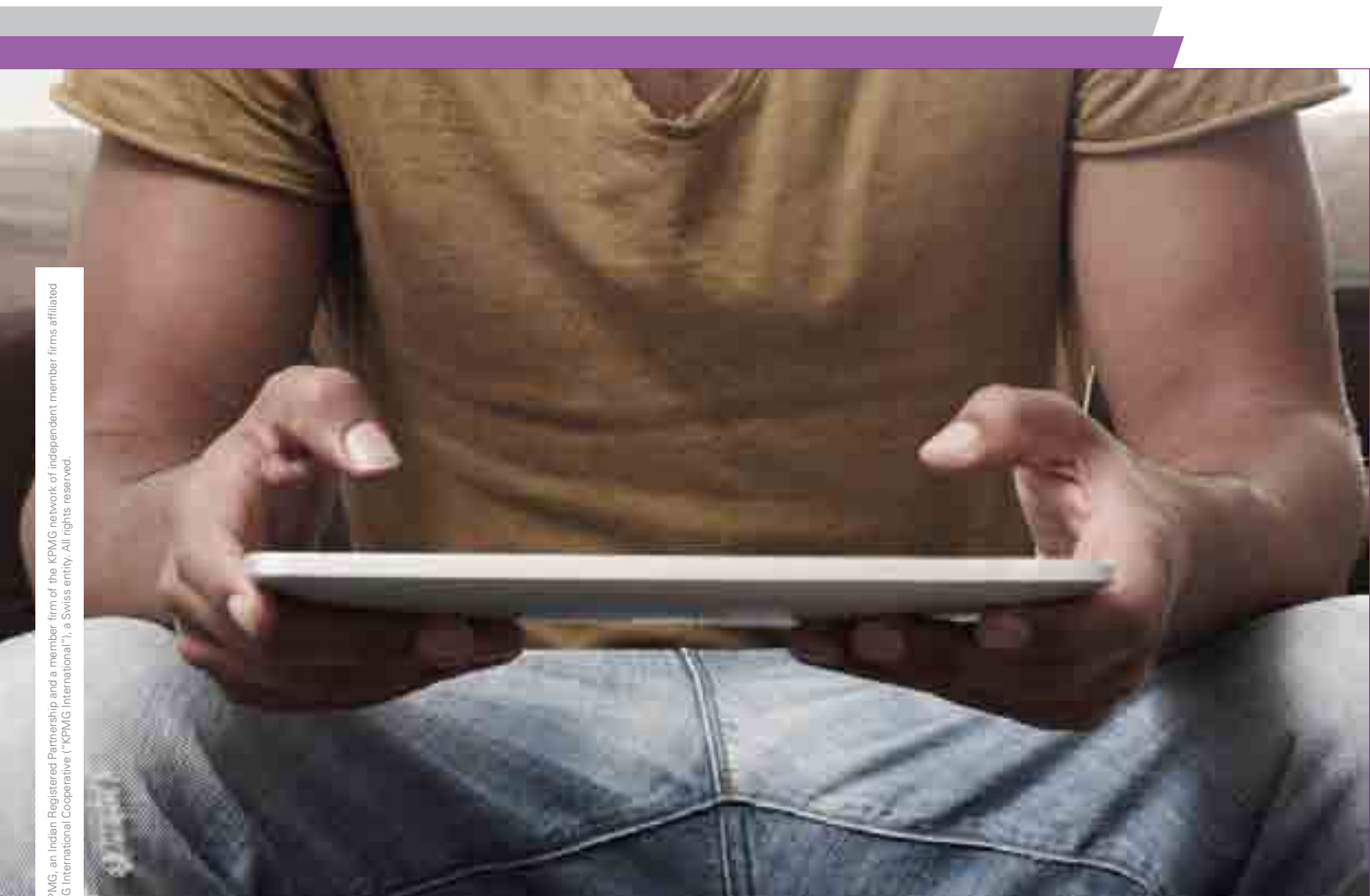
Several players are working on bridging these gaps and industry accepted measurement systems that allow straightforward comparisons with traditional media measurement metrics are not far off.

The rise of mobile internet

Content creators will have to publish, manage and monetize content across a range of mobile platforms with differing screen sizes. Advanced content management, DRM and application development capability will be needed to be successful in this space. Ability to build successful monetization models for the mobile platform will differentiate the winners from losers.

Dilution of the operator deck

As phones get smarter and mobile internet costs go down, users will migrate to Off-Deck sites and app stores. The operator deck catering to feature phone users will either have to re-invent itself by offering richer content quality and more attractive revenue share models, or look to capitalize on its inherent strength as a proven payment platform and evolve its billing systems for more widespread use in the industry.





Radio

About to break free

06



Radio

About to break free

06

Round up of the year that was

Revenue growth - The first quarter of 2011 (January – March) displayed positive revenue growth over the same period last year, with established radio stations like Radio Mirchi and Radio City achieving a growth over 20 per cent. However, there was muted growth post April with the industry cutting budgets for advertising across media. The slow growth in radio in the 3rd and 4th quarters can partly be attributed to the large base effect as the corresponding quarters in 2010 had extraordinary growth rates with players like Radio Mirchi and HT Media reporting growth rates above 35 percent on a quarter on quarter basis.

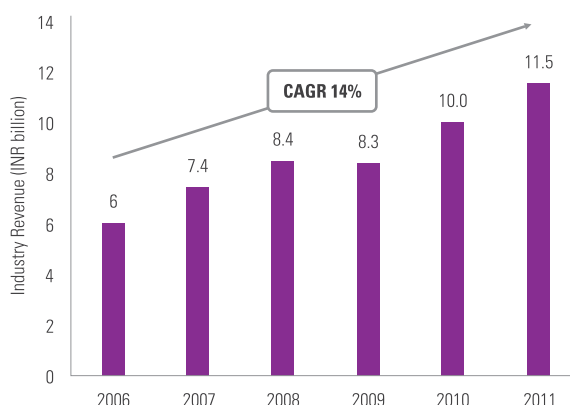
Overall, the industry grew at 15 percent in CY 2011 to reach INR 11.5 billion compared to INR 10 billion in CY 2010. The ad rates in metros increased by ~7-10 percent and the utilization was also slightly better. In smaller cities the stations witnessed similar growth of 15 percent-18 percent in ad revenues driven largely by increased utilization as ad rates remained steady.¹ Utilization levels are now in the 70-85 percent range in the top eight metros, and in the 50-65 percent range in key non metros, leaving room for volume growth.²

QoQ revenue growth for listed radio players



Source: Annual reports of ENIL, HT Media and RBNL. Note: RBNL had written down the performance royalties that are expected to be returned by music companies as revenues for Q2 and Q3 of CY 2011. Given the uncertainty on timelines of these payments, this graph has excluded it from the revenues for the industry.

Historical growth in Industry revenues



Source: KPMG in India Analysis

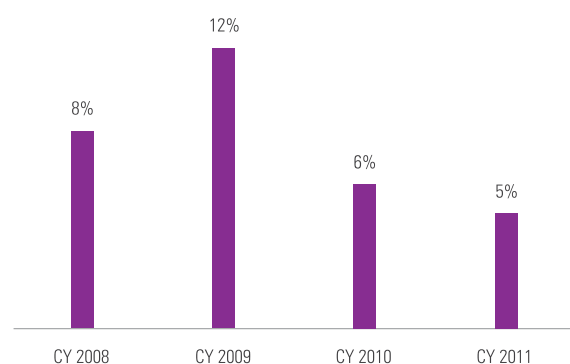
01. ENIL conference call transcripts and industry discussions
02. Industry discussions and Annual Reports of listed players



Profitability improvement

There has been continued respite in the form of lower music royalty costs as the radio industry won the case against Indian Performing Right Society Limited (IPRSL) in Bombay High Court in July 2011.³ Consequently the production costs for leading player Radio Mirchi has come down by 46 percent from CY 2009 to CY 2011.⁴ However, T-series and other regional music labels not associated with IPRSL continue to charge royalties at earlier rates because there is no clarity on which parties are covered by the new order of Copyright Board. The profitability improvement for different players depends on the amount of music being sourced from various companies.

Production expenses as percent of revenues - for Radio Mirchi



Source: ENIL Financial reports

In spite of partial resolution of the royalty issue, the profitability of the radio business still remains a concern. Though players like Big FM and HT Media owned Fever FM have become EBITDA (Earnings before interest, taxes, depreciation and amortisation) positive in 2011, and are yet to hit positive levels on PAT (Profit after Tax)⁵

Listenership trends

Indian Readership Survey or IRS is one of the largest readership surveys conducted in India. It also captures listenership for radio. IRS has been reporting stagnant listenership across cities. In fact, as per IRS Q4 report for 2010-11, radio listenership showed a decline. Industry players, however, feel differently on the subject. India is the fastest growing wireless market and 40 percent of mobile phones have in-built FM radio and car sales have been growing (with Maruti registering 15.5 percent growth in FY 2011)⁶. Given that 30 percent⁷ of radio listenership happens from out-of-home, it is unlikely that radio listenership would have dropped, say industry participants.



“With radio penetration being as high as 70-80 percent and registering near triple digit growth rates in metros, there is a universal acceptance of radio as a medium among listeners. However, advertisers are yet to understand the return on investment that a medium such as radio offers. They continue to invest majority of their budget on a heavily cluttered medium such as TV”

- Harrish Bhatia
COO
My FM

RAM data, on the other hand, has shown a consistent increase in listenership from 2007 across all major cities. The increase in listenership is partly driven by out-of-home listenership driven by mobile phones. Share of radio listenership on mobile phones has increased from 20 percent in 2009 to 25 percent in 2011.⁸ Future growth in listenership is expected to come from increased penetration of FM in smaller cities as Phase III licenses are expected to be launched later this year and continued increase of listenership on platforms like mobile phones, internet, tablets etc.

03. <http://www.indianexpress.com/news/radio-company-wins-royalty-battle/822185/1>

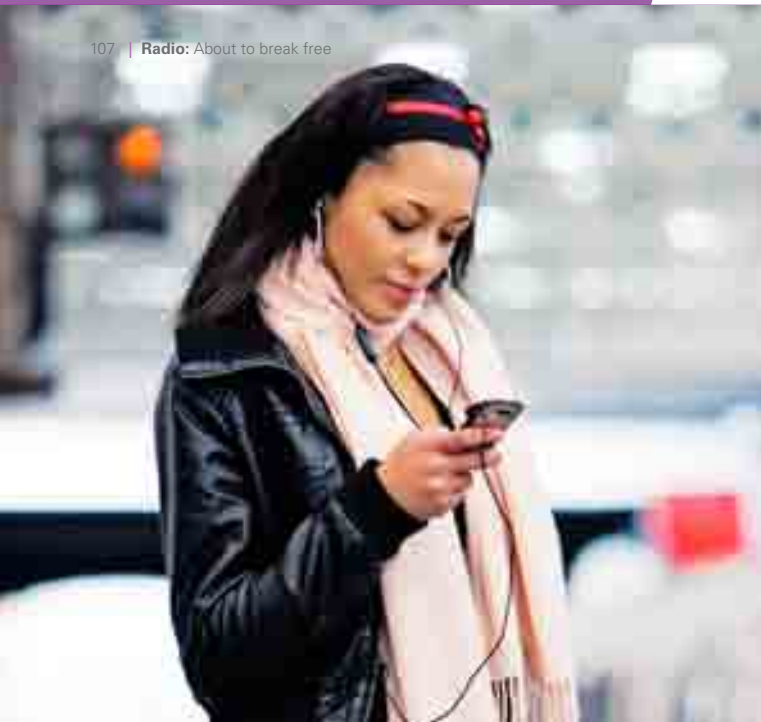
04. ENIL Annual Reports

05. Annual reports of HT Media and Reliance Broadcast Network Limited

06. Industry discussions

07. IRS data on radio listenership for Quarter 3 of Calendar Year 2011

08. IRS data on radio listenership

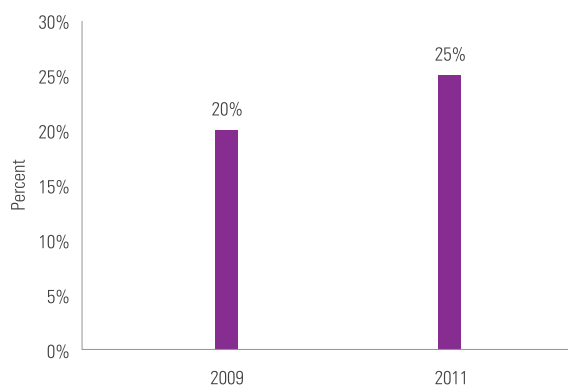


Top 10 product categories advertised on radio (2010 and 2011)

2010	2011
Property/real estate	Property/real estate
Cellular phone services	TV channel promotions
TV channel promotions	Independent retailers
Independent retailers	Cellular phone service
Social advertisements	Events
Cellular phones	Automobiles
Jewelry	Jewelry
Educational institutions	Educational institutions
Corporate/brand image	Insurance
Automobiles	Cellular phones

Source: Pitch Madison Ad Outlook 2012

Listenership on Mobile



Source: IRS data on radio listenership for 2009 and 2011

Advertising trends

Radio's share in the advertising pie is expected to have increased from 3.8 percent in 2010 to 4 percent in 2011.⁹ Growing sectors like retail and services performed better in radio spends than the average. On the other hand, financial services and telecom, which are traditionally heavy spenders on radio were seen to be shying away from the medium due to pressure on the overall macro growth rates. The key sectors advertising on radio vis-à-vis the previous year is shown in the table below.

The number of advertisers on the medium increased and a large part of these new advertisers consisted of local and regional players which are migrating from local print ads or are trying out advertising for the first time. Radio provides a more affordable option to local / regional advertisers compared to television and print and hence can be favorably included in their overall spends.

In the tier II and tier III cities advertising is driven more by the local advertisers than by national advertisers. For My FM (tier II and tier III cities focused station), the share of local advertising stands close to 70 percent, and for the industry as a whole, the share of local advertising is estimated to be about 50 percent¹⁰.



Major drawbacks of radio as a medium for advertising are lack of differentiation of content and fragmentation of the medium. As a result there is no or limited loyalty of listeners to any one station. Advertisers therefore have to advertise in multiple stations in the particular cities/towns to get noticed

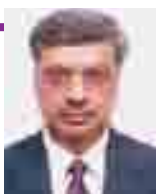
- Anilkumar Sathiraju
Business Director
Mudra Connex

09. KPMG in India Analysis

10. Industry discussions

Phase III

The high point of 2011 for the radio industry was the announcement by the Government of the Phase III policy. As on February 2012, MIB has formalized a Request for Proposal (RfP) for the appointment of auctioneer. MIB secretary is confident that E-auction for the third phase of FM radio channels will commence in June.¹¹ The FM Phase-III policy extends FM radio services to about 227 new cities, in addition to the present 86 cities with a total of 839 new FM radio channels. FM Phase III policy will result in coverage of all cities with a population of one lakh and above through private FM channels.



“With networking across the country getting nod from government, we shall be seeing very innovative approach towards channel operations. BECIL shall as usual be in the forefront for design and development of customised solutions”

- J.P. Nathani
General Manager
Broadcast Engineering Consultants
India Limited

Going forward

TRAI has also initiated a process of evaluating the possibility of reducing the channel separation between two adjoining FM channels from the present 800 KHz to 400 KHz – a worldwide practice. Doing this will immediately double the number of channels in each city. Some of the leading radio stations have supported the proposal for key metros on several grounds, including expansion of the FM radio revenue pie in the overall media spends and providing diversity of content to radio consumers. However, players are also of the view that in order to encourage niche content, the license fees have to be lower than the ones paid by general content stations to ensure sustainability.



	Increase number of channels in metros	Do not increase number of channels in metros
Supporters	Radio Mirchi, Radio Mantra, My FM, Hit FM Media company – Mudra Communications	HT Media (Fever FM), TV Today (Oye FM), Mid-Day (Radio One), and Music Broadcast (Radio City)
Reasons	<ul style="list-style-type: none"> The move is in line with international norms with New York having 44 FM stations and London having 42 FM stations. In India, there are only 7-9 FM stations, that too in select cities. Necessary for content innovation – Due to limited number of channels, there is a dearth of content innovation in the industry. With more channels coming in, and multiple frequencies, we may see more niche and targeted content. Revenue pie for radio will grow – The utilization levels of some radio stations in metros cross 100 percent levels during certain periods. There may be more advertisement spends with the launch of more radio stations. 	<ul style="list-style-type: none"> Industry believes that it may reduce the quality of existing radio stations Radio companies may have to incur a capital expenditure of INR 0.1 billion to undertake the said technical modifications Revenue pie may get fragmented and the existing players may lose a share of their revenues to new stations. This may negatively impact their profitability and the industry may become unviable.

Source: “Radio cos air opposition to more channels in existing bandwidth”, published in Financial Express on January 11 2012

11. “FM Phase III e-auction to start in June: Uday Varma,” Indiantelelevision.com, published on 14th February 2012

Key trends

Increased listenership of radio on mobiles

Radio continues to drive forward as a key feature on mobile phones. Radio Mirchi and Big FM have already launched applications for mobile radio where a user can listen to a Mumbai radio station from any city in India. Mirchi Mobile (the VAS application launched by Radio Mirchi) is now offered by most of the Telecom companies. It has been well accepted and has 8-10 million subscribers, out of which 50 percent are active subscribers. ENIL estimates the end-consumer revenue potential for Mirchi Mobile to be INR 1 billion. Out of this, it is estimated that telecom operators' share would be 60-70 percent, value adders like technology and infrastructure players would keep 20-30 percent and content providers like radio would keep 10 percent.¹²

There are also new players entering the mobile radio space. For example, Vh1 in association with Hungama Mobile has unveiled radio service 'Radio GAGA' for Airtel users and will provide International music throughout the day.¹³ Bharti Airtel, Idea Cellular, Vodafone Essar have licenses and radio bandwidth to offer 3rd generation services to multiple areas in the country.¹⁴ These have also started buying rights for streaming music in partnership with mobile VAS company Spice Digital.¹⁵ We may see the emergence of these telecom operators streaming music on independent channels.

Going forward, there could also be an increased interplay between web radio and mobile applications as exemplified by Pandora in the US.



“An emerging trend in radio will be web radio, currently we already have 1.6 million streams on web radio on PRC for example. If the service providers are able to provide differentiated or personalized content that could also be accessed through applications on smart phones then we may see an emergence of this new medium”

- Apurva Purohit
CEO
Radio City

Case Study

Pandora Web Radio – Leader due to personalized content offered on multiple platforms including smart phones

Pandora Internet Radio, launched in January 2000, is an automated music recommendation service and the custodian of Music Genome Project, available only in the United States. The Oakland, CA based internet radio station has close to 125 million registered users as of January 2012.¹⁶ The Music Genome Project compiles hundreds of musical details for each song, including melody, harmony, instrumentation, rhythm, vocals and lyrics, which enable Pandora to play songs that share similar musical characteristics with the listener's favorite songs, artists or musical genres. In May 2010, Pandora was named in Lead411's 2010 Hottest San Francisco Companies list.¹⁷

Pandora – A Clear Leader

Pandora is the leader in personalized internet radio, makes up more than 60 percent of all internet radio listening in the U.S. and is one of the top five most popular apps across all Smartphone platforms.¹⁸ Their advertising platform ensures that their campaigns run effectively on multiple platforms, including online, web and with more than 400 connected partners. Pandora has also benefitted by the high internet penetration and increased smartphone usage.

How it works?

Pandora's edge has been 'The Music Genome Project'. Pandora has manually classified the library of more than 900,000 tracks to record the genre, artist, era etc. Based on constant listener feedback, Pandora automatically understands the user preference and crafts a personalized station for every user.¹⁹

Subscribers are able to refine their music selections by providing positive or negative feedback for songs chosen by Pandora. Pandora offers both a free, advertised-supported plan and a paid subscription plan for its listeners.

Listenership and Revenue

The number of active users grew from ~10 million in April 2009 to ~40 million in October 2011. It now has 125 million registered users and average listener time of 18 hours a month.²¹

At the end of FY 2010 the revenue stood at USD 55 million. The revenue more than doubled to USD 138 million at the end of FY 2011. The projected revenue for the FY 2012 has been estimated to be at USD 260 million.²⁰

12. ENIL Conference Call June 2011

13. <http://www.radioandmusic.com/content/editorial/news/vh-1-india-unveils-mobile-radio-service> Downloaded on 22 February 2012

14. Euclid Infotech News published on March 2011

15. "Spice Inks Exclusive Mobile Radio Deal With PPL" Published by Medianama on February 2011

16. News release - Pandora on 9th January 2012

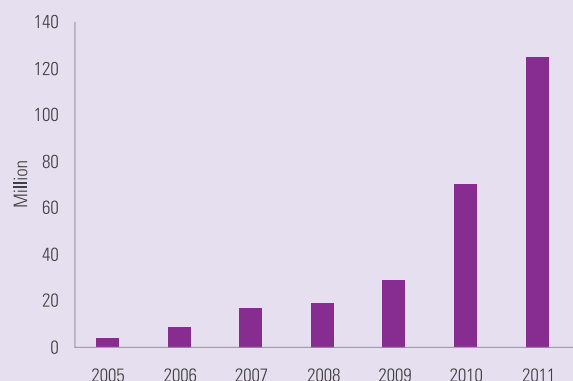
17. "Spotify vs. Pandora: Who Will Reign Over U.S. Market", published in International Business Times on July 15 2011

18. Company overview published on Pandora Internet Radio's official blog page

19. Pandora's official website

20. Pandora's investor updates

Registered users on Pandora



Source: Published reports by Pandora

Growth drivers and the way ahead

Pandora is available on the iPhone, the Blackberry, the Palm Pre, and devices running Google's Android and Microsoft's Windows Mobile operating systems but does not currently provide service outside the United States. There are about 90,000 new people a day activating Pandora on a mobile device and the number is growing.²¹ Mobile apps like Android are helping to grow it faster. Pandora envisions "getting into cars and into electronic devices at home." US automakers like Ford are already integrating Pandora into selected models. It is estimated that more than 50 percent of radio listening occurs in the car in the USA, making it crucial for Pandora. As of today, BMW, Ford, GMC, Hyundai, Mercedes-Benz, MINI, Scion, Buick, Chevrolet and Toyota have all publicly announced Pandora dashboard integrations.²¹

The iPhone has been a complete game-changer for Pandora. It doubled the growth rate and have about 35,000-40,000 Pandora mobile app downloads a day just on the iPhone.

Pandora is now looking to obtain global licensing in order to capitalize on the growing radio industry across various nations. Pandora is also trying to explore the musical education space in the long run.

Content differentiation

Film music remains the primary format for the industry and there have been limited efforts to drive content innovation. Some new developments were Moraari Baapu's spiritual discourse in the morning by My FM, reality shows like 'Chipak ke Jeeto' by Big FM and RJ Hunt by Radio Mirchi (and some other stations) and content around IPL like the Big Phataka League that combined Bollywood gossip with cricket (IPL) by Big FM.

Targeting newer segments and geographies

Radio One has gone completely English in Mumbai and Delhi in order to focus on Sec A and Sec B customers. An English FM radio station in Mumbai and Delhi may target a premium audience segment, but what remains to be seen is the extent to which advertising rate premiums can be achieved to offset the relatively lower listener base. Radio One is not the first FM station to play English songs. When Fever FM was launched in Mumbai, it played Hindi and English songs. It later switched to being a full time Hindi FM station. Some existing 24x7 English FM stations are Hit FM in Delhi, Radio Indigo in Bangalore and Chennai Live in Chennai. All India Radio's FM Rainbow station also plays English music.

Radio Mirchi has extended its geographic footprint by launching three stations in UAE in collaboration with Abu Dhabi Media Company (ADMC). Radio Mirchi is set to offer nation-wide coverage in Emirates, with three frequencies across Abu Dhabi, Dubai and Northern Emirates.- catering to the country's south Asian expat population.

Activations / events business

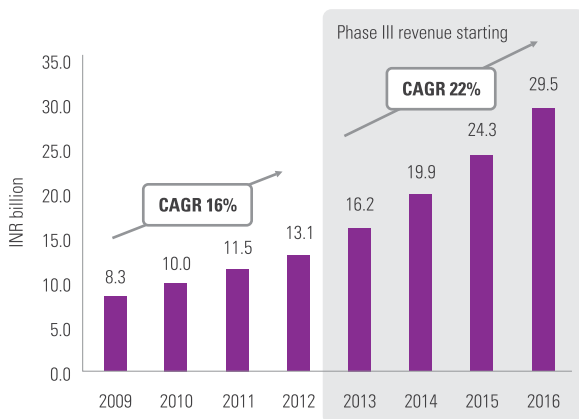
Despite logistical challenges like multi-city events and varied target audience profiles, the activations business continues to grow. It continues to account for 10-12 percent of revenues for some major stations. Some campaigns in the year were the Radio Mirchi and All Out run 'Machchar Blaster' campaign to fight dengue across 30 locations in Delhi/NCR, the Radio One run Mika live concert, Red FM and Aircel run a 'Kamchori' campaign during IPL season across 17 cities, My FM run a property fair in Chandigarh and many more.

21. Pandora's investor updates

Sector projections

The industry is forecast to grow at a 16 percent CAGR till the Phase III stations start operations (expected in 2013). Post Phase III, the industry is expected to grow at a CAGR of 22 percent. Correspondingly, radio's share of media ad spends is expected to increase from around ~4 percent currently to 5 percent in 2016²².

Projected revenue growth



Source: Industry discussions, annual reports of listed players and KPMG in India Analysis

Drivers for growth

Increase in listenership in Metros and non-Metros is likely to contribute to growth. Also listeners are increasingly spending more time on radio driven by out of home listenership through mobile phones and car stereos.

Radio is also gaining acceptance from advertisers as new players have consistently tried the medium. Local players have been instrumental in sustaining growth momentum for non-metro stations accounting for as much as 70 percent of the advertisement pie for some players. The non-metro focused players have realized the importance of local advertisers and have started holding campaigns to rope in more such clients. Phase III licensing is expected to increase the geographical reach of existing radio players. These may be able to then attract more interest from national advertisers who look for extensive reach. Radio would then also be able to offer advertisers the potential for capturing an entire region (like Tamil Nadu or Punjab) through region centric advertisement campaigns. The national advertisers may then be willing to pay more in return for comprehensive coverage including the 30-40 top cities.

Regulatory update



“Bring together the finest minds in Radio, the stakeholders, the policy makers for a debate on taking a giant leap & making it grow. Its been over 10 years since the first private radio station came up. Radio has a bright future, bring it on.”

- Sanjay Hemady
COO
Hit FM



“Major challenges on the CEO's mind going forward are successful execution of Phase III, overall impact of the macro scenario on the advertisers media spend and cost management.”

- Prashant Pandey
CEO
ENIL

The big story around regulation remains the expectation of Phase III licensing. In July 2011, the Union Cabinet approved the Ministry of Information & Broadcasting's proposal for granting new FM radio licenses to private players, under the Phase III of FM radio expansion. It has also cleared the Ministry's proposal to an e-auction on the lines of the 3G and BWA spectrum auction, as recommended by the GoM on Licensing Methodology for FM Phase-III.

According to a statement from the Government of India, FM Phase-III will extend FM radio services to about 227 new cities, in addition to the present 86 cities, with a total of 839 new FM radio Channels in 294 cities, and will result in coverage of all cities with a population of one lakh and above with private FM radio channels. The following are the key policy changes that are proposed under Phase III –

1. The license period for the licenses issued in Phase III would be 15 years from the date of issue. The license period for phase II was only 10 years and the players are struggling to recoup investments. The longer license period is a welcome initiative.
2. The Reserve Price for new channels in existing FM Phase-II cities shall be the highest bid price received for that city in Phase-II. In cities which are being taken up afresh, the reserve price shall be the Highest Bid price received during FM Phase-II for that category of cities in that region. The radio stations are unhappy about this ruling because there exists a lot of variance in the market size of cities even in the same category. This may set an unreasonable reserve price for some cities.
3. Broadcasters have been permitted the carriage of AIR news bulletins on their stations. Also content featuring certain categories like information related to sporting events, traffic and weather, coverage of cultural events, festivals, coverage of topics pertaining to examinations, results, admissions, career counseling, availability of employment opportunities, public announcements pertaining to civic amenities like electricity, water supply, natural calamities, health alerts, among others as provided by the local administration, will be treated as non-news and current affairs broadcast and will be permissible on private FM radio stations.
4. FDI (Foreign direct investment)+FII(Foreign Institutional Investment) limit in a private FM radio broadcasting company has been increased from 20 percent to 26 percent.
5. Private broadcasters can own more than one channel in the city provided it's not more than 40 percent of the total channels in a city subject to a minimum of three different operators
6. The new policy allows networking of channels in all cities, allowing broadcasters to relay broadcasts from one studio to multiple cities, without the need to invest in new studios for each city. Previously this was permitted only in C and D category cities. This move is expected to bring down content costs as radio stations relay content across multiple cities.
7. To improve the viability, as against a maximum of 4 channels in D category cities permitted in FM Phase-II, FM Phase-III proposes 3 FM channels in D category cities. The government believes that viability will improve since there would be lesser operators to share the advertisement pie.
8. It was also proposed to reduce the lockin period of shareholding of promoters/majority shareholders from the present 5 years to 3 years to give them greater freedom to change the Share Holding Pattern.

Impact of Phase III



Phase III will enable greater reach and revenues for the radio industry. Multiple frequency, networking and rationalization of music royalty will directly add to margins, enabling strong players to invest behind content differentiation, better market segmentation, measurement of radio listenership across more markets and thereby contributing to revenue maximization and profitability //

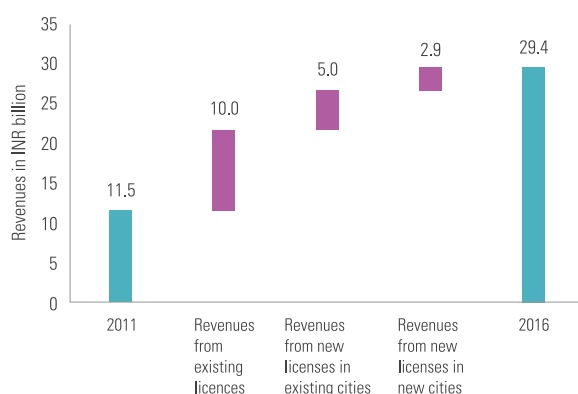
- Asheesh Chatterjee
CFO
Reliance Broadcast Network Limited



Revenue growth

The industry will see growth from existing licenses (through increased prices in metros and increased utilization levels in non-metros), new licenses in the existing cities and through the addition of new cities as a part of Phase III. As the new cities being added in Phase III are primarily small towns, they are not expected to contribute a large share of industry growth in the medium term. However, the large players with extensive reach post Phase III may be able to charge a premium by offering a countrywide advertisement solution.

Private FM Radio industry - Potential incremental revenue till 2016



Source: Industry discussions, annual reports of listed players and KPMG in India Analysis

Cost economics

With expected revenue growth after Phase III and steps towards resolution of the royalty issue, cost economics for the industry have the potential to improve significantly. In addition, permission for multiple frequencies in a city is expected to be granted as part of Phase III. This could also improve the cost economics as the incremental cost for additional frequency is significantly lower than that for an independent station. There is potential for operational cost savings on staff/manpower, premises, marketing and overheads related costs. On the capital expenditure front, there is potential for savings on studio infrastructure, IT and office infrastructure as a large part of infrastructure for leading players is already in place and hence they will be able to reap the benefits of additional frequencies at limited capital expenditure in Phase III.

Also, permission for networking content across categories of cities is expected to be granted as part of Phase III licensing (with a stipulation of a minimum 20 percent local content). This could help players build more cost effective models, with potential of over 20 percent savings on operating costs.

Impact on Industry structure

Permission for content networking is likely to result in increased development of regional network models, given the potential for better cost economics.

The permission for multiple frequencies is expected to result in established players looking to acquire additional stations in larger cities to build focused formats. Also, the reduction of shareholder lock-in period from 5 to 3 years and increase of license period from 10 to 15 years may encourage consolidation post the Phase III auctions.



Multiple frequency ownership, networking of stations, decrease of lock-in period are progressive policy changes announced in Phase III. We expect that cost synergy opportunities thrown up by these would act as catalyst for consolidation in the industry

- Satish Chander
Director
India Value Fund Advisors

Content innovation

Permission for multiple frequencies and permission to allow news, sports and current affairs may encourage players to come up with innovative content. However, addition of more stations in metros will be instrumental in driving niche content provided the license fee is adjusted to encourage non-commercial content like classical music, regional music or old Bollywood music.

Expected capital inflow after Phase III

Some estimates²³ claim that Government may fetch INR 15 - 17 billion from the auction of Phase III licenses. However, we believe this may be an optimistic estimate. Given the revenues from Phase II and uncertainty about royalty issue, the bids are likely to be conservative, especially in the non-metro cities where the existing players already have excess capacity. The industry feels there may be a need for re-evaluating the high minimum reserve price set by the government especially for some of the smaller cities.

23. "Aggressive bidding to beat govt target for FM-III": Published in Financial Express on 11th July 2011

Expected revenues for Government from Phase III auctions

Category	Average price expected per license (INR billion)	No of licenses	Total collection (INR billion)
Category A+	0.21	4	0.85
Category A	0.13	19	2.51
Category B	0.05	29	1.60
Category C	0.04	175	7.00
Category D	0.008	609	4.87
Total		839	16.83

Source: "Aggressive bidding to beat govt target for FM-III". Published in Financial Express on 11th July 2011, Industry discussions, KPMG in India Analysis

There is also expected to be capital investment after Phase III as industry sets up new stations. If we do not take into account the benefits of multiple frequencies and networking then additional Capex is expected to be INR 18 to 20 billion. However, this is a very unlikely scenario as the existing players have aggressive plans for Phase III bidding for top 30-40 Indian cities. Some of the existing players already have the

infrastructure in place for existing stations and expect to gain from networking and multiple frequencies. Also, we expect only limited number of new players entering the medium in the top 30-40 cities given the high capital expenditures involved in starting fresh. Given the benefits offered by multiple frequencies and networking we expect the capital expenditure in the range of INR 7.5 to 11 billion.

Expected Capital requirements post the Phase III bidding

Category	Cost of setting up radio station for a new player (INR million)	Incremental cost of setting up for existing players (INR million)	Total capex range (INR billion)
Category A&B	25 – 45	8-10	0.6-1
Category C&D	10-20	5-7	7-10

Source: Industry Discussions, KPMG in India Analysis

Note: For calculation of range, it is assumed that there will be between 20 percent-40 percent stations that will have to set up new stations in category A&B towns and these will have limited benefits in terms of existing infrastructure. In category C&D towns, it is assumed that Networking will play a major role in bringing the capital expenditure costs at reasonable levels.

Key risks, issues and challenges



Radio stations in smaller towns need to educate the retail advertisers on effectiveness of radio as a medium. It is only through close collaboration and awareness building initiatives can one expect to see more participation from the retail sector in radio advertisements

- Rahul Gupta
Director and Project Head
Jagran Radio

1. While the electronic auction planned for Phase III increases transparency, it could potentially lead to spiraling bids. A number of players have strong strategic reasons to acquire stations in the metros/ mini metros. Frequency availability is limited these markets, and the government has set the floor auction price as the highest

price realized in Phase Two. This could result in high bid prices for these frequencies. Industry players will hence need to be cautious in their bidding strategy.

2. The Royalty issue is also not fully resolved yet, despite the August 2010 ruling by the Copyright Board limiting the royalty payment to 2 percent of revenues. Competition Commission of India (CCI) is investigating the matter and industry hopes for a resolution before Phase III bidding so they can account for costs in the auction price accordingly.
3. In addition, measurement continues to remain a challenge for the industry, particularly in the markets where RAM is not available. Due to lack of measurement, the acceptance of the medium is still not very high among media planners. Radio, therefore, still represents only 4 percent of media spends, while internationally this proportion is ~8 percent. Radio players have been trying to educate local advertisers on effectiveness of the medium and encouraging national advertisers by devising customizable options. Continued efforts, going forward, will ensure an increase of radio's share in media pie.

07

Music

Playing the digital tunes





Music

Playing the digital tunes

07

Performance in 2011

Segment (INR billion)	2007	2008	2009	2010	2011	CAGR (2007-11)
Physical	5.6	4.9	4.5	3.2	2.6	-17%
Digital	1.4	1.9	2.6	4.2	5.2	39%
Radio & TV	0.3	0.4	0.5	0.7	0.6	19%
Public Performance	0.1	0.2	0.2	0.5	0.6	57%
Total	7.4	7.4	7.8	8.6	9.0	5%

Source: KPMG in India Analysis

The Indian music industry achieved revenues of INR 9 billion in 2011, registering a growth of 5 percent over 2010. The industry witnessed a 19 percent Y-o-Y decline in sales of physical music, which was compensated by a significant jump of 24 percent Y-o-Y in digital music consumed¹. While 2010 was the year of structural shift from physical formats to digital ones, 2011 provided users viable options of music consumption through different digital platforms such as pay per download, unlimited music streaming and subscription based music services. Launch of legal streaming services such as Gaana.com and mobile applications (apps) such as Saavn promoted music consumption on digital platforms.

In India, film music (both Bollywood and regional film music) continues to be the mainstay of the music industry, contributing approximately 70 percent² to the industry's revenues. However, with the emergence of digital platforms and greater channels of music discovery, the younger generation is now being exposed to newer genres, leading to a growing demand for non-film music. This trend was reflected in greater investments by the music industry to identify and promote independent artists, and also in increased traction in live performances.

Decline of physical music

Physical sales of music continue to slide with digital music consumption on a steady rise. The industry witnessed a drop of 19 percent Y-o-Y growth in physical music sales¹. This phenomenon was more pronounced in the urban centers where mobile and Internet penetration is higher; regional markets were less affected.

With no sign of recovery in physical music sales, various music retailers are diversifying into alternate revenue streams. For example, historically, Planet M was a pure music retailer with approximately 80-85 percent of its revenues accruing from sale of audio CDs and cassettes. However, in the last 5-6 years, its revenue mix has shifted from a pure music retailer to a diversified retailer, with only 35 percent of revenues being contributed by music.

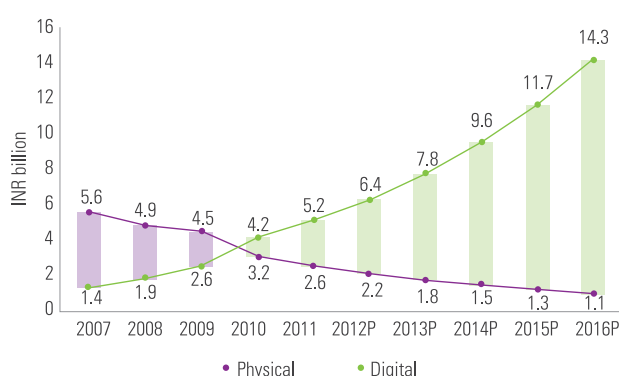
01. KPMG in India analysis and industry interviews
02. Industry Discussions



“ Trying to survive the battle against piracy and digital downloads, music retailers are shrinking shelf space for music. With convergence of media, newer revenue streams need to be evolved to define the width and breadth of the music industry ”

- Sanjay Karwa
CEO
PlanetM Retail

Physical vs Digital Sales



Source: KPMG in India Analysis

Digital music – Ruling the charts

In India, the digital music industry stood at INR 5.2 billion in 2011 making up 58 percent of the revenues of the music industry. The industry grew at 24 percent Yo-Y compared to 2010 and is expected to touch INR 14.3 billion by 2016³.

Digital music continues to grow around the world as well. Globally around 13 million tracks are licensed by record companies to 400+ digital music services⁴. Around the world, record companies earned approximately 29 percent of their global revenues from digital music channels in 2010⁴. Mature markets like US, Europe and Australia saw growth of 8 percent, 20 percent and 32 percent in digital music sales respectively⁴.

Digital music revenue comprise of revenues from music consumed either via a mobile handset or the Internet, with mobile contributing roughly 90 percent⁵ to the total sales. While digital music consumption continued to grow, its growth momentum was weakened by a drop in Caller Ring Back Tone (CRBT) revenues, in the light of recent TRAI guidelines introduced in July 2011 on requirement of SMS confirmation for activation of such services⁶.

Royalty from Radio & TV

The royalty from radio and television segments equaled INR 0.6 billion in 2011, constituting seven percent of the total music industry⁷. The radio royalty declined in 2011 on account of the new revenue model fixed by the Copyright Board. Under the new revenue model, the radio companies now pay the music labels royalty calculated on the basis of 2 percent of their advertisement revenues, as opposed to the weighted average of INR 660 per needle hour. However, as the order is only applicable to PPL (Phonographic Performance Ltd) members, players such as T-Series and other regional music labels which are not associated with PPL, continue to receive royalty on the needle-hour basis.

The music industry is challenging the order in courts and expects a revision in the Copyright order. The industry would have to wait and watch till the final verdict is announced. Meanwhile, the decline in radio revenues were offset by the increased television royalties due to the launch of new music channels, including Hindi music channels such as 'Mtunes' and 'Mix' and Punjabi music channel '9XTashan'. With this,

03. KPMG in India Analysis

04. IFPI Music Report 2010, 2011

05. Industry Interviews

06. For detailed guidelines, refer challenges section

07. KPMG in India analysis and industry interviews

the total number of music channels in the country has touched close to twenty. According to TAM Media Research, music viewership in the C&S 15+⁸ audience in the Hindi speaking markets has grown from a 2.4 percent share of the overall TV pie in 2009 to a 3.1 percent share in the first half of 2011⁹.



“Music is the core cost of any FM station and there is no industry which has cost of its core raw material at just 2 percent of its revenues. If the existing freedom to contract is taken away from us as copyright owners then it will have an adverse effect on the economic viability of the music & films, even while, FM Broadcasters earn advertising revenues freely determined by them in accordance with their business model(s)”

- Neeraj Kalyan
President
T-Series

Performance rights revenues

Music industry's revenues from sale of public performance rights witnessed a strong growth of nearly 20 percent Yo-Y in 2011¹⁰ owing to the increase in the consumption of music at public places such as clubs, restaurants, gyms, malls, hotels, supermarkets etc. and increased awareness among the users about obtaining public performance licenses.

PPL (Phonographic Performance Ltd.), the licensing arm of IMI (Indian Music Industry), has taken many initiatives this year to increase the collection of license fees from venues playing copyrighted music¹¹. It has obtained injunctions from various courts against the defaulting venues that have been playing music without acquiring requisite licenses.

The year also saw increased traction in live performances coupled with an increase in audience base. Further there was an uptrend in the average ticket prices on the back of rising disposable incomes and a strong base of young audiences. Going forward, the segment is expected to generate revenues to the tune of INR 1.6 billion by 2016, contributing around nine percent to the overall music industry revenue¹⁰.

Key trends and developments

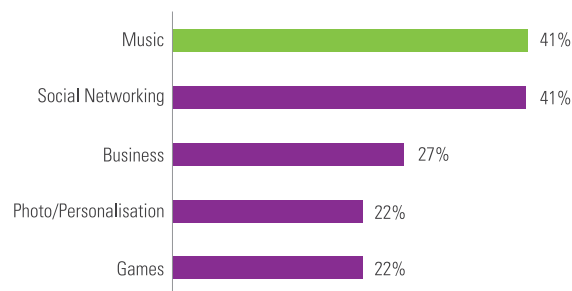
Digital frontier

• App-economy enhances music consumption

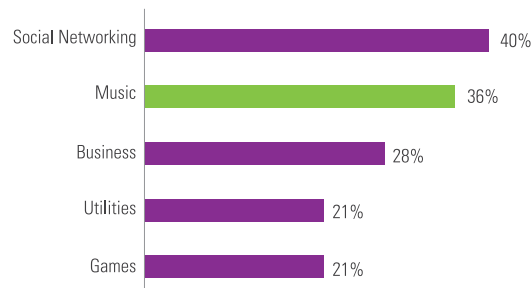
With the advent of 3G and increase in usage of Internet due to increased smartphone penetration, new applications for music lovers are the need of the hour. Times Music has several mobile apps running on Blackberry, Android and Apple iOS¹². Nokia's Ovi Music service has also seen a healthy take-up in India¹³. Saregama has been closely working with mobile companies like Vodafone and Airtel to launch new music applications. Apps like World Space and Music World are some of the new apps started by Saregama¹².

A study conducted by Nokia revealed that globally, music is the third most popular app to download (29 percent), next to games (38 percent) and social networking (35 percent). In India, music is the most downloaded application and the second most used application after social networking. 34 percent of the smartphone users like to download applications because they feel the need to download the latest music releases¹⁴.

Most popular apps to download in India



Most popular apps by actual usage in India



Source: Nokia Global Study

• Emerging Business Models

People are increasingly consuming music in digital form through different devices. Historically, digital music has been consumed mostly through the on deck model through mobile devices in the form of CRBTs and CRTs. There are three significant shifts happening in the market today mainly:

- **Increased Internet penetration** - The number of Internet connections in India is expected to increase to ~5 times from ~88 Million active connections in 2011, to over 400 Million connections by 2016¹⁰
- **Increased consumption on mobile devices** - A bulk of Internet connections are going to be mobile connections in the next 5 years
- **Smartphone and tablet proliferation** - Currently, a majority of mobile handsets are feature phones. In the next 5 years the mix will change to smart phones and tablets.

8. C&S 15+ stands for Cable and Satellite audience of age 15 and above

9. http://www.exchange4media.com/news/story.aspx?Section_id=6&News_id=43436

10. KPMG in India analysis and industry interviews

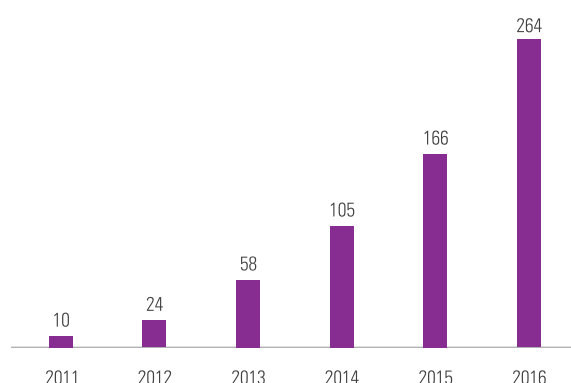
11. http://www.dnaindia.com/india/report_phonographic-performances-ltd-wins-music-copyright-war_1563586

12. Industry discussions

13. IFPI Digital Media Report 2011

14. <http://www.business-standard.com/india/news/nokia/s-global-study-reveals-indians-prefer-business-focused-apps/423948/>

Active Internet enabled Smartphones (Millions)



Source: KPMG in India Analysis

The above three changes in the market place imply that the consumer will have a much wider choice of content available. The consumer can access a lot of content online and given the recent restrictions by TRAI on how CRBTs and CRTs are sold, content owners will have to think of business models to monetize their content off deck. This will be a challenge as currently it is an ad funded model. However, apart from ad funded models content owners can also look at paid models which include pay for subscription/access or pay per download.

Globally, there has been a rise of digital music service providers offering a mix of ad funded streaming models and charging subscribers for a premium version of the service which includes advanced features such as no advertisements and unlimited access. This model notably known as the freemium model has seen success in the digital gaming world. While the iTunes store served its 16 billionth song in October 2011, the year saw emergence of new players across the world using the freemium model and enjoying reasonable success with the same.¹⁵



Two kinds of services are offered under "Freemium Model":

- **Free services:** Such services are advertisement supported and free to consumers
- **Premium paid for service:** Such services are subscription based however free from advertisements.

Player	Content	Distribution	Subscriptions (Paid/Free)	Monetization/ Pricing
Spotify	13 million	13 countries	2.5 M; 10 M	Free with ads; USD 4.99 per month for web; USD 9.99 / month for web and one mobile device
Deezer	13 million	France, Belgium and UK	1.4 M; 20 M	Ad supported free streaming (Eur10 m) ; 12 % of free users also download individual tracks; free, medium tier (4.99 Eur) and premium tier (9.99 Eur)
Rhapsody	13 million	Only in US	1 M paid subscribers	USD 9.99 per month for playback on the web and one mobile device or USD 14.99 per month for playback on the web and three mobile devices
MOG	12 million	Only in US	N/A	A USD 5/month plan allows users to access MOG through the web; USD 10/ month plan allows access through these platforms and through supported mobile devices
7Digital	11 million	Majority of Europe	3 M registered users	Free with ads; USD 4.99 per month for web; USD 9.99 / month for web and one mobile device

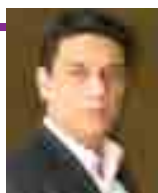
Source: Industry Reports, Company Websites

15. Industry discussions

However, as the consumer shifts towards the off deck market we will see digital music service providers gaining significant traction. Most of such service providers have already invested in building up their catalogue and are witnessing increase in listenership on their platforms. With easy availability of illegal pirated music at the cost of almost INR 1 per song, the Indian consumer is less likely to pay for subscription and download in the near future. The ad funded streaming model is more likely to be adopted by the Indian consumer as they increasingly adopt a mobile lifestyle and want to experience a seamless music experience available to them everywhere and on every device that they own. With increase in adoption of ad funded streaming service providers of the likes of Gaana.com, Saavn.com, share of revenues from this stream is expected to grow in the next 5 years. However, for such players to be profitable in the long run, they will have to develop strategies to either up sell the premium offering to their customer or increase their ad rates.

Recently, many labels have started taking the viral marketing route to promote their music. For e.g. Tips Industries tapped social media for viral marketing of its upcoming film 'Tere Naal Love Ho Gaya'. It rolled out a promotional campaign of the film on Facebook, launching the soundtrack of the film online two months before it broke into mainstream marketing.

Saregama has started working closely with social networking sites, to increase their sales online (i.e. non-retail sale). They also have a separate team which works closely with the social media to keep track of the usage statistics like the number of hits in a week.



Most of the online content portals are currently working on an ad-funded model. However, ad-based models can work only if you have a huge subscriber base and it's difficult to survive on a single business model. We will have to look at a mix of ad-based, subscription and streaming / download models. The bandwidth was very congested until now for uptake of videos on the Internet. With the coming of 4G, video consumption is expected to increase. Short duration videos are expected to contribute 25 percent to 30 percent to the digital music consumption in future

- Neeraj Kalyan
President
T-Series



Viral marketing is increasingly going to become more and more important to connect with your consumer base, be it movies or music. The simple reason why this would happen is the fact that you can communicate on this medium and also fulfil the consumer demand on this medium. Hence the drop-off rate on online medium is much lower than that on the traditional mediums.

We started viral marketing of sound track of 'Tere Naal Love Ho Gaya' two months before we broke into mainstream marketing and purely on the basis on the viral marketing that we did, we served out over 75 lakh streams of the sound track and 25 lakh video streams of the music videos

- Kumar S Taurani
Chairman and Managing Director
Tips Industries Limited

• Power of Social Media

Social networking sites reached 95 percent of the web audience, and accounted for 23.7 percent of time spent online in India¹⁶. With this huge base of social media, no one can deny the potential of social media marketing. Now is the need to move beyond the traditional mediums of marketing and surprise the target audience with innovative concepts. Even the music marketers have started recognizing this and are showing interest in using social media platforms to leverage viral content.

16. Comscore, December 2011 data

Case Study:

Sony Music's viral marketing of 'Kolaveri Di'

'Why this Kolaveri Di' is an Indian song from the soundtrack of the upcoming Tamil film 3, which was released on social media in November 2011.

The success of 'Kolaveri Di' illustrates the rising power and reach of social media. It clearly is a classic example of how viral marketing can create an impact and reach out to the audience in the shortest span of time. In just three weeks after its release, the song was streamed 19 million times on YouTube, played by 43 radio stations across India and 'shared' by over 6.5 million Facebook users¹⁷. It has become the first Tamil film song to premiere nationally on music channel MTV¹⁸. The Tenglish (Tamil-English) song has become both a national and an international phenomenon.

However it is very hard to say what worked for 'Kolaveri Di', though some of the factors critical to its success were:

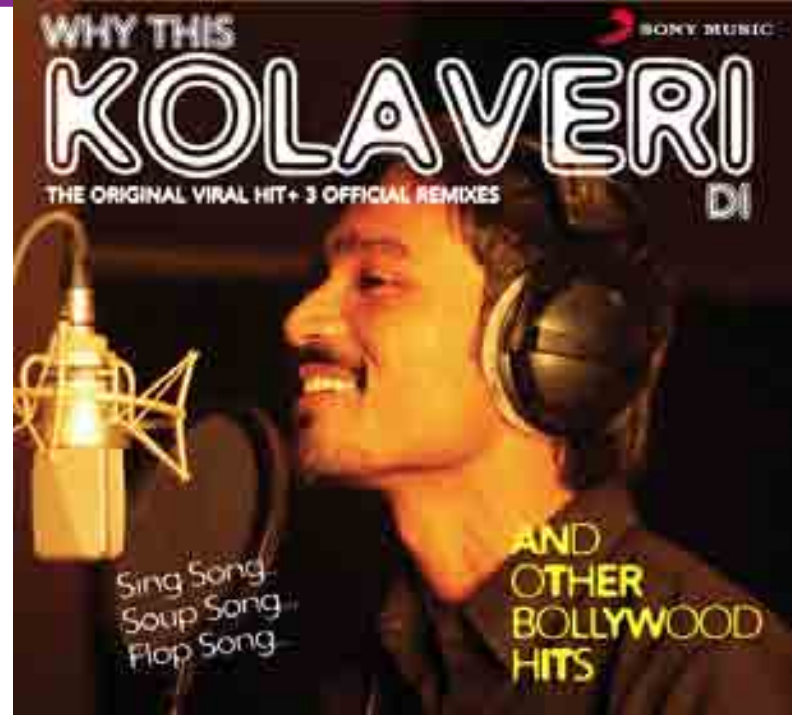
- **New concept of marketing:** Sony Music did aggressive marketing of the song in the initial phase. Not disclosing the meaning of the word 'Kolaveri' tempted the users to listen to the song and find out the meaning. Another strategy that added to the popularity was that people were not stopped from making their own versions of the song, which further contributed to the success of the song.
- **Differentiated and engaging content:** The campaign could not have succeeded if the song itself was not compelling enough. It had funny yet simple lyrics that everyone found easy to remember and thus helped the song make a connection with consumers.

In order to monetize the swarming viewership, Sony Music entered into a content partnership with YouTube in late November, taking 50 percent of the revenue generated from the video¹⁹.

Sony Music has also filed for trademark of the phrase 'Why this Kolaveri Di' to make it a world-known brand. This move by Sony Music is one of its kind, which will enable Sony to launch products such as CDs, SD cards, film and non-film entertainment content and talent discovery programs etc. branded 'Why this Kolaveri Di'²⁰.

Industry experts believe it is going to mark the tipping point for the music industry in the way music is marketed.

- **Digital Video is here:** It is now recognized that a video song can be promoted well through Internet
- **Internet marketing is to stay:** Now social media will be viewed on par with television and radio as a mainstream medium for music promotions.



Rise of independent music

While the film music continues to be the mainstay of Indian music industry, we also observe growing consumption of non-film music and promotion of independent artists. Most music labels recognize the growing importance of independent music and accordingly invested in identifying rising talent. Sony Music, for example, floated an independent arm called 'Day 1' with a focus on indie scene. Co-produced along with Oranjuiice, Day 1 kick-started a series of performances christened **Live From the Console**, serving as a discovery platform for emerging acts. Further the company has also established genre-specific music labels- Folktronic and Zomba.²¹

Folktronic	Bringing folk music to youth in urban format
Zomba	Independent platform to promote Hip-Hop culture in India

17. <http://business-standard.com/india/news/a-viral-hit/458038/>

18. <http://www.ndtv.com/article/regional/kolaveri-becomes-youth-anthem-152897>

19. <http://www.livemint.com/2011/12/08003854/How-8216Kolaveri-Di8217.html>

20. http://articles.economictimes.indiatimes.com/2012-01-13/news/30623767_1_trademark-song-sony-music-entertainment-india

21. <http://www.soundbox.co.in/bright-stars/>



2011 witnessed the launch of shows promoting independent music such as MTV Unplugged and Coke Studio. While Coke Studio showcased a diverse mix of music from alternative genres including regional, recreated Bollywood tracks and compositions by new artists, MTV Unplugged featured live music performances by popular artists in a raw and acoustic musical environment. Saregama partnered with UTV Bindass and launched Saregama Icons NXT Talent Hunt to identify new talent and promote mainstream artists. It has partnered with Flipkart.com, to sell the artists' albums across platforms and with Nokia to launch the music of these artists on Nokia Music Unlimited Service.

Case Study:

ArtistAloud.com – 'Exploring the Unheard'

'ArtistAloud was launched by Hungama Digital Media as a digital platform for independent artists to showcase their unreleased music. Through the online portal, musicians are able to directly showcase and sell their music to consumers, without tying up with any record label. In this model, artists retain publishing rights to their compositions. This model began by organizing 'webcerts' or online concerts, where artists release their music by performing at a public venue and the ArtistAloud team records and uploads the performance on the website.

Given the long absence of such opportunities for the independent artists, this platform has come as a long awaited solution for rising artists and musicians, who were not able to release their music commercially and had to give away their music for free.

Starting with songs spanning six genres - alternative pop, classic Indi-pop, fusion, English rock, Hindi rock and Bollywood pop, the site now has a catalogue of over 500 songs spanning 33 genres from 155 musicians.²²

Distinctive Features:²³

- **Distribution channels:** Apart from its own site, ArtistAloud.com distributes the content through various digital distribution platforms on a global level including Internet (bsnl.hungama.com, international digital stores like iTunes, Amazon, etc.), Mobile (domestic and international operators), DTH (Tata Sky), IPTV, MMC Cards and mobile phone embedding.
- **Affordable pricing:** It offers a single download for INR 10 per song or a value pack of INR 20 for four songs.
- **Marketing:** The webcerts are streamed live on ArtistAloud.com, Facebook, YouTube, Daily motion and on all Nokia smartphones.
- **Business model:** Hungama shares 35 percent of the revenue earned from the end user to the artist/composer after deducting all its expenses and tax.

22. <http://www.livemint.com/2011/09/2123022/Recognizing-firms-tapping-soci.html>

23. ArtistAloud website

Live music goes mainstream

India's growing affluence is resulting in a rapid increase in audiences' willingness to enjoy live entertainment. Historically, out of home entertainment was restricted to watching movies, however, consumers are now increasingly exploring other forms of live entertainment such as plays and concerts. The number of live events in the country has increased by nearly 15-20 times between 2004 and 2011²⁴. While in 2004, India had approximately 300-400 live events, the number increased to 6000-7000 in 2011 with ticket prices also increasing substantially²⁴.



With newer formats, better production standards and a change in outlook among brands to create 'experiences' as opposed to just an activation lead on-ground event, the course of the live event industry is set to change. The approach of looking at an event as an opportunity to create content, which can be further amplified using PR, Television and other digital mediums will actively grow brand investments in this sector

- Vijay Nair
Co-founder and Director
Only Much Louder Entertainment Private Limited

The daily audience count of the three-day long NH7 Weekender music festival in Pune soared to nearly 10,000 in 2011 from 3,500 in 2010²⁵. Internet has made people familiar with international music and artists, which is adding to their popularity. Many international artists made their India debut, including pop artist Lady Gaga at the Formula One race and world renowned rapper and singer, Pitbull. Industry discussions reveal that ticket prices have been growing steadily, with the average ticket price for a live concert now being in the range of INR 2000-2,500. While the concert tickets of Indian artists such as Jagjit Singh and A.R. Rahman were sold for INR 1000-2000 per ticket, the tickets for international rock band Metallica were sold at INR 2,750²⁶ per ticket and Bryan Adams for as high as 4,000²⁷ per ticket. The industry is upbeat about the growth potential of the live events market, with many players now focusing on this segment and the appetite being robust.

Some of the major music events held in 2011:

Name of the concert	Date	Venue	Description	Ticket price
Sunburn Goa 2011 ²⁸	27 - 29 December	Goa	Annual 3-day electronic dance music festival held since 2007 As compared to 2007, ticket sales increased by 49 percent in 2010	Starting from INR 3,000 for the first day to INR 2,99,000 for the VVIP ticket for all three days
Bryan Adams ²⁹	11 to 16 February	Pune, Mumbai, Bangalore, New Delhi and Hyderabad	As part of Bryan Adams Live Full Band Show World Tour, Bryan Adams performed for the fourth time in India	Mumbai and New Delhi: INR 2,000 and INR 4,000 Bangalore and Hyderabad: INR 1,500 and INR 3,500
Pitbull concert ³⁰	2 - 4 December	Noida, Mumbai and Pune	International rapper, record producer and singer-songwriter Armando Christian Pérez (popularly known as Pitbull) made his India debut	Noida: INR 4,000 Mumbai: INR 2,499 Pune: INR 1,999
Bacardi NH7 Weekender 2011 ³¹	18 - 20 November	Pune	A multi-genre annual music festival started in 2010, to showcase talent of Indian and international artists The daily audience count of the festival soared to nearly 10,000 in 2011 from 3,500 in 2010	Three Day Ticket: INR 2,000 Student Ticket: INR 999 Two day ticket: INR 1,500 One-day ticket: INR 750
F1 rocks-Metallica ³²	28 and 30 October	Gurgaon and Bangalore	Bangalore concert attended by approximately 40,000 Metallica fans Gurgaon concert cancelled due to security concerns	INR 1,650 and INR 2,750
Lady Gaga Concert ³³	30 October	Greater Noida	Lady Gaga performed for the first time in India in the after-party of Formula One (F1) race Despite the high ticket prices, all 1,000 tickets were sold in advance	INR 40,000

Source: Press Releases, Company Websites

24. Industry Discussions

25. http://articles.economictimes.indiatimes.com/2012-01-15/news/30627877_1_sunburn-music-festivals-organisers

26. <http://www.hindustantimes.com/Entertainment/Music/Metalheads-go-mad-booking-tickets/Article1-750391.aspx>

27. http://articles.timesofindia.indiatimes.com/2010-11-18/pune/28218380_1_bryan-adams-ticket-sale-pune

28. <http://www.indiantelevision.com/headlines/y2k11/nov/nov224.php>

29. <http://www.sify.com/news/mumbai-goes-wah-wah-over-bryan-adams-concert-news-national-lcmx4fediji.html>

30. http://articles.timesofindia.indiatimes.com/2011-12-10/news-and-interviews/30498677_1_armando-christian-perez-planet-pit-houseful

31. <http://nh7.in/weekender/about/>

32. http://www.dnaindia.com/bangalore/report_metallica-rocks-bangalore_1605363

33. <http://indiatoday.intoday.in/story/lady-gaga-perform-formula-one-india-grand-prix/1/157691.html>

Labels embrace band management

With not many companies in the asset management business, music labels are exploring artist and band management opportunities. Recently, many established labels such as Sony and Saregama have entered this space. Sony proposes to pursue brand endorsement and advertisement deals from its database of more than 2,000 event companies in India and globally³⁴.

Music labels have started initiatives to bring Indian artists to wider audiences across the globe. Recently, Saregama has tied up with Kailasa (music band of Kailash Kher) for organizing the band's first ever world tour. The world tour will commence in UK in April 2012 and then move to North America, covering 20 cities on a whole³⁵.

Only Much Louder (OML), a company which organizes music events such as NH7 Weekender, also operates its own record label, Counter Culture Records, dedicated to releasing independent artists.

Reviving the era of LPs

The retro era of gramophones is back with music labels re-launching LPs (long playing records) or vinyl records. Despite being a niche segment, music companies are optimistic about the potential of vinyl records, as it is a high-margin product with margins ranging from 30 to 35 percent³⁶. Although this analog format of music may not appeal to the masses, it does have a sizeable fan-following among collectors and serious audiophiles. Music labels view a good business opportunity in importing units from abroad and releasing niche genre albums on vinyl records.

Saregama re-launched the LP after thirteen years, with a primary focus on old Hindi film music, along with other genres like Tamil, Bengali and classical music. The label sold over 5,000 LPs and close to 320 record players in a four month period from March to June 2011³⁷.

However, industry experts fear that given the high price points and unavailability of LP record players, demand for vinyl records may remain limited to a collector's item or a gift item only.



“Niche music as a segment is evolving in India pretty much like the rest of the world. The labels are expanding across genres, beyond Bollywood. New genres, for example fusion EDM³⁸ etc are emerging as soul of much younger music consumer who is exposed to a lot of new sounds through internet and growing live music scene. Segmentation of product category is also catching up in the physical business, for example LPs are back in business”

- Mandar Thakur
COO
Times Music

which is the second largest contributor to music after Hindi film music, is steadily growing its share. After the South Indian music industry, Punjabi, Bhojpuri, Marathi and Gujarati are considered as attractive markets for non-hindi music consumption. Punjabi music has a huge consumer base, not only in India but internationally, in markets such as the US, Canada and UK. The Punjabi language music market has the potential to grow at around 25 percent for the next two-three years, which is more than the projected growth of the overall music industry³⁹.

Keeping in view the huge potential of the regional music industry, various labels have started expanding their catalogue, either through acquisition of regional labels, or through strategic partnerships. To quote few examples, Sony Music has forayed into the Punjabi music segment through a licensing agreement with regional music label, Audio Touch⁴⁰ while Saga Music has acquired a label named Lucky Star in the same market. Sony has also acquired 146 catalogues of Tamil music label Think Music to deepen its presence in the Tamil market⁴¹. Saregama already has a strong presence in the Tamil, Gujarati, Marathi and Punjabi markets, with around 80 percent of its catalogue being regional music⁴².



“Regional music has a strong demand as people are able to identify themselves through regional music while they are in foreign lands. We are focusing on regional front across all verticals – physical as well as digital. Instead of acquiring regional players, we believe in creating our own content. Punjabi, Bhojpuri, Marathi and Gujarati are the most popular regional music segments. South is a big music market, however it has its own boundaries and barriers. The key to promoting regional/ special music is to focus on such original markets which are often found in the remote parts of India, and we push our products both through physical and non-physical platforms with special emphasis on the localized needs of each market. Effective supply network and efficient communication network are key in our business”

- Neeraj Kalyan
President
T-Series

Music publishing to take off in India

Commercial exploitation of any music content requires clearance of two types of music rights – Publishing rights (lyrics and composition rights) and Master rights (sound recording rights). In the international music industry, record labels do not own publishing rights to music content. The music publishing companies act as a conduit to efficiently connect licensees (artists, labels, distributors, music services) with licensors (publishers and songwriters). The role of a publisher ranges from making the artists' composition available nationally and internationally, administering the recorded catalogues on behalf of the owners, and managing the licenses. Publishers also maintain cue sheets and Metadata which are very important for claiming royalties from film or TV companies.

Regional music – the next frontier of growth

Complimenting the regional films market, regional music is also demonstrating strong potential. South Indian film music,

34. <http://www.thehindubusinessline.com/industry-and-economy/marketing/article2248080.ece>

35. <http://filmhungama.com/2011/12/saregama-announces-kailasa%E2%80%99s-first-ever-world-tour/>

36. Industry interviews (Sony)

37. <http://www.tribuneindia.com/2011/20110828/spectrum/main8.htm>;

<http://www.outlookindia.com/printarticle.aspx?277751>; KPMG in India Analysis

38. EDM: Electronic Dance Music

39. <http://news.in.msn.com/business/article.aspx?cp-documentid=5621047>

40. http://articles.economictimes.indiatimes.com/2011-11-07/news/30369576_1_music-industry-music-market-indian-music

41. <http://www.radioandmusic.com/content/editorial/news/sony-music-invest-usd4mn-tamil-market>

42. <http://www.radioandmusic.com/content/editorial/news/regional-music-makes-it-mark-nokia-music-connects#story>

Rights Type	Explanation
Publishing Rights	The owner of a song's Publishing owns the rights to the composition. These rights need to be cleared in almost all instances.
Master Rights or Recording Rights	The owner of a song's Master Rights owns the song's sound recording. In order to use a song by the original artist, Master Rights have to be cleared. However, clearing the Master Rights does not include Publishing Rights. Master Rights are useless to the requestor without the Publishing Rights.

In India, traditionally the two rights have been handled by the same company – the record labels. Hence, until recently, the role of a music publisher in India was not very prominent. However, with the proposed Copyright Amendment Bill 2010 expected to empower the music composers and artists with their rights, the role of music publishers is likely to get heightened.



“The whole business of creative industries rests on two kinds of properties: brands (lovetmarks) and copyrights. While branding of performers (actors, sportsmen, singers...) and now festivals, has received extensive industry attention in the last 15 years, copyright management has surprisingly been ignored and remains still woefully ad hoc”

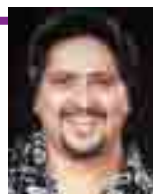
- Achille Forler
Deep Emotions Publishing

Challenges for the industry

Piracy

Music piracy has become deep-rooted in the music industry. It is omnipresent right from buying pirated CDs to copying CDs to downloading from the Internet to playing pirated music in hotels, restaurants, discotheques and during public events. The extent to which it has spread is phenomenal, with unauthorized music consumption surpassing legitimate music consumption.

Piracy's real effect on music sales is extremely difficult to assess accurately. According to industry discussions, the estimated loss due to piracy is as high as 75 percent of the actual size of the industry.



“Apart from the legal music industry in the South which is around INR 2.5 million, there is a huge piracy industry, which constitutes about 75 percent of the total physical market - i.e. the legal music industry is just 25 percent - which means that the piracy industry is about INR 4.35 billion”

- Rajesh Dhupad
Joint Secretary,
SIMCA(South India Music Companies
Association)

Growth of high speed internet access and proliferation of devices such as smart phones, tablets etc. is potentially giving wings to piracy. Pocket internet is often equated to pocket piracy. Unless anti piracy measures are strictly enforced, the music industry will continue to lose business to pirates.

That the sale of music through digital platforms has surpassed the physical music sales is mirrored in the piracy market as well. With the growing preference towards online music, the expenses for music pirates are limited to merely the costs of operating a website. The fact that digital products are virtual, have virtually zero marginal cost of imitation, are easily deliverable through digital medium has drastically snipped not only the overheads but also the associated risks for music pirates. The growing popularity of digital music consumption makes it vital to broaden the anti-piracy efforts to digital music as well.



“Our expectation from the government is to provide regulatory policies with stronger anti-piracy initiatives, less intervention in shaping the discussions between the broadcasting and content industry and discouraging cross holding of media assets which is leading to greater concentration of power”

- Shridhar Subramaniam
President
India & Middle East, Sony Music
Entertainment India Pvt. Ltd.

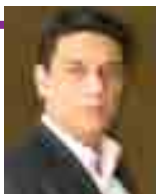
Strict enforcement of laws is the key to combat piracy. The following initiatives and concerted government attempts will go a long way to combat piracy.

- Carrying out anti-piracy raids which involves chasing piracy and shutting down piracy units and more importantly getting them to the books of law;
- Implementing the three-strike rule where the government enforces compliance using ISP. The government regulations must ensure that the IP rights are honored online;

- Partnering with ISPs to block piracy at the grass root level. Known as the graduated response model, this model requires ISPs to assist right holders in combating copyright infringements on their networks;
- Legitimizing music on various platforms including music in public places, television or public performances;
- Creating an alternate solution where 'lean-back' consumers can buy quality music while respecting the copyright law.

Equally important is to educate people and consumers as to what is legal and what is illicit.

The shutting down of songs.pk after a ruling from the Kolkata High Court is an example of what strict enforcement can bring about. More efforts should be directed towards finding out the background of more such sites and to get them blocked.



As compared to western countries, the Indian establishment has failed to check online piracy despite having the technology, laws and infrastructure to curb it just because we lack political and bureaucratic will to curb online piracy. There has to be a mutual effort from content providers, ISPs and Telcos to curb piracy in India which will only help increase the pie size for everyone to share. The second most important challenge for content owners is the revenue pipeline remaining under the control of the telecom platforms, giving them undue advantage in revenue sharing. Unless the content industry is able to find ways to acquire consumers directly, the industry will continue to suffer at the hands of the large Telcos

- Neeraj Kalyan
President
T-Series

Case Study: Global Initiatives to fight music piracy

- France enacted a graduated response law and created an independent agency called HADOPI (Haute Autorité pour la Diffusion des Oeuvres et la Protection des Droits sur Internet), which is responsible for alerting the defaulters about their illegal activity of copyright infringements. Judicial oversight is an integral part of the HADOPI. According to a survey conducted by a research company, BVA, 29 percent have stopped downloading music illegally and 2 percent have cut back their activities.
- South Korea not only adopted graduated response early but also began consumer education programmes right from the school levels.
- The Digital Economy Act became a law in the UK in April 2010. The Act requires ISPs to assist and co-operate with right holders to notify copyright infringing on the right holder's networks. Further, ISPs may be required to implement technical solutions to stop persistent online infringements.
- Laws and regulations based on the doctrines of graduated response have been enacted in Ireland, New Zealand, Taiwan and Chile, while many other countries around the world are considering the enactment of this model.

What does the future look like?

Strict enforcement of current laws and enactment of more anti-piracy acts can bring about a radical turnaround in the music industry. If the Government acts decisively and piracy is curbed even to the extent of 40 to 50 percent, the revenues of the industry can substantially increase.



Although it is difficult to control piracy as regulating the use of internet is very complex, however, through such rulings (blocking of Songs.pk) the amount of losses caused by piracy can be curbed. In light of the current ruling the music industry is planning to get more of such websites blocked. Approximately 50-60 websites which are using the content without paying for the content have been identified and are on the target of the music companies

- Apurv Nagpal
Managing Director
Saregama India Limited

Hurdles for growth of Live Music

Although the live events market is witnessing increasing number of music festivals and international concerts, it lags far behind the other countries in getting the due recognition. There are several hurdles faced in organizing a live event in India, the major factors being:

- **Lack of infrastructure and venues:** The lack of venues is a big deterrent for the live events market. While the cities in Europe and America have at least 50 standing venues where a performer just needs to plug in and play, there is not a single such venue in India⁴³. Not only the availability, but the capacity of the venues is also an issue. It is very difficult to arrange a venue which has sufficient capacity to accommodate a large audience.
- **Licenses:** The organisers require a host of permissions for hosting a live event. Getting these clearances and licenses is a cumbersome task for the organisers.
- **Entertainment tax:** High rate of entertainment tax on the live shows is another factor stunting the growth of live concerts.
- **Security Concerns:** Most international artists are reluctant to perform in India owing to security concerns. Concerts such as that of Bryan Adams and Metallica in Gurgaon had to be cancelled at the last moment due to lack of security arrangements.
- **Dependence on sponsors:** Most events in India are sponsorship driven rather than ticket sales driven. As per industry estimates, 60 percent of the revenue is generated from sponsorship⁴⁴ and only 25 percent from the ticket sales. Hence many events suffer from the fickleness of the sponsors.

TRAI regulation on SMS confirmation of VAS services

In July 2011, TRAI (Telecom Regulatory Authority of India) issued a directive to service providers for obtaining a confirmation from consumers through SMS (or e-mail) for any value-added service upon activation as well as on renewal of the service. The service provider can charge only if it receives the confirmation, else the service has to be discontinued.

The move is seen obstructive to the growth of value-added services, considering the fact that SMS penetration in mobile markets in India is less than 45 percent and as low as 20 percent in rural areas⁴⁵.

This is likely to impact the Caller-Ring-Back-Tones (CRBTs) business the most, as these are often impulse purchases (like press * to copy) and operated on auto renewals, often not intended by the mobile users. The telecom operators and VAS providers are protesting against the regulation as it is likely to hit their VAS revenues⁴⁶. The music industry is likely to suffer a huge set-back from the regulation, as CRBTs contribute around 60-70 percent of the digital music revenues.



Government interventions -- although being projected in the consumer interest -- by way of TRAI guidelines have hit the mobile VAS business in the last year. Having to re-confirm their orders so many times before actually getting the content puts off the consumer. The entire copyright industry makes sizeable contribution to India's GDP with entertainment vertical being a major driver of copyright industry, we expect Indian policy makers to frame guidelines in the larger interest of the economy, industry

- Neeraj Kalyan
President
T-Series



43. http://articles.timesofindia.indiatimes.com/2011-02-27/news-and-interviews/28638174_1_music-concert-musicians-promoters

44. http://articles.economictimes.indiatimes.com/2012-01-15/news/30627877_1_sunburn-music-festivals-organisers

45. http://articles.economictimes.indiatimes.com/2011-09-11/news/30142354_1_vas-providers-service-providers-mobile-users

46. <http://www.medianama.com/2011/09/223-is-indias-mobile-vas-business-being-maneuvered-into-licensing/>

Future outlook

Segment (INR billion)	2012P	2013P	2014P	2015P	2016P	CAGR (2011-16)
Physical	2.2	1.8	1.5	1.3	1.1	-16.5%
Digital	6.4	7.8	9.6	11.7	14.3	22.4%
Radio & TV	0.7	0.8	0.9	1.0	1.2	15.0%
Public Performance	0.7	0.9	1.1	1.3	1.6	22.0%
Total	10.0	11.3	13.1	15.4	18.2	15.1%

Source: KPMG in India Analysis

With 132 million⁴⁷ Internet users in India currently and with the count expected to touch half a billion users by 2015⁴⁷, the industry feels that digital is hard to ignore. By 2016, music industry's revenue from digital sales is expected to be roughly 79 percent of the INR 18.2 billion music industry⁴⁷. This is slightly lower than our last year's estimate as the TRAI's Telecom Consumers Protection Regulations 2012 would act a dampener to the overall growth of CRBTs and thus affect the growth momentum of the digital music. However, with the uptake of 3G and advent of Broadband Wireless Access (BWA) in coming years, the industry should witness returning to its initial growth path.

The music companies are innovating and licensing every viable form of music access for consumers. While digital piracy remains a concern for monetization of the medium at the moment, the growing initiatives from the government in terms of anti-piracy measures and increasing number of licensed digital music services available are expected to boost the industry revenues.



Three major drivers which will drive the music industry will be Mobile radio (through Internet), consumption of videos and innovative applications with a basic assumption that the internet connectivity through cell phone will improve dramatically

- Apurv Nagpal
Managing Director
Saregama India Limited

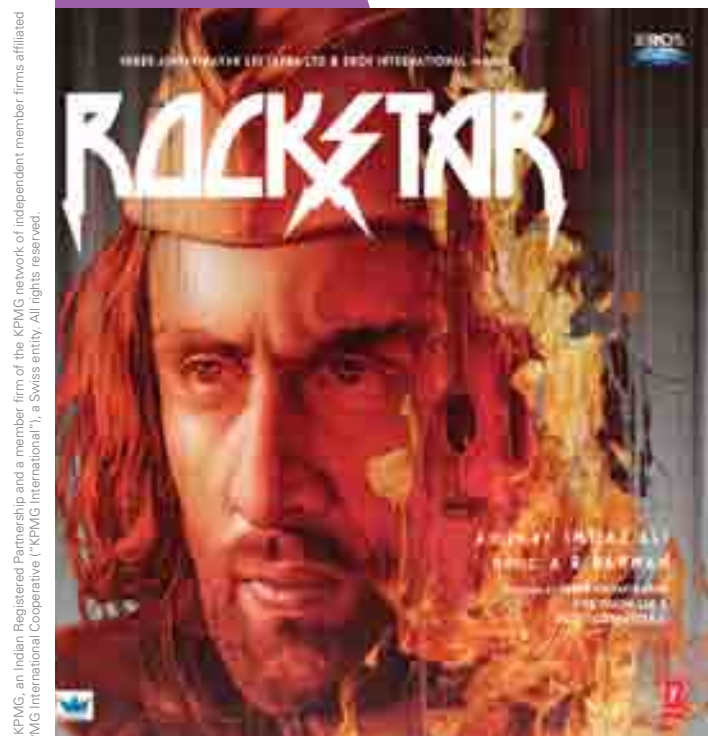
Future themes

Music on cloud

Though it may be still early to talk about music on the cloud for Indian market and Indian consumers, globally "Cloud" is the watchword in the digital music space. The debate of charging consumers for access rather than ownership of the content is tilting in favor of access as business models are being developed that help consumers access their favorite content anywhere and at anytime. They aim to offer the user an experience of a "locker".

Service	Launched	Features
Amazon's Cloud Drive	Mar 2011	Offers unlimited music storage at 20USD per year
Google Play	May 2011	Offers storage of up to 20,000 songs for free
Apple's iTunes Match	Nov 2011	Lets you match your music collection to high quality songs on its servers
Sony's Music Unlimited	Jan 2011	Catalogue of 15 million songs accessible at ~15USD per month

Source: <http://www.amazon.com/b?ie=UTF8&node=2658409011>, <http://www.billboard.biz/bbbiz/industry/digital-and-mobile/google-music-launch-unveils-a-solid-competitor-1006538162.story>, <http://www.apple.com/icloud/features/>, <http://www.engadget.com/2011/02/17/sony-music-unlimited-music-streaming-service-arrives-in-the-us/>



Technology transforming music

With the advent of new technology, the focus is shifting from just delivering music towards innovative and better forms of music delivery. For e.g., witnessing the inclination of users from downloading the whole album to selective single tracks, streaming services like Spotify are emphasizing on creation of playlists by cherry-picking songs from various albums. There are an increasing number of app stores and music apps being launched, which encourage users to create and consume music in new and innovative ways. With time, the offerings would become more customized according to consumer behavior and preferences.

Music discovery to become easier

While there is unlimited content available online, finding content is still a challenge for the consumers. However, now the streaming services are becoming intelligent and content companies are focusing on making their databases robust enough to search for content as per the search string entered by the users. Such initiatives are likely to make music search and discovery much easier for the consumers in future.



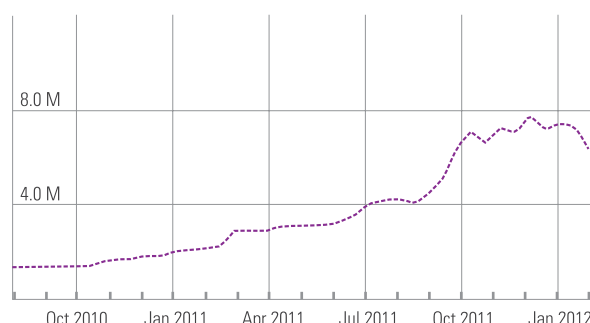
“ In India the digital music is dominated by mobile, owing to the absence of Internet services such as iTunes or Spotify. However, in the next 12 to 18 months we will see launch of new services in the industry, with Amazon entering India and Flipkart entering into digital music. We also expect the content discovery to enhance with the launch of such services ”

- Mandar Thakur
Chief Operating Officer
Times Music

Video Consumption to rise

With the bandwidth becoming easily accessible due to the launch of 3G, the consumption of music videos has been exponentially increasing, as also suggested by the growing viewership of YouTube in the past year. The concept of video licensing is gaining importance and is expected to bring good revenues for the music industry in the coming years. In the mobile space, we are likely to see video ring tones as the next area for growth. Vringo Inc, a global provider of mobile software services platforms, has already partnered with Hungama Digital to launch its video ringtone platform in India. Industry experts expect video consumption to grow at the rate of 30-35 percent per annum over the next five years.

Daily Unique Visitors of YouTube in India⁴⁸



Source: Google DoubleClick AdPlanner



“ The future of the Indian music industry lies in developing innovative music services to the consumers and monetizing videos. Currently the share of revenues from music videos is less than 15 percent of Industry revenues, however going forward, growth in video will outstrip audio growth. We expect music video market to grow at roughly 30 percent in coming few years ”

- Shridhar Subramaniam
President
India & Middle East, Sony Music
Entertainment India Pvt. Ltd.

Conclusion

Digital, the proclaimed future of the media industry has now become a reality. Music being one of the early adopters of new media is now successfully exploring various payment models and distribution mechanisms to monetize content. Going forward, we may witness the music industry transforming into a music 'services' industry with players moving beyond selling tracks to offering consumers a holistic music listening experience.

48. Google DoubleClick AdPlanner

Animation, VFX and Post Production

Where dreams come true

08



Animation, VFX and Post Production

Where dreams come true

08

Overview

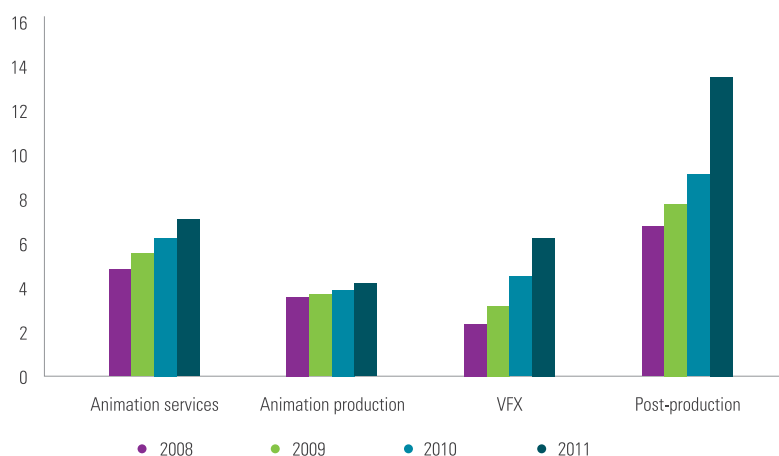
Segment (INR billion)	2008	2009	2010	2011	CAGR (2008-11)
Animation services	4.80	5.52	6.21	7.10	14%
Animation production	3.60	3.67	3.86	4.20	5%
VFX	2.30	3.15	4.47	6.20	39%
Post-production	6.80	7.76	9.08	13.50	26%
Total	17.50	20.10	23.62	31.00	21%

Source: KPMG in India analysis and interviews

The dreams came true for the Indian Animation, VFX and Post Production industry which achieved estimated revenues of INR 31 billion in 2011, a robust growth of 31 percent over 2010.¹ Backed by a robust business environment for animation and VFX globally, growth was achieved on the back of increased contract work, higher VFX content in movies,

2D/3D conversion projects which provided the impetus not anticipated before, demand for local animated TV serials, licensing and merchandising of popular characters, etc. The rising dollar in the second half of the year also supported this growth.

Overall industry size (INR billion)



Source: KPMG in India analysis and interviews

01. KPMG in India analysis and interviews



Animation includes revenues from animation services and content production (excluding gaming). VFX and post production includes revenue from shots created for producers both domestic and international, 2D/3D conversions, restoration etc.



2011 has been a noteworthy year for the VFX and Animation industry. Earlier Indian companies farmed out small pieces of work on the international films, but now larger projects are being worked out. Indian VFX and Animation industry has scaled up through cutting edge infrastructure and this acknowledgement of capability and creativity has helped strengthen and deepen Hollywood relationships.

Simultaneously, the increase in domestic production values has also resulted in higher use of VFX and Animation in Indian films.

India has been able to create a thriving and dynamic VFX and animation ecosystem which can today cater to industry needs for TV, films and commercials across various creative and price requirements and will drive the highest manpower absorption in Indian entertainment industry

- Anil Arjun
CEO
Reliance MediaWorks Limited (RMW)

Indian animation in 2011

As compared to a growth of 9 percent in 2010, the industry grew by 12 per cent in 2011 and is estimated to grow at a CAGR of 16 percent during 2012-16.²

Television continued to dominate the work executed by Indian animation studios and this trend is expected to continue in the near future.²

Distribution of work across media formats	2009	2010	2011	2016P
Television	55%	60%	60%	65%-70%
Direct to DVD	25%	20%	22%	10-15%
Movies for theatrical release	20%	20%	18%	20%

Source: KPMG in India analysis and interviews





Animation movies continue to perform at the US box office

After the spectacular success of Avatar in 2009, the animation industry continued to receive a boost in 2011 - four animated movies featured in the list of Top 20 movies at the US Box office.

Number of animation movies in the Top 20 (USD in million)

Sr No	Film	Production budget	US domestic gross box office	Foreign	Worldwide
1	Cars 2	200	191	369	560
2	Kung Fu Panda 2	150	165	500	666
3	Puss in Boots	130	149	384	533
4	Rio	90	144	341	485

Source: www.boxofficemojo.com

In the US, animated family films were all the rage in 2011 attracting kids and adults. There was a whole new cast of amazing characters in Rio and Rango, while Happy Feet 2 and Kung Fu Panda 2 brought the magic in the sequel department. 'The Adventures of Tintin', a 3D-film based on a comic book, was lauded by a wide range of audiences in India and abroad.

In the Indian scenario, whilst there has been a thrust in the owned content segment in the television space, we are yet to see similar traction in main stream Indian cinema. Industry players believe that though India may not match the budgets of these Hollywood blockbusters, there is still a huge potential to be tapped. There were movies in the pipeline at the start of 2011 but there were no major releases in 2011. This is primarily because of lack of distribution partners and the gestation period being far more than the production of a live action feature film. Combined with this is the fact that cost of production being high, the movie cannot be made for Indian market alone and it has to have the capacity to appeal to international audiences.

Value chain

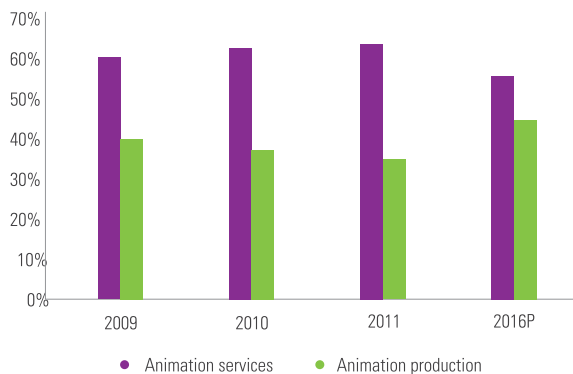
Indian studios also focused on co-production vis-à-vis the outsourcing model and as a consequence IP creation, particularly in television found greater focus.

Companies in the Indian animation segment operate through three broad business models³ –

Outsourcing Model	Co-production	IP Creation
High Volume, Low value No IP creation - Low value addition	Shared risk model	High risk - High Premium
Emerging markets India Philippines, Malaysia	Maturing markets Canada, France, Singapore	Matured markets USA, Canada, Japan, South Korea, UK, China
India has a huge potential to leap frog up the value chain		

Animation in India is currently riding on two key factors - a large base of highly skilled labour, and low cost of production. Animation is an intense mix of high creativity and hard labour. Behind every frame and each detail is a dedicated team of specialists who model, structure, colour, texture, design and dialogue the characters. Given the sheer quantum of labour, it was only natural for this industry to be among the first to open itself to outsourcing. India's role as a significant destination for outsourcing, including animation, is a fact. Technical expertise, robust telecom infrastructure, English speaking graphic designers and relatively low cost of operations are the biggest advantage for Indian companies. Some elements of production for blockbuster films like Avatar, Lord of the Rings, Harry Potter, The Chronicles of Narnia, and Spiderman 3 have taken place in India during the last few years.⁴

The Outsourcing model has thus dominated the Indian scenario but, **this is fast changing**. At present, many Indian companies are graduating from traditional outsourcing to the co-production model; the animation film Alpha and Omega⁵ being a case in point. In fact, many of the key players believe that custom content development ought to be a large segment going forward.



Source: KPMG in India Analysis and interviews



2011, has been a fantastic year for Indian Animation Companies; we have seen success for Indian Animated shows in both India and International markets, we have seen world wide TV & theatrical releases of content produced by Indian companies, as well as many successfully executed service & co-production projects in Animation & VFX space. The next few years would define the future for Indian Studios, and I would love to see Indian imagination triumph across the globe. Going forward a lot of animation companies would start to develop content for digital distribution platforms such as Apple iTunes, Netflix, Windows, Android, Vod, IPTV and so on. More major international studios should be setting shop in India and there is also going to be an increase in collaboration between India and other countries. Licensing & Merchandising is an essential part of the business of animation for both producing revenue and re-enforcing the sense of fan identity and belonging

- Rajiv Chilaka
Founder & Managing Director,
Green Gold Animation Pvt. Ltd.

Animation services continue to grow

Animation services have grown at a CAGR of 14 percent over 2008-11⁴. Overseas production houses like Walt Disney, IMAX and Sony are increasingly outsourcing portions of animation and special effects to India⁴. 'Puss in Boots' marks the first time DreamWorks have relied on Indian animators to help produce a full-length feature film. The Bangalore animation studio has become an increasingly important piece of DreamWorks' production pipeline⁶. Additionally, companies are sourcing animation from India for commercials and computer games.

Work outsourced to India	Indian studio
Puss in Boots	Technicolor India
The Gummibear	Tata Elxsi
Jakers! The adventures of Piggley Winks	Crest Animation

Source: Respective company websites



04. KPMG in India analysis and interviews

05. Financial Chronicle, Mumbai, 5 February 2010

06. Los AngelesTimes, 29 October 2011



Licensing and merchandising markets in India are evolving

The overall retail market in India is projected to grow at a CAGR of 12 percent from USD 456 billion (2010) to USD 789 billion (2015) of which organized retail is projected to expand at a CAGR of 31 percent.⁷ For animation studios, licensing and merchandising creates a new revenue stream whose life is longer than the traditional movie exploitation period and provides an opportunity to expand reach and scale

Merchandising can play a large role in monetizing animated property. Given the popularity of many animated characters amongst kids and their level of exposure and awareness, revenue from licensing of merchandise such as toys, games, apparel, etc is beginning to form a significant revenue stream. A growing population, increasing buying power, westernization and high GDP growth are the ingredients that will drive revenue streams going forward. Foreign players like Disney have been very successful in monetizing animated properties. In contrast, Indian merchandising is yet to pick up, although with a couple of exceptions, and this is primarily due to limited owned content development, lack of long term view by the producers and inappropriate 'go to market' strategies. Other inhibitors are piracy and price.

Growth drivers⁸

Some of the key growth drivers for the animation industry in India are:

Possibility to leverage cost arbitrage

- Cost of animation production in India is one fourth of that in North America and about 35 percent lower than countries such as Korea and Philippines

- Key countries outsourcing animation production work to India include USA, UK, France, Italy and Spain
- There are synergies with the IT/ITES sector.

Growing Internet and Mobile Penetration leading to alternate platforms for content creation

- India has the second largest telecom subscriber base in the world and a rapidly growing Internet user base⁹
- Mobile VAS services account for 11 percent of total mobile revenues of telecom operations. This is going to increase as 3G penetration increases⁸ and as 4G is introduced in the next year as anticipated
- Animation is extensively used in areas of news broadcast and programming, defence, legal, medicine, architecture, design, etc. In this era of digital content creation, a large number of jobs are also being created for smartphone / tablet programming and applications.

Estimated cost of 30 minutes of Animated Content (in USD)	2D Hand drawn	3D	Backend production	Flash Animation
India	45,000 - 50,000	90,000	200,000	20,000
Korea, Philippines	60,750 - 67,500	121,500	270,000	27,000
North America	180,000 - 200,000	360,000	800,000	80,000

07. NCAER, Ministry of Statistics and Programme Implementation, R K Swamy BBDO, Crisil Research, NRS, Datamonitor, Images Retail 2009, Research on India, Industry inputs, KPMG in India analysis

08. KPMG in India analysis and interviews

09. Telecom Regulatory Authority of India – Recommendations on Telecom Equipment Manufacturing Policy report, 12 April 2011

Increasing domestic market consumption

- More than 9 percent of kids have access to television at homes. The kids' genre is the largest genre in terms of viewership after mass genres like GEC contributing to 18.3 percent of the viewership pie¹⁰. In 2011, this genre not only recorded growth but also saw the entrance of new channels like Sonic. The kids' genre grew in regional languages as well. In Tamil, for example, the share of Kids is higher than News. The continued investments in launching new channels and content prove that the kids' entertainment space is a very viable market.

Education

- With the advent of digital books, as also with digital education solutions and audio-video aids proliferating in Indian classrooms, the use of animation in the education space is expected to grow at 11 percent.¹¹



India is gradually but surely moving away from the shadow of being only an outsourcing destination for animated content. It is now recognised as a location that is capable of creating end-to-end high quality content for global audiences. On the other hand, there continue to be certain impediments to the Indian animation sector attaining its true potential and growing at the projected CAGR. These concerns need to be addressed by the Central and State Governments as well as all other stakeholders urgently

- Tapaas Chakravarti
Chairman And CEO
DQ Entertainment International

- India, unlike some countries, does not have a policy which mandates that certain percentage of televised content be produced locally.

Lack of appropriately trained man power and training institutes

- There is low awareness for animation as a career option in India. Moreover, India has a large talent pool of creative youth interested in art and culture but most are either unaware of the industry as a career option or do not have access to these careers due to fewer institutes and higher fees
- Focus is mainly on only production skills. Some of the studio-based education academies have high-end infrastructure and technology that is required to be on par with their western counterparts. The most important factor is not about matching infrastructure and technology alone, but also to give a rock solid foundation of storytelling and film-making that goes a long way with the students.



There has been a stark apathy amongst policy makers towards kids' media for the last decade!!!

This is despite the fact that we have a very young population. We do not have a single public broadcasting medium (TV or radio) which caters to kids exclusively. This indifference is definitely afflicting the Animation and Gaming industry. However, the worst impact of this is serious cultural erosion. There is more Korean and Japanese animation on Indian Kids TV than Indian animation.

Given the reach of Doordarshan there is a strong case to start a DD Kids Channel. This singular effort itself will go a long way in promoting responsible kids content and nurturing our cultural value system.

Also, we are losing ground to our Asian neighbors such as Singapore, Malaysia and China in the animation outsourcing and co-production business. These countries have shown remarkable foresight and swiftly forged co-production treaties with Canada and France while we are still on the table 'negotiating' for the past five years

- Munjal Shroff
Director & CEO
Graphiti Multimedia Private Limited

Challenges

Some of the key challenges faced by the Indian animation industry include:

High studio set-up costs and higher break-even period

- High-end, state of the art studios are required to service international customers and increasingly demanding domestic audiences and clients. These require significant investments in software, hardware and talent
- Higher gestation and a lengthy break-even cycle, especially for movies, slows the investment flow into the sector.

Lack of Government support

- Countries like Canada, France and Malaysia provide significant incentives by way of subsidies, finance, etc for setting up of studios; while there is no such provision in India
- Some such countries also provide subsidies if the work is outsourced to a country with which the host/engaging country has a co-production treaty; India does not have similar treaties

10. Indiantelelevision.com

11. KPMG in India analysis and interviews

'To infinity and beyond' - Potential to leap frog

Segment (INR billion)	2011	2012P	2013P	2014P	2015P	2016P	CAGR % 2012-16
Animation services	6.80	7.62	8.68	9.90	11.18	12.53	13.00%
Animation production	4.50	5.18	6.05	7.33	9.16	11.45	20.53%
Total	11.30	12.79	14.74	17.22	20.34	23.97	16.23%

Source: KPMG in India analysis and interviews

The global animation and gaming market is expected to grow from USD 122.20 billion in 2010 to USD 242.93 billion by 2016¹². This represents a CAGR of 13 percent from 2011 to 2016¹². In comparison, the Indian animation industry is estimated to be INR 11.30 billion which is a small percentage of the world animation market¹³. This gives the industry tremendous growth potential. It is estimated that the Indian animation industry will grow by a CAGR of 16 per cent and will be INR 23.97 billion by 2016¹³.

From being a country that helps Hollywood studios make animated films, we are now witnessing several Indian production houses making such films - Koochie Koochie Hota Hain, Alibaba Aur 41 Chor and Delhi Safari are some recent examples. Additionally, locally produced serials such as Chhota Bheem and Krishna Balram have proved that content development is not only here to stay but also the likely game changer in this highly competitive market.

Segment (INR billion)	2010	2011	2012P	2013P	2014P	2015P	2016P	CAGR % 2012-16
VFX	4.47	6.20	7.75	9.30	11.16	13.39	14.73	18.90%
Post-production	9.08	13.50	15.80	18.95	22.74	27.29	30.02	17.33%
Total	13.56	19.70	23.55	28.25	33.90	40.69	44.75	17.83%

Source: KPMG in India analysis and interviews

'Behind the scenes' – the magic of visual effects (VFX and post production)

VFX continued to weave its magic at the box-office. As many as 8 out of 10 highest-grossing Hollywood movies in 2011 such as Harry Potter and the Deathly Hallows – II, Transformers – Dark of the Moon, Pirates of the Caribbean: On Stranger Tides, Fast Five, etc relied heavily on special effects.

In 2011, the VFX and post production industry in India too witnessed a healthy growth of 45 percent over 2010 to reach INR 19.70 billion. The VFX market in India is still at its nascent stage and there is a lot of scope and opportunity for growth in this market, both in terms of the quality of work and the amount of work being delivered. However, the Indian audience is an educated audience and is exposed to

international quality. Success of Hollywood movies in India indicates that the audience is ready for it. While in the recent past there have been very few films that have had their scripts rely heavily on VFX to tell their story in mainstream Indian cinema, that number is significantly increasing - Robot, Ra-One and Don 2¹³ are some recent examples. It is estimated that as much as 10 percent of movie budgets are devoted to VFX¹³. There is no dearth of competency – Indian companies have worked on Oscar-winning movies like The King's Speech and the BBC TV Series - The Deep.¹³

12. <http://www.marketsandmarkets.com/Market-Reports/animation-gaming-market-514.html>

13. KPMG in India analysis and interviews



Post-production in India is also witnessing phenomenal growth; the number of movies that are using high-end VFX are steadily increasing over the past few years. The key contributors to this growth are segments like VFX and DI, and newer segments like Restoration and Conversion. Increase in number of television channels, need for fresh content and increasing sophistication of advertisers has brought growth to the industry. Changes in the ecosystem – paradigm shift for high quality production of content for domestic markets, cost arbitrage of outsourcing post production to India, and the crossover phenomenon (growing popularity of Asian content in international markets) – have also supplemented this trend.

Additionally, the digital revolution has made the video editing work flow process immeasurably quicker – from time-consuming (tape to tape) linear video editing to online editing suites and to computer hardware and video editing software such as Adobe Premier, Final Cut Pro, etc.¹⁴ as well as incorporation of Cloud technologies for storage and technology/ software access.

Globalization of Indian VFX companies

VFX studio owners say that the mindset of Indian film directors is changing. They are realising the enormous possibilities that VFX opens up, especially for science fiction, adventure, horror and mythological films. Most producers are also becoming more confident that post-production studios can deliver the kind of work they are looking for and the effects have become so creative that they blend well into films. Another set of professionals who saw the potential of Indian VFX studios early were Hollywood producers. Their reason for turning to India was initially the same that has prompted every kind of outsourcing: saving on costs. “Hollywood studios can get about 75 percent cost advantage by working out of India,” says Anil Arjun, RMW’s CEO. But over the years, Indian VFX studios have moved up the value chain. It is no longer only labour intensive, low-on-creativity work that is outsourced to them as in the first few years.

Indian producers too have started using more VFX shots in their movies- RaOne is estimated to have more than 3,500 shots, a pointer to not only the levels of excellence achieved by the Indian VFX industry, but also to Indian cinema’s increasing use of VFX technology. Currently, industry insiders estimate that around 70 percent of Indian big budget films are using VFX¹⁴. Among the high-profile films of late that used VFX extensively are Chandni Chowk to China (1,500 VFX shots), Aladin (1,600 shots), Blue (800 shots), Guzaarish (350 shots) and Enthiran (2,000 shots)¹⁴.

14. KPMG in India analysis and interviews

VFX for dummies

A glossary of common terms used

Motion graphics: Graphics that give the impression of movement on a computer screen, such as ticker bands, transitions, pop ups

Matte painting: The digital, 3D creation of a scene, down to the last, meticulous detail, when actually setting up the scene and capturing it on camera is not feasible

Roto scoping: Making digital alterations in scenes already shot, going frame by frame, to achieve some effect the director is seeking

Clean up: Removing unwanted elements from scenes that have been shot, from wires or rigs to physical blemishes an actor may want to conceal

Compositing: Combining elements from different shots into a single image, giving the impression that they are all part of the same scene

3D: Creating 3D elements for compositing or creating a complete shot

Texturing: Adding colour and surface detail to scenes

Rigging: Adding controls for movement of elements in a film

Animation: Adding movement to the images created

Lighting and rendering: Giving finishing touches to a scene either partially or totally computer generated

Effects: Adding blazing fires, flowing water and other such elements to scenes after they have been shot

Source: Business Today, 28 May 2011



“The current trends in Hollywood are reflective of the substantial shift in consumer preferences. Today, more and more films are releasing in 3D – both first releases and re-releases. With this 3D revolution, there is a huge opportunity waiting to be tapped for stereo 3D conversion. India is soon emerging as one of the preferred outsourcing partners for VFX and Stereo 3D conversion services.”

- Venkat Devarajan
Managing Director,
Archis Management Advisors

3D – An Immersive thrill

The 3D wave continued to ride in 2011. While 2009-10 had Avatar, the fastest movie to achieve USD 1 billion in world ticket sales; 2011 too had its share of successes in the 3D format – Tintin, Pirates of the Caribbean, KungFu Panda 2, Cars 2, etc.¹⁵ On the domestic front, we saw many Indian films being released simultaneously in this format – Ra-One, Don 2, Haunted, etc.¹⁵

To convert or not to convert?

Many are of the view that shooting in 3D is inherently superior to post-converting. However, with advancements in technology, if one was to compare what could be done with 3D cameras to what could be accomplished with computers in conjunction with costs, conversions are compelling. Ongoing technological advances and revenue potential are thus making directors give conversion serious consideration. Proponents of post-conversion argue that turning everything into 3D later not only makes the filming process easier but also saves actors' valuable time while complicated 3D shots are set up.

In 2011, the 3D conversion segment witnessed phenomenal growth and industry players estimate the market to be approximately INR 400 million.¹⁵ It is anticipated that the demand for this segment will be sustained going forward.

Saving Cinema – From grain to pixel (Restoration and Archiving)

The Film preservation, or film restoration, is the process to rescue decaying film stock and preserve the images which they contain. In the widest sense, preservation nowadays assures that a movie will continue to exist, as close to its original form as possible. It is estimated that 90 percent of all American silent films and 50 percent of American sound films made before 1950 are 'lost' films.¹⁶

India's film history stretches back to the early part of the 20th century. Copies of its historically significant movies have been scattered far and wide – among filmmakers and their heirs, private collectors and government facilities. The government-funded National Film Archives of India has, since 1964, been acquiring and restoring films that were box office hits or of "good moral value". Internationally also, government agencies are working on restoring old classics to preserve their cultural heritage.

Though the concept is more relevant to films produced prior to the digital era (i.e. prior to close to the year 2000), even films that are shot in digital these days still have to be preserved properly to ensure the data won't be corrupted and that it can be migrated to different platforms as technologies change. However, cost could be a problem – it is very expensive to do it.

Field players believe that the importance of the segment is still undermined, and value ignored.

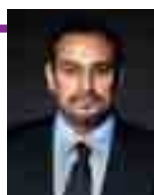
Mission Possible

As 3D continues to have traction in certain genres, co-production becomes more common and VFX plays a greater role in visual communication and story-telling, this segment will continue to grow. However, there are several levers that, if implemented, can take the industry to heights previously unimagined. From local content guidelines, to fast tracking the conclusion of treaties, to better training of manpower and awareness, all stakeholders can benefit through a proper effort to grow the industry.



// Animation and VFX continues to buck recession in posting double digit growth. India is now reached 'critical mass' and is counted as a serious player in the CG/3D production world //

- Biren Ghose
Country Head
Technicolor India



// We have seen a major change in the global industry moving towards digitisation of the creative and technical processes in the content creation aspects of the business, that is starting to transform the industry. While the 3D business worldwide has been robust and has contributed significant upside, digital workflows that are enabling content management and distribution across multiple platforms are gaining significant visibility. We are at the cutting edge of where technology is transforming the content business which will be a one time flip that will lay the foundation for the next generation of content creation and consumption //

- Namit Malhotra
CEO, Chairman and Founder
Prime Focus Limited

15. KPMG in India analysis and interviews

16. movies.nytimes.com



09

Out of home

Value and accountability





Out of home

Value and accountability



Outlook for the year

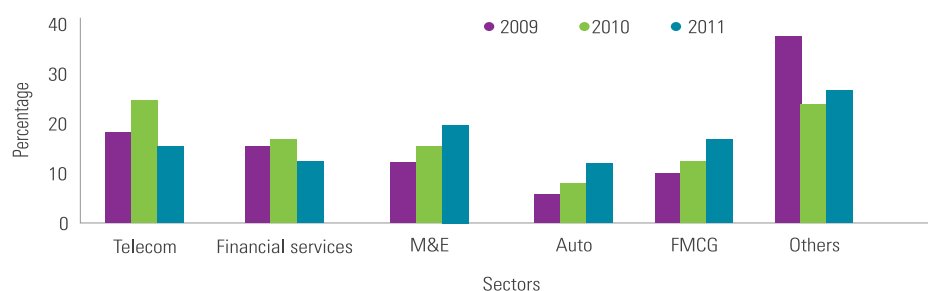
OOH industry size (INR billion)	2007	2008	2009	2010	2011	CAGR% (2007-11)
Outdoor	13.98	16.08	13.67	16.50	17.75	6.15%

Source: KPMG in India analysis and industry interviews

It was a difficult year for the Indian economy, with slowing consumer demand and rising interest rates impacting the growth story. Consequently, growth projections made in the beginning of 2011 had to be scaled down due to cuts in advertisement budgets by various industries. Brand owners spent approximately INR 17.75 billion in 2011 on Out-of-Home (OOH) advertising which amounts to approximately 5 percent of total advertisement spends.¹ The OOH sector was hit relatively harder than other sectors of the Advertising industry and the sector registered a Y-o-Y growth of 7.6 percent.¹ Based on our analysis and industry interviews, we believe that 2011 was a mixed bag for different players and

segments. Also, the Industry saw a reduction in spends by telecom players, who were the leaders in the last five years. This was offset by increased spend by auto companies, entrance of web based E-commerce companies, thrust in the entertainment space driven by release of large budget movies, TV channels and DTH, and increased real estate spends. Though OOH continues to be used by various brands, there are still 4-5 industries which dominate its usage. However, as a result of the change in market dynamics, there has been a shift in the sectors advertising on this medium (Figure 1 below).

Contribution of various sectors to OOH industry



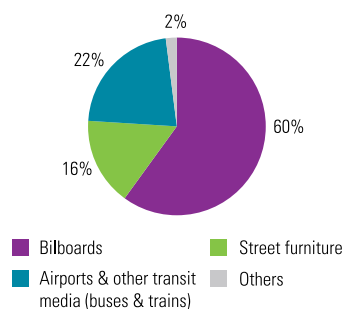
Source: KPMG in India analysis and interviews



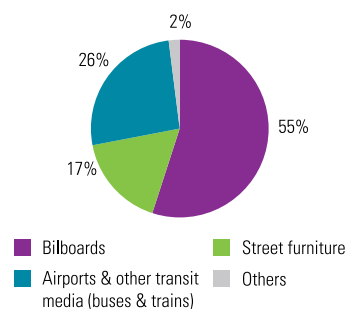
Formats

Billboards appear to continue as the medium of choice. Though this may not change for a while, one can see the overall percentage of spends on billboards reducing over time.

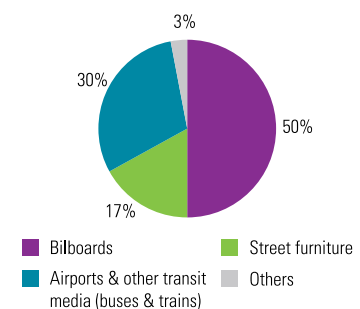
Revenue split by various formats in 2009



Revenue split by various formats in 2010



Revenue split by various formats in 2011



Source: KPMG in India analysis and industry interviews

Airport and other transit media have seen growth and as people spend more time out of home, advertisers are investing more at malls.

Further, there have been various new formats that have evolved; smaller format ambient medium, transit medium, etc. which are increasingly being used to customize and localize a brand's communication needs.



Transit and digital segments are emerging as new levers of growth for the OOH medium in India. Cost-effective innovation, research and interactivity should help the industry increase its share of the ad pie. More traction is, however, warranted in the supply of high quality OOH media assets

- N. Subramanian
Group CFO
Entertainment Network (India) Limited



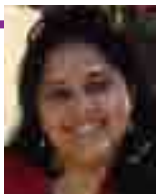
“ 2011 was a year which saw decline because two major industries sat on the fence: Telecom and BFSI and I think the trend will continue this year too unless all the stakeholders: media owners, specialist agency and advertiser come together and address the issues which are hindrance to the growth of industry: transparency in dealings and measurement. The regulators have to be enablers of outdoor industry ”

- Sanjay Pareek
CEO
Percept Out of Home



“ OOH advertising in India continued to tease in 2011 – flashes of great work but largely a continuation of the same old story – great potential unrealized ”

- Indrajit Sen
Executive Director, IOAA and
Independent Consultant



“ Regulation issues and non renewal of licenses in time by the local governing bodies has caused tremendous anxiety amongst the media owners. We saw a lot of tension due to these issues in specific markets and yes for a limited period business did suffer in these markets.

On the business front we saw our telecom clients drop spends by as much as 50 percent. Normally one of the biggest spending categories, their withdrawal from the media for some periods was a cause for concern. However, there were lessons we learnt from this and our client portfolio by year end is certainly much more diversified ”

- Sonia Lal
Vice President,
DDB Mudra Max

Standard operating procedures

Absence of regulatory involvement has always been a concern for the industry but ironically, changes made to the Service Tax law indirectly helped the industry come together - 2011 witnessed efforts by the Indian Outdoor Advertising Association (IOAA) to introduce 'Industry best practice' through the introduction of standard operating procedure (SOP). The SOP attempts to define all business and commercial interaction between OOH media companies, OOH advertising agencies and clients including an outline of the deliverables, payment cycle and monitoring mechanism from a compliance perspective.



“ The SOP outlines deliverables at each stage, specifies credit periods and also provides for measures to curb non-compliance or violations. Minimum display period has also been established as have been measures to ensure compliance of new Service Tax Rules that were enacted in the 2011 Union Budget. Implementation has started in all earnestness in most states. Both media companies and agencies are modifying or installing new business process software to comply with the SOP. Although implementation is slow, broad acceptance of the urgent need for a transparent and industry-wide common process is definitely a very significant step in the right direction ”

- Indrajit Sen
Executive Director, IOAA and
Independent Consultant



Lack of measurement – is it a buyers cliché?

Lack of metrics for impact measurement is often quoted as the biggest challenge facing the OOH industry. Efforts to improve measurement of the medium help, but standards for measurement fall well below those for other media. Although the absence of measurement does not prevent many advertisers from using the medium, it hinders efforts to bring more advertisers, as many consider quality measurement to be a pre-requisite for allocating budgets. This has left all stakeholders unsatisfied – Brand managers are unable to display ROI's to the CEO leading to OOH being the residual recipient of media spends, specialist agencies have a difficult time in justifying the cost leading to lower creative content and media owners are unable to justify spends to create better media assets.

Industry players however believe that lack of measurement is really a buyer's cliché as, more and more asset owners and specialist agencies have over a period, developed in-house tools and monitoring mechanisms that will be convincing to the advertiser. A strong awareness and education initiative by the industry will certainly help address the questions of measurement.

We understand it is the intent of the Indian Outdoor Advertising Association to conduct a census of all OOH displays in the country, organize periodic monitoring of all sites to note which brand/category is on display and to publish a fortnightly ADEX on the lines of the same for Print, TV or Radio. IOAA intends to place the Census data in public domain through its website.

Deal activity

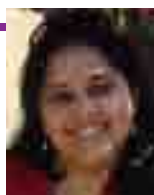
Year 2011 saw two major consolidations in the industry – Lintas buying Aaren's stake in Aaren Initiative² and Selvel buying the stake of Outdoor Advertising Professionals (OAP) from Rediffusion³.

Out-Of-Home but not Out-of-place (Looking forward)

The year 2012 is expected to be challenging as India and the rest of the world prepare to face another slowdown brought about by the European debt crisis, rising fuel prices, depreciating Rupee, among other factors. This will put a lot of pressure on ad spends but OOH, which is comparatively an inexpensive mode, stands a lot to gain if the industry can aggressively promote itself, its ROI and act in concert on the issues.

Infrastructure development thrust in India provides larger potential in terms of available avenues - more roads, more buildings, airports, stations, markets, malls etc. The conventional outdoor medium, is now shifting to the infrastructure support industry—such as street furniture (directional boards, street signs, benches, light poles etc) and transit media (airports, trains, buses, metro rail, taxis etc) to look for growth.

Having seen the huge potential of the medium, and the opportunity in PPP and BOT, organised players like Times OOH, Reliance's Big Street, Laqshya, and international players like JC Decaux, Stroeer etc have jumped into the fray early and have managed to gain a considerable share of the Indian OOH pie.

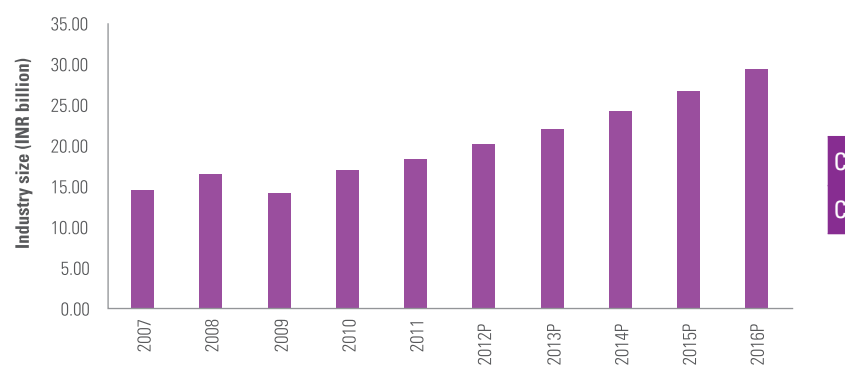


“With recent infrastructure developments, and the entry of larger players- both national & international as asset owners, the quality of media on offer has seen an improvement and as a result we have witnessed an emergence of transit media as a client-preferred medium. Standardized media, better traffic details, quality and maintenance, all contribute to this medium becoming one of the most sought after media today. Bangalore, Chennai and Hyderabad metros are eagerly awaited”

- Sonia Lal
Vice President,
DDB Mudra Max

OOH industry size (INR billion)	2011	2012P	2013P	2014P	2015P	2016P	CAGR% (2011-16)
Outdoor	17.75	19.53	21.48	23.63	25.99	28.59	10.00%

Source: KPMG in India Analysis and industry interviews



Source: KPMG in India analysis and interviews

CAGR 2007-2011	6.15%
CAGR 2011-2016	10.00%

02. The Hindu Business Line, Mumbai 9 November 2011

03. The Hindu Business Line, Kolkata 17 August 2011

The digital platform, that plays a very important role in the OOH industry worldwide, is still at a nascent stage in India, but evolving. The advent of inexpensive digital displays and cheap-to-connect networks has fostered an expansion in the number of outdoor surfaces available for commercial messaging which is inherently more flexible (in terms of time-of-day targeting or altering creative content) than historical applications of outdoor advertising. Further, these trends have enabled suppliers to develop inventory in new environments—new stores and more rural areas—much more cheaply than ever before. Interaction with mobile devices, especially with short code messages, has made the medium more engaging for consumers as well.

It is expected that Technology will be increasingly used to drive the media and help innovate e.g. the Nokia advertisement at the Delhi airport which used a combination of static and digital to create a mobile LED phone structure which targeted the international and domestic arrival audience.

Currently, OOH spend is around 5 percent⁴ of the clients' total advertising spends; it is hoped that this figure will rise over a period of time as marketers realize the full potential of this medium and bring about a mindset change from considering OOH as one of their last resort in the media plan.

The OOH sector is projected to grow at 10 percent over the next five years and reach a size of INR 28.59 billion by 2016.⁴

Way forward

OOH advertising has suffered on account of the downturn, but the potential of the medium can be leveraged only if the challenges are addressed by the industry. The innate strengths of OOH, being a local medium and having a lasting impact, are likely to foster continued interest from the advertisers.





10

The Emerging Picture

Technologies impacting the Media & Entertainment industry





The Emerging Picture

Technologies impacting the Media & Entertainment Industry

10

Introduction

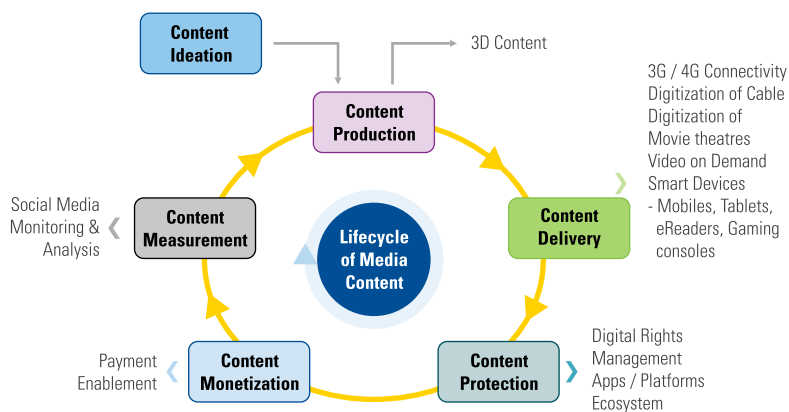
The ever-changing, ever-growing world of technology is often overwhelming to the most technologically savvy media enthusiasts. In the past few years, technology has penetrated each and every aspect of the media value chain and media companies are eager to harness latest innovations.

Smartphones, tablets and now even smart television sets provide interactive applications to users which enable cutting edge services like live streaming through the Internet. Gaming consoles today are more powerful than yesterday's mainframes. Users can now rent movies on demand with the click of a button without moving an inch from their couches. Movies, television shows and even songs become popular on social media platforms before they hit mainstream media. With such disruption brought about by technology, content owners and publishers should understand these technologies in order to assess their impact on business and take an informed stance on their usage.

The purpose of this chapter is to touch upon some technologies impacting media content at various stages of its lifecycle and highlight the aspects relevant to stakeholders.

Some of the technologies that are leaving their imprint on the media sector are: 3D technologies, content delivery transformations such as 3G and 4G, video on demand and smartphones / tablets, Digital Rights Management ("DRM") and emerging closed platforms to protect content from piracy and theft, different technology options to collect payment from end-users for sale of media content and technologies which can help content publishers track and measure their social media forays.

Life cycle of media content



Source: KPMG in India analysis



3D Technologies

3D technology has been around since the early 19th century and the recent advancement and development of this technology is only making the adaptation magnetic for the consumers. With the rise in 3D content, 3D devices are coming into existence and have positioned 3D as the next potential technology to transform the viewing experience. The 3D market is not only evolving in the form of theatrical releases and 3D televisions; but also in the form of 3D gaming, 3D cameras, 3D printers and 3D phones. Recent launches of 3D movies and 3D games are fueling the 3D device industry, with the demand for viewing 3D content at home, and the rise in 2D to 3D remastering, 3D capabilities are entering almost every content viewing device.

The major hurdles in adaptation of 3D technology among consumers are the expensive devices along with lack of content and standardization. Besides these stumbling blocks, which continue to portray a chicken and egg situation, one of the chief obstacle faced by viewers are the 3D glasses.

3D technology today is going through a stage of transformation from being in its adolescent stage to maturity trying to overcome these challenges and hurdles which have been obstructing its penetration in the markets and hence, with these constraints posing as a hindrance, is 3D the next big thing or not?

The 3D Eco-system

The human brain perceives a 3D image because the left eye and the right eye focus on an object from 2 different angles. Creation of the 3D content also utilizes the same principle. In order to create 3D perception for the human brain, a 3D camera has two lenses placed parallel to each other and at a distance approximately equal to that between a pair of human eyes.

3D was conceived with the help of the instrumentation of a stereoscope which enabled a viewer to see two separate films at right angles to each other as a single 3D film. This basic principle was further enhanced and developed to produce 3D content making the viewing experience more superior. Hence, currently the film makers are interested in not only producing 3D films but films that are digital and are being projected in the High-Definition format. The revolution in the 3D technological space was the invention of the IMAX 3D format and the introduction of animation technology and digital cameras contributed to the stereoscopic production and screening¹.



By 2014, glassless 3D technologies might start hitting the market in larger numbers and by 2015, industry will conclude that 3D viewing does not require 3D glasses //

- Vijay Mukhi
3D Evangelist

1. IGN website, Article: History of 3D movie technology, Date: 23rd April 2010
(<http://www.ign.com/articles/2010/04/23/the-history-of-3d-movie-tech>)

Forms of 3D content

Areas	Description
3D Movies	A 3D motion picture enhances and creates an illusion or depth perception for the viewer
3D Imaging	3D images can express articulate details and can prove to be more attractive and eloquent.
3D Printers	The process of creating 3D objects from digital file using a materials printer, which is similar to printing images on paper, where an object is created by laying down successive layers of material
3D Gaming	The concept of 3D gaming is similar to the one used in the movies, where the player wears the glasses to see the 3D effect. High definition monitors are used with powerful graphic processors

Source: KPMG in India analysis

3D movie content is increasing by the day which includes a variety of films like: The Adventures of Tintin, Cars 2, and Pirates of the Caribbean: On Strong Tides, Puss in Boots, The Three Musketeers, Tangled, Step up 3D, Avatar, etc.

Production of 3D content

The budding 3D content and libraries in the industry is a result of the technological innovation in the production of 3D content. Creation of 3D content, today, is an extremely expensive affair and hence, alternative methods of creating content are being exploited to make content creation cost-effective. However, today, there are two main methods of creating 3D content:

True 3D content creation

3D cameras utilize two lenses to capture a parallel view of the same image from two angles. This image is then reproduced on the screen and must be viewed using a set of 3D glasses. Greater the distance between the two lenses of a camera, greater is the 3D effect.

Another important feature in shooting 3D content is the angle of convergence. 3D camera lenses are aligned in a manner which results in a picture where objects appear in front of the screen. A stronger 3D image can be created by converging the camera lens slightly inwards.

Animated 3D movies are produced with aid of an object modeling software which was established by Pixar with the making of Toy Story². Characters are developed with the help of the software along with increased use of 3D printers. 3D cameras capture the images of a virtual environment by rendering two different images with two virtual cameras placed at a certain distance apart. However, the actual difference in the depth is translated into the perceived difference depth by the viewer by dynamically changing the parameters of the camera.

2D to 3D conversion

The second approach being used by the industry to create 3D content quickly is to convert 2D content to 3D content through a software. The software analyses each frame and adds depth to it through programmatic analysis.

3D content is shot using 2 cameras simultaneously, while 2D content is originally shot using only one camera. The process of adding depth to the 2D picture is perceived as vicarious and hence critics of 2D to 3D conversion believe that content converted from 2D to 3D will never give the viewer an authentic 3D experience. However, these reservations have had little impact on production houses who are aggressively commissioning conversion of large volumes of their 2D content libraries to 3D formats.

Technologies for viewing 3D

There are two main methods of viewing 3D content in vogue currently – active 3D and passive 3D, while the technical difference between these is explained below, one important aspect to note is that passive 3D is currently extremely cheap compared to active 3D; however if usage of 3D content grows, one might expect the price of active 3D viewing sets to fall also which should, given the superior experience delivered by active 3D, making active 3D the de facto standard.

Active 3D glasses

3D glasses are used in order to view 3D content on a 2D pane. Active shutter-glasses are actual LCD screens that dim and brighten the left and right eyes lenses alternately. This enables the human eye to perceive a stereographic picture or 3D picture of the content presented on it. They rely on the infrared signal emitter on the 2D pane which indicates the dimming of the lens.

Active 3D glasses are expensive in nature and heavy in terms of weight. Further, they require to be charged after a particular time of usage just like other electronic devices. They have also proven to be uncomfortable for wearing for a longer duration of time as they disrupt normal vision when the viewer might be focusing away from the 3D image.

2. The Wired Magazine, Article: How Pixar Built Toy Story 3, Date: June 2010
(http://www.wired.com/magazine/2010/05/process_pixar/all/)

Passive 3D glasses

Passive 3D glasses are a pair of specially designed polarized glasses which block out light equally from both the eyes giving an illusion of depth. These glasses do not rely on electronics unlike active 3D glasses. Passive 3D glasses traditionally had the red and blue panes but these tinges are technologically outdated.

Passive 3D glasses are comparatively cheaper than the active glasses and lighter in weight. These glasses are being used in larger numbers and their lower price has resulted in increasing sales and hence a boom in popularity of 3D. However, Toshiba is planning to emerge with 'no-glass' 3D devices which will eventually overcome one of the major constraints for viewing 3D³.

Challenges faced

Lack of standardization

One of the primary challenges faced by the industry – whether it is 3D content production, manufacture of 3D devices or storage of 3D content – is the lack of established standards. In early days, there were a variety of proprietary and free file formats and there was a lack of good 3D editing software. These challenges are being overcome now with 'mp4' emerging as the de facto storage format and technologies being available to capture 3D content from cameras natively in mp4 format; most editing software also conforms to the mp4 format.

However, in terms of 3D viewing some manufacturers are putting their gold behind active 3D devices while other siding with passive 3D owing to the advantage of offering 3D devices to consumers at low prices. Hence, 3D content that can be viewed on one brand's television using its active 3D glasses cannot be viewed using another brand's 3D glasses and vice-versa.

Another debate is between 3D glass based and glassless 3D technologies (available on select mobile phones and laptops) – this debate is at a premature stage with the stakes not settling on either side.

The consumer caught between varieties of options to view 3D content is taking a cautious position not investing heavily in expensive 3D gadgets and preferring to go to the nearest multiplex to watch the latest 3D movie.

Lack of content

In order to boost the inclination of viewers towards buying 3D enabled equipment, an extensive library of 3D content needs to be available to them. So far, the industry has not created substantial 3D content. In spite of the announcements made

by the industry on the expansion of their 3D libraries, there have been gradual improvements over a period of time. Further, while the industry is investing heavily in conversion of historical 2D content to 3D, there are concerns over the quality of output being generated by this transformation.

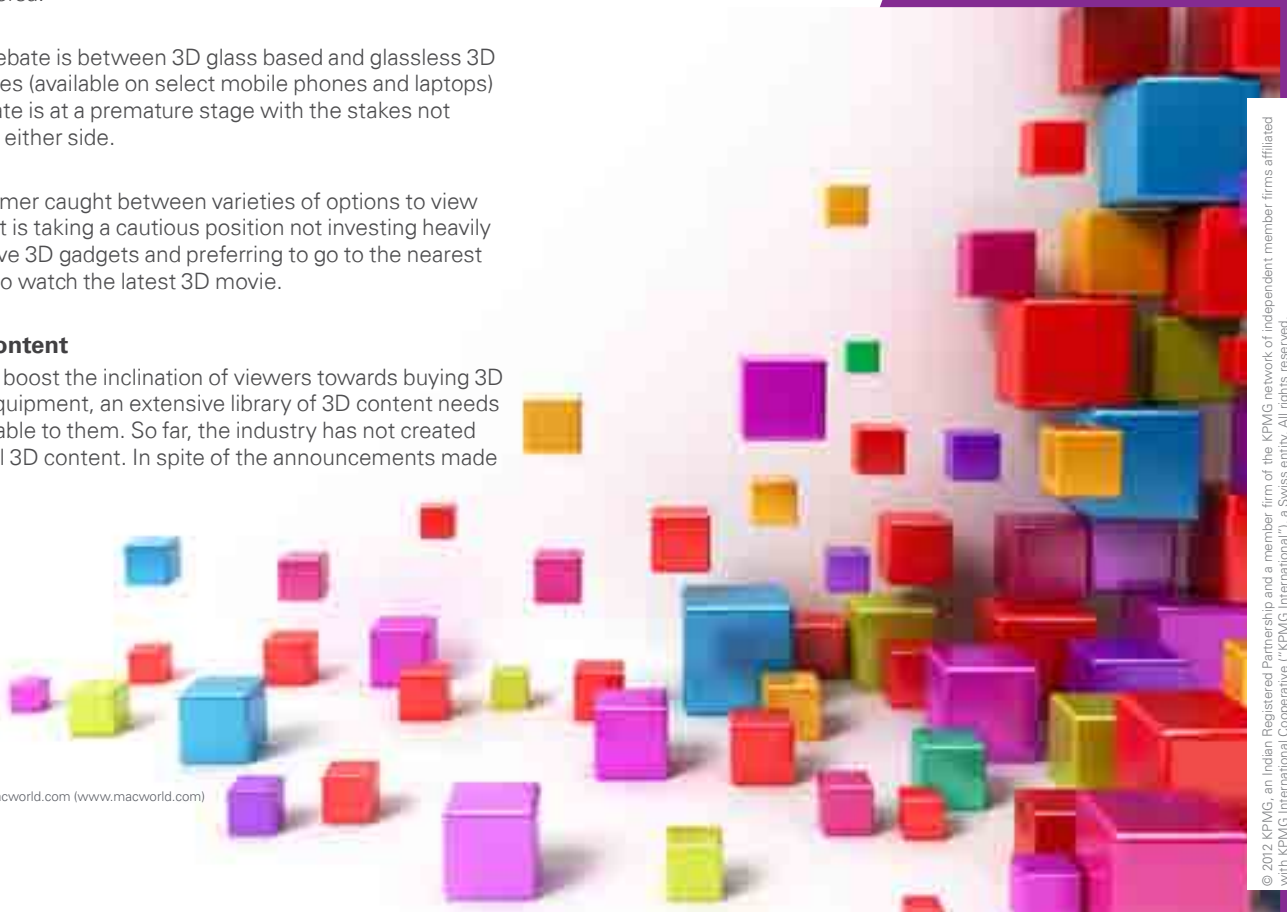
Cost of devices

3D Televisions which have come to surface recently, have proven unsuccessful to penetrate the markets due to high cost and the unwillingness of consumers to adopt 3D technology. The requirement of exclusive 3D glasses for each viewer also adds to the cost of having a 3D device.

Resistance to change

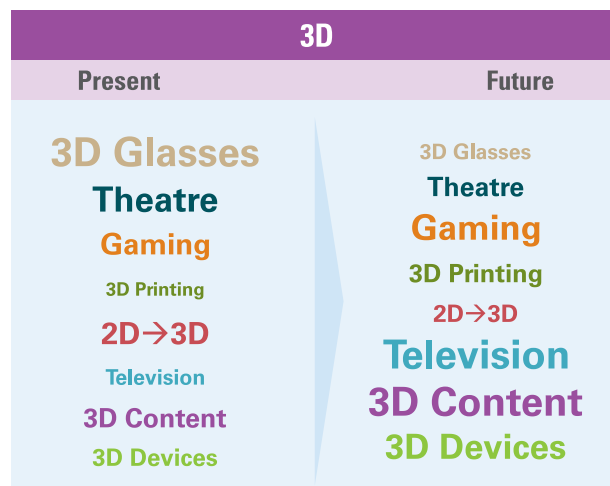
3D requires a different ethic for viewing of content – A 3D television needs to be viewed at a certain distance and from a certain angle and each viewer should use individual 3D glasses. This often makes viewing 3D content unsuitable for a family viewing experience. Also, viewers do not wish to wear glasses for an extensive period of time. According to the Nielsen & CTAM study 'Focusing on the 3DTV experience', 89 percent of the consumers dislike the concept of wearing 3D glasses to view television as it hinders multi-tasking while watching television. Consumers also refrain from the idea of a 3D television due to the rumors regarding health related issues caused with constant 3D viewing. Delivery of 3D content through digitization or DTH services is a challenge by itself in the Indian consumer market due to the restricted capacity of the bandwidth in the country, making the concept of viewing 3D at home a difficult task. This also demotivates the viewer to invest in a 3D device.

3. Website: Macworld.com (www.macworld.com)



Future of 3D technology

3D technology is gradually maturing and with 3D content on the rise, the major constraints are being conquered. Content owners and creators are definitely looking at adopting the 3D technology to make viewing a wholesome experience. Manufacturers of 3D devices are also looking at standardization in 3D formats and cost of 3D devices such as televisions and phones are set to fall making 3D enabled devices affordable to the common consumer. Innovations such as glassless 3D should also make 3D viewer friendly.



However, most of the above issues impact the home entertainment segment rather than cinemas and multiplexes. But the pace at which the technology sets in is still a matter of concern; hence the future of 3D is yet unclear. The lack of 3D content on television and potential resistance to change in viewer habits might mean that 3D television too may take longer to become a norm; however 3D gaming, which is an extremely 'personal' experience, looks to be set to surface in the near future.

In conclusion, 3D is an inevitable force which shall if not in the near term, shall surely become a success story in the longer term. Industry bellwethers putting their money behind 2D to 3D conversion surely believe in this future – with time as content matures and grows in volume and 3D enabled devices become cheaper the adoption of 3D will become a self fulfilling cycle.

Content delivery

'The Internet has transformed the way media content is delivered to consumers' is an often repeated cliché, but no text on emerging technologies in media and entertainment sector would be complete without touching upon the latest developments in the space of internet and mobile. When it comes to delivery of content there are several new and old technologies and developments which have come together in the last few years to transform the way media is consumed.

Delivery of content through the data networks is all set to get a boost with imminent 4G rollout, while at the same time cable networks in the country are rapidly moving towards digitization with the regulator having set a deadline of June 2012 for metros. Major developments in the area of digitization of single screen theatres and multiplexes wherein movies are streamed directly via satellite to the theatre resulting in cost savings and logistical complexities of physical print delivery.

Further, Video-On-Demand (VoD) services are being rolled out through a cross-section of services from DTH to IP based networks. It will be interesting to observe how the digitization of cable networks would impact growth in VoD. Last but not significant is the emergence of new toys on the block – tablets and smartphones which are fast replacing television and radio sets as the primary last mile enablers of content delivery.

In this section, we look at these technologies and their impact on media and entertainment sector.

Data networks

3G has played a significant role in improving the distribution, penetration and popularity of media content supported by the mass infusion of smartphones and tablets. 3G offers a speed of several megabytes, however in terms of connectivity in remote locations 3G has faced teething troubles with many users claiming speeds lower than that promised. 3G usage also led to higher handheld battery power consumption.

As investments in 3G infrastructure increase, 3G penetration will grow over time. This will result in the fall of 3G prices creating a self fulfilling cycle for demand of 3G.

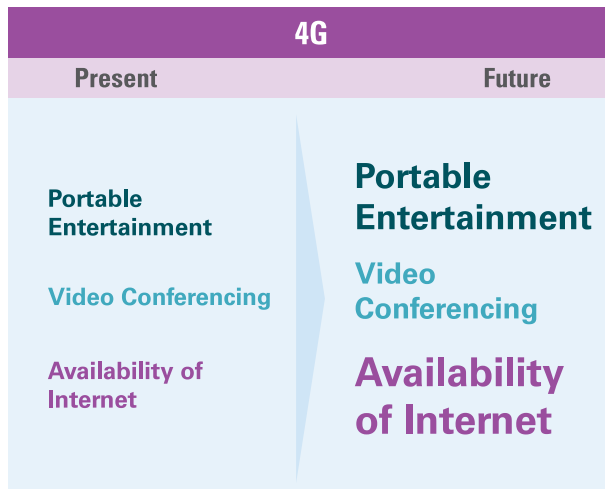


Imagine you drive a car that only runs on high speed petrol; you often would be left thinking if the effort spent in locating a petrol pump that delivers High Speed Petrol is really worth the efficiency it delivers? A similar problem is being faced by devices which try to locate the nearest 3G tower and hence drain their batteries faster. This will get addressed as 3G infrastructure improves

- Ankit Vengurlekar
Renowned blogger and gadget reviewer

LTE (Long Term Evolution) and 4G, the successor to 3G offering is expected to provide extreme data transfer rates, seamless connectivity and smooth handovers especially for High Definition (HD) content. The primary difference between 3G and 4G is that 4G is an all-IP (Internet Protocol) packet switched technology – which means unlike traditional wireless technologies which were designed for voice communication first and retrofitted for data transfer, 4G has been fundamentally designed for data transfer; voice traffic if at all available over 4G networks will be carried as a data packet similar to the way VoIP phone calls and Video chatting software work on the Internet today.

Outside the office automation space, 4G will accelerate the video and audio streaming market. Traditionally, streaming HD videos require high speed broadband networks which are currently available only in developed countries. In the past few months, streaming services have also been integrated into tablets and smartphones. However, the quality of streaming media delivered is relatively low and requires the user to allow for buffering in-order to view the content. A 4G data network is expected to enable near real-time high definition video and audio streaming for a higher-quality entertainment experience on such devices.



As large number of users move to accessing media on their phones, several avenues of distributing media will have to emerge to cater to this large population – streaming music and video services, legal music download avenues, secure payment platforms etc. While 3G and 4G lay the foundation for the future of wireless media content delivery, the other pieces of the jigsaw also need to fall into place for India to emerge as a mature media and entertainment market.

Digitization of cableTV

Television is one of the major mass media of India, with thousands of programs across Indian states ranging from national language to regional ones. Cable reaches millions of homes with analog connections; also Digitization along with DTH has added to the numbers and powered growth in the past 3 years.

Digitization of networks is not just about better quality of content as most people tend to believe, the more important aspect of digitization of cable networks is the addressability of individual homes. When each subscriber can be 'addressed', it is possible to deliver targeted content such as video on demand directly to the homes. In addition higher capacity of digital distribution channel is also likely to facilitate greater investments by broadcasters toward niche, targeted and HD content. All the above will have a direct impact on diversification of revenue streams for cable operators and other associated players.

Similarly, set top boxes with enhanced capability to provide TV apps or gaming services through the internet shall emerge. Technologies such as Slingbox already exist which can allow users to remotely view and control their home cable, satellite, or personal video recorder (PVR) system from an Internet-enabled computer with a broadband Internet connection.

With the emergence of digital cable, service providers will be able to provide interactive services, because two way communications between the consumer and the cable provider will be possible. Viewers will be able to use multiplayer interactive services such as games where they will compete with other viewers. Educational interactive services will be provided to customers for their children.

Digitization will also help niche channels, which have selected viewers to come up in India.

Digitization of a cable networks shall however require significant investment for digitizing the network, providing set-top boxes to the customers and implementing software to enable interactive services. Precision in addressability of end consumers will also result in payment to broadcasters becoming more transparent. However, cable operators might be forced to absorb investment in the short term as consumers might not be ready to pay for a service more than the current service charges.

Video-on-Demand

In the traditional television delivery mechanisms the user is a passive participant who receives what the service provider offers. However, Video on demand empowers the viewer with the flexibility of viewing content that he/she wishes to watch at the time of his/her convenience. The Internet, DTH and several other networks can be used to deliver Video on Demand services. With the digitization of cable television networks, spread of DTH and IPTV networks, this pay-per-use or pay-per-session, real-time, on-demand concept is being used by countries worldwide.

Video-on-Demand (VoD) can be broadly classified as VoD through a middle platform (e.g. Set top boxes) and VoD through internet. Let us look at the various technologies that can drive the VoD concept.



“ Digitalization of networks will accelerate the pace of digitization and up-gradation of content, to cater to multi-format and multi-platform VoD libraries. With 'digital quality' no longer being a key differentiator, platforms will look to create VoD offerings that will just not be exclusive in terms of content, but provide device-agnostic access to content, within and outside the home ”

- Vynsley Fernandes
Director
Castle Media



VoD on Internet

VoD on internet is one of the most flexible VoD service available and widely used in countries with high speed connectivity. In India, there is lack of proper connectivity; VoD over the internet will take time to develop. Video-on-demand can be delivered over the internet to computers, laptops, mobile phones, TVs and other digital media devices such as mp3 players. However, providing such a service over the internet with the traditional client/server architecture leads to lack of scalability, long startup delays, latency problems, and streaming continuity issues.

As a result, there have been many proposals to provide scalable video streaming services. Current popular video services mainly rely on content delivery networks (CDNs) and local streaming proxies to increase system scalability.

In India, popularity of VoD over the internet has a long way to go. Even though ISP's have started providing higher broadband speeds, there are speed variations faced by most of the internet users in India which affect such VoD services. In the coming future, as service providers improve their internet speed reliability, VoD over the internet will be available to the customers.

VoD through IP Networks

IP networks enable VoD for customers to browse catalog, view trailers, movies and select the desired recording for themselves over a dedicated internet connection. A point-to-point unicast connection is set up between the STB's and the delivering server. With RTSP (real time streaming protocol) the user can be facilitated with native functions like play, pause, forward etc. The most common formats used are MPEG-2, MPEG-4 and VC-1. Security has been a major point of concern in the delivery of the content. The Internet protocol-based platform offers significant advantages, including the ability to integrate television with other IP-based services like high speed Internet access and VoIP.

The IP network also allows for the delivery of more content and functionality. The customer can select from the choices which the telecom, cable or a satellite company have to offer. Content remains in the network, and only the content the customer selects is sent into the customer's home. This frees bandwidth, and the customer's choice is less restricted by the size of the "pipe" into the home. But one disadvantage with VoD over IP Networks is that the customer has a selected set of video content to choose from server. In India, as cable moves to its digitized form, IPTV services like interactive programs and VoD services will be available to the customers.

VoD on DTH

DTH has come a long way in the past few years by showing swift growth. However, with cable TV networks getting digitized, DTH operators are looking at value added services such as VoD to maintain their appeal to the subscriber.

Though DTH service providers call their video service as VoD, there are quite a few differences between real time VoD and DTH based 'Near VoD'. DTH transmits content from a satellite to subscribers directly, as a result, the satellite's transmission bandwidth gets divided. Thus transferring large packets of data in real time, like full movies to customers becomes expensive. To tackle this, DTH service providers usually provide for secondary storage within their set-top boxes. When customers select the movie from the schedule, the set-top box buffers the movie from the satellite and is played out to the customer from this buffered video. Therefore DTH based VoD service is not ideally real time and the customer has to select the time of the movie from the schedule provided by the DTH service provider.

Delivery of content through devices

There was a time when computers were called smart devices and cell phones were 7 inches long and 4 inches thick. Today, smartphones and devices such as tablets can seamlessly connect to the internet, download data, send emails, and enable social networking through apps and through the browser. The user interface of devices is also undergoing changes with touch screens replacing keyboards and gestures replacing button press and location based information enable applications never thought before.

In addition to enabling new applications and providing ubiquity, mobile devices have also accelerated the usage of Cloud based applications with data increasingly being stored on the Cloud and content / data streaming applications on the rise. Further, mobile devices enable data sharing in innovative forms such as location based apps or pin-up photographs, interactive reading etc.

Increased use of social media also opens new avenues for sale and advertising of content, sharing of pre-release content on video sharing platforms, allowing artists and companies to leverage crowd-sourcing capabilities.

In the beginning of 2010, Apple unveiled its revolutionary iPad, which changed the way we saw the future of computers⁴. However, with the launch of the iPad, several companies went ahead and launched their own 'Tablet computers'. The popularity of Google's Android OS, has bought tablets specifically designed for different segments of the market⁵. Today, Android tablets are competing with the iPad, though both stand winners in their targeted markets.

Amazon's had launched Kindle⁶ even before the iPad which was followed by Barnes and Noble's Nook⁷. Based on an elnk technology that doesn't strain the user's eyes, these eReaders are on their way to transform book distribution. Amazon has subsequently launched different versions of the Kindle - with a keyboard for typing, with a touch screen, miniature Kindle for easy portability and the Kindle Fire, which is a tablet designed for reading books.

Another area for content delivering devices is gaming devices such as Sony's handheld version of the Playstation. The Playstation Portable (PSP)⁸ launched in 2004 is also a success story ever since it was unveiled at the E3 expo 2003. In Feb 2011, Nintendo also launched it's '3DS' gaming console as a glassless 3D gaming console⁹. Nintendo's success in Japan and other markets worldwide was also because Nintendo had a set of its propriety games available to Nintendo devices since the era of Nintendo's Gameboy consoles. Nintendo re-launched these games for its new device '3DS' to regain its share of the market. Nintendo recently unveiled its 'Wii U' console which is the next step after the success of Nintendo Wii, a movement detection gaming console¹⁰. At the CES 2012, Razer showcased its new windows based gaming tablet called 'Fiona'¹¹. The tablet's hardware packs an Intel

Core i7 and a dedicated graphics processor, which gives the tablet full PC games compatibility. Razer plans to launch its Fiona tablet by the end of 2012. Gaming tablets are the future of handheld gaming, and will soon have their own share of the market.

Design innovations

Unlike their predecessors - the PC's - tablets are not just becoming more powerful and interactive, but they are ushering in innovation in design and usability, making 'form factor' a cool term all over again. The Samsung galaxy note¹², Sony Tablet P¹³, Asus E Pad Slider¹⁴ are a few examples. The Galaxy note is a tablet and cell phone hybrid, giving users a utility for both the devices. Sony Tablet P is a folding 2 screen tablet, which enables the users to use the 2 screens for a variety of purposes. The Asus E Pad slider is a tablet with a sliding keyboard. Traditional laptop users find it hard to type on the touch screen, and thus Asus launched its tablet with a full QWERTY sliding keyboard. Most of the market leaders in the tablet business are going after innovate designs for tablet computers. Innovative designs will make tablets useful to customers who are looking at a specific need. Apart from that it gives an edge to the usual tablet computer. It makes it different and appealing to the user, therefore in the near future tablets will be more innovative, creatively designed, catering to specific needs

The future of devices

Even today in India, the lower segments of the market are using old, black and white cell phones. But the future will change the entire scenario, with the smartphones rapidly replacing old phones; good mobile phones will be available in the same price as the black and white cell phones are available today. Similarly, tablets will become more powerful and will be used in place of a laptop. With the customer using multiple devices, there will be a need to sync them together; the only way to enable this will be through a multiplatform operating system (OS).

In the coming years, we will have one operating system which will run on all devices. Convergence will take place on the level of the operating system, leading to easy sync between multiple devices, be it your cell phone or your computer. With such OS level convergence, even televisions will have an OS, which will enable the user to use applications, play content stored on another device on the television. The television will become an interactive device having full integration with other devices. OS level convergence will also bring ease of use and uniformity in the future devices.

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QR Code as a distribution mechanism

For players planning to set up their own distribution platform, QR Code is an emerging way to redirect users from offline / online referral points such as newspapers, magazines, other websites or even CD covers etc to the online platform.

A QR code is a Quick Response code which is similar to a barcode. A barcode can store 20 numeric digits but a QR code can store thousand of alphanumeric characters to hold information. In a conventional 1-D code, data can be stored only in the horizontal strip. A QR code is a 2-D code, which means information, can be stored in vertical as well as horizontal directions of the strip. QR code readers are available in mobile devices, in the form of applications.



Every QR code has a scanned service type, which is embedded within the code itself. The service type is of the kind that it could either redirect to a website or it could provide the URL of a certain media file. This code tells the mobile device what to do once the QR code is scanned. This QR code can be used to connect people with multimedia digital content and can be very profitable for businesses. To connect people

with digital content the QR code encodes the information of the URL in it. The information is embedded in the rectangular 2-D strips. Once the mobile device scans a QR code, the user is redirected to the URL. Though this concept was initially created for the automotive industry to track vehicles, it has a wide variety of applications including redirecting for maps and pinpointing locations.

QR codes are also used for marketing, as they contain the URL of the product website. The customer simply scans the code and is taken to the seller's website. It is a beautiful way to display a link, and is used by many upcoming websites and blogs for promotion. The conversion of a web link to a QR code is done by simple online tools now days. The QR code once created can be printed on almost anything to attach a brand website link, or a number to the product.

Note: 'QR code' is a registered trademark of DensoWave Incorporated. The word 'QR Code' and the image have been used in this publication for representation purposes only)

DRM: Moving from technology play to an ecosystem

Content publishers have been in a love-hate relationship with 'Digital Rights Management' over the last decade. DRM or Digital Rights Management is not just one technology but a set of technologies which enables the creator or seller of digital media to control or track the movement / distribution of content, even after it has been sold to the end consumer.

DRM technologies are used to implement restrictions over the content to prevent it from proliferating beyond the intended use; restriction over the number of downloads, restricting the usage, limiting the usage to a number of days, restricting the installation of the software to a few computers etc. Advanced DRM technologies also allow monitoring the movement of content, once sold to the buyer.

However, increasingly content publishers are moving away from pure DRM technologies due to the realization that DRM interferes with the patrons' experience and also restricts sharing on content, thus limiting the popularity of the content in itself. Instead, publishers are increasingly relying on new methods of protecting and monetizing content such as releasing it through mobile applications which allow sharing of content but restrict copying or piracy of content. Ecosystems are emerging as the potential solution to the problems, which traditional DRM were expected to resolve.



Three major drivers which will drive the music industry will be Mobile radio (through Internet), consumption of videos and innovative applications with a basic assumption that the internet connectivity through cell phone will improve dramatically

- Apurv Nagpal
Managing Director
Sare Gama



This section briefly discusses traditional DRM technologies and the emergence of the Ecosystem as a potential replacement to DRM.

Overview of DRM technologies

DRM Concept	Used In	Key Players/Technology
Streaming websites use a DRM technology that prevents the embedded video from being downloaded directly.	Streaming Video, Music available on websites	Adobe's 'Protected Streaming' is a DRM scheme used by Hulu Desktop player, RTE Player and other popular Audio/Video on demand websites. The streaming content is encrypted on the fly, by the flash media server. The file is decrypted through the use of keys before the content is played.*
Subscription based restrictions on streaming media content.	Video, Music	The content stream contains a code, which makes the video run only once for every subscribed user
DRM for DTH	Video	NDS provides a digital encryption system called 'VideoGuard' to be used by satellite television systems. It encrypts standard television channels and pay per view movies. In India, leading satellite TV providers use VideoGuard.**
DRM schemes to prevent the data from being ripped off the disk. The user will have to play the disk, every time he has to view the content.	Movies (Video), Music	ARccOS DRM scheme used along with a content scramble system (CSS) intentionally induces corrupted data to certain sectors of the DVD, which prevents the ripping software to read the disk sequentially and it is unable to duplicate the disk's contents.***
BluRay DRM, where the content is encrypted on the disks to prevent it from being ripped.	Movies (Video)	Advanced Access Content System (AACS). The AACS encrypts the data of the disk under one or more title keys. While playing the disk, the BluRay player uses the key stored within the disk to decrypt the data.****
Device and Platform based DRM Ecosystem	Video, Music, any other media content	Apple's Fair Play DRM ecosystem enables video/audio content to be played only on Apple's devices. It also makes sure that content can only be synched via iTunes (Platform) into any Apple device, and it prevents reverse synching from these devices, thereby creating a secure ecosystem for its customers.
Reader based restrictions.	eBooks	Amazon and Barnes & Noble publish their eBooks in a format which can only be read by specific readers, also prevents printing, copying and pasting of selections outside the reader's own apps, essentially encasing the book within the reader, thereby preventing the user from sharing the eBooks.
Fingerprinting technologies which inherently do not protect the content from being shared but provide a means to trace it back to the source.	eBooks	Microsoft's Reader inscribes the name of the original buyer on the eBook to discourage illegal sharing. So, if an eBook copy is found online, it can be back tracked to the buyer from whom it would have potentially leaked.*****
Preventing piracy by ensuring that the program runs using the original disk only.	Computer Games	'SafeDisk DRM technology' which prevents copying of the gaming disk, and also ensures that the game is played with the original disk only.*****
Continuous Authentication of the content through the internet, as the user runs the content on his computer.	Computer Games	As the user plays the game, in the background it connects to the publisher's server through the internet, and re-authenticates the user's credentials periodically. A modification to this method is to force download parts of the game components from the publisher's server in real time.

*Adobe.com, 'Flash Access overview on protected streaming.pdf'

** NDS official website (nds.com), Products: Video Guard CA

***engadget -Technology news website (engadget.com) Article: 'Sony copy protection'

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***** 'The Technology of Rights: Digital rights management' by Karen Coyle.

***** CD MediaWorld (cdmediaworld.com) 'SafeDisk 1 to 4 explained'.

Trends in DRM

As seen in the chart above, the existing DRM technologies have tried to prevent piracy of digital content by imposing restrictions on the user. But this procedure to prevent piracy keeps the user unsatisfied of his purchase. The future of DRM technologies are DRM ecosystems and other similar technologies, which will not only secure the content but will make sure that the customer is satisfied. The publisher will provide the content along with the device/software to run it, enabling the customer to enjoy its usage and also protect the content. DRM Ecosystems will protect most of the digital content types, and will be more effective than the traditional DRM technologies.

Apple’s Fairplay DRM¹⁵ is a good example of a DRM ecosystem at work, Apple made sure that all the media content purchased from its iTunes store (except music files¹⁶) has a DRM deployed on it which makes the content playable only through an apple device. This made sure that a device level ecosystem was created. Then Apple designed its devices in such a manner that content transfer to the device from the computer would take place via an application called iTunes. Through the iTunes application apple was able to achieve an application/platform level DRM ecosystem.

Other DRM technologies

Cloud based content streaming services also hold promise for content distribution without being encumbered by DRM restrictions. Content streaming as subscription based services are both affordable to end users and fair to content publishers paying a required royalty for streaming licensed works.

On music streaming, music companies are experimenting with mobile apps which can be used for streaming music. One example is the WorldSpace application launched by Saregama India Ltd¹⁷. The application aims at providing high-quality and variety of genre-based radio channels to the Indian market. The application enables users to enjoy unlimited streaming of music by paying for it through their mobile phone’s ‘talktime’ as a currency / wallet.

Video on demand services, where the customer subscribes to streaming movies use DRM schemes to protect their content from duplication. The content is often stored on the providers centralized servers streamed on demand or even when stored on local set top box storage it is encrypted. VoD services provide affordable packages to the customer who without restriction can view the video for a specific number of times and thus feels no need to duplicate the content. Implementation of DRM in VoD will increase as VoD gets better and affordable especially as content owners start streaming content on cable TV networks. DTH based DRM can be used to put restrictions on the number of times the content can be broadcasted by the VoD provider.

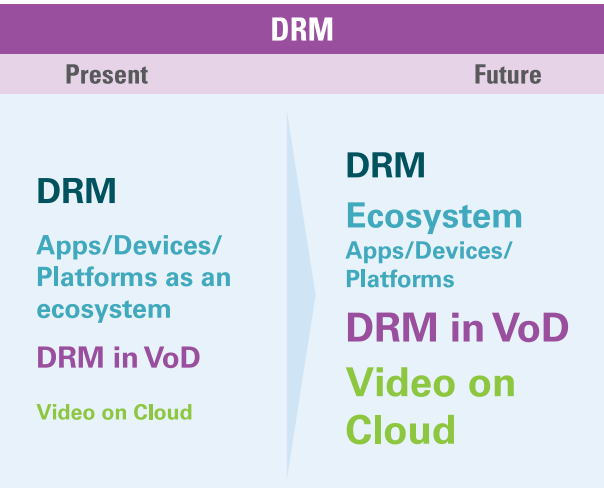
Digital Rights authentication systems like UltraViolet, provide a facility of playing the purchased content on a list of registered devices. The customer purchases movies which are UltraViolet branded; he is then prompted to register a set of devices. UltraViolet allows streaming and playing of the downloaded video content on all the registered devices. This allows the customer to watch original movies on several devices; it also controls piracy, as the downloaded content will not run on unregistered devices¹⁸.

Users experience challenges due to DRM

DRM technologies have been successful in reducing piracy. However, because of its nature to control the usage of content purchased by the customer, it has been a subject of controversy. In the past some DRM schemes have failed the product, and the customers have faced its impact.

A well known eReader company had to delete books from its eReaders world wide because a publisher who sold eBooks for the reader did not posses copyrights for those books. On being notified, the eReader company deleted all the copies of those books from its readers worldwide using the DRM implemented on the eBook reader. However, customers did not appreciate this move of the company and it is also alleged that this was a potential infringement of customer’s rights as per the ‘Terms of Service Agreement’ which stated that customers shall have permanent ownership of the digital content they purchase.

In another case, a music publishing company sold its disks with software that would automatically install in the users computers when the disk was played. The software would interfere with the computers normal functioning and exposed it so severe vulnerabilities which could be exploited by malware. This resulted in several lawsuits being filed against the publishing company, and then the company had to recall all its CD’s, and refund the customers.



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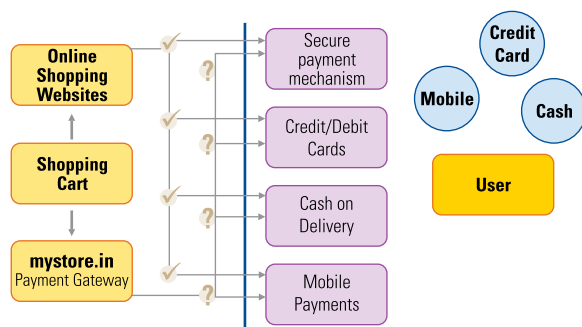
Future of DRM

As personal storage too moves to the Cloud, traditional DRM technologies are set to decline because the content available to the customer, from the publisher will be streamed directly from the Cloud. As customers move away from the hassle of personally storing digital content, the incentive to pirate content reduces.

An example of a Cloud based content service is Apple's iCloud¹⁹. Apple has its iCloud application integrated into all its devices. The purchases made from iTunes can be directly saved to Apple's Cloud. The user can then, listen, view or read the content, from any apple device. All he needs to do is to sign in to Apple's iCloud. Apple has used its device DRM Ecosystem here as well, as iCloud can only provide its services on an Apple Device.

Payments enablement

The traditional media monetization value chain involves the distribution of media through music CDs, theatres, retail and rental stores etc. The rapid advancement of technology however tends to fracture this value chain and paves way for new distribution platforms. The most important aspect of this new distribution layer is the generation of revenue through new online interfaces. However, the method of collecting payments for the traditional and new media formats is considerably different.



While traditional media monetization consists of the payment flowing through established media value chain (ex. Theatres, ad agencies, rental companies, music companies etc.) such a value chain does not exist in the sale of media through new channels such as online sales or online rentals. Therefore for online sales, payment and collections assume importance.

Availability of multiple payment options, seamless user experience and the ability to offer micro transaction capability are keys to enable online payments. This can be achieved in two ways, one being with the help of an intermediary party and the other would be setting it up on your own.

Collaboration with an existing platform

There exist platforms online which can facilitate not only content hosting and distribution but also facilitate payments and remittance of the revenue from the same. These platforms enable content owners to customize distribution channels and provide content owners with a variety of distribution options and offer analytics on consumer insights such as summarized reports of demographics to determine

the engagement level of the audience. The success and failure rate of the content can also be determined at the per unit accessed level. These analytics allow content owners to strategize their focus target segments.

iTunes is currently the leader in online music distribution²⁰ and YouTube the pioneer in the online video distribution segment²¹. Going through a content distribution platform allows the content providers to access their already existing pervasive reach. However, content providers like iTunes and YouTube charge the content owner by either directly charging a percentage from the sales or a fixed distribution cost. iTunes charges a 30 percent distribution cost from the sale of each album or song. That is if the album is sold for USD 9.99 on iTunes, the content provider gets USD 7.00 for the sale. YouTube on the other hand does not charge for distribution but has limitations on the advertising of the content by the content owners. Copyrights are however protected.

Establishing your own platform

Content providers often allege that platforms offer one-sided revenue sharing deals and are unwilling to discuss any modification to terms. Smaller content publishers might also feel that the charges levied are too high for the businesses to generate a reasonable profit margin and hence many publishers tend to create their own distribution platform such as a website or portal and sell the content directly by using a payment gateway. If content producers are interested in establishing their owned platform for the distribution of content, they can set up their own payment mechanisms by using payment gateways such as PayPal, ccavenue, EBS, ICICI Payseal etc.

Online payments gateways come with their own set of security concerns both on the client side and the content provider's end. In addition to inherent security provided by gateways websites interfacing with the payment gateway must also be well secured and must be scalable to handle user requests for downloading / streaming of content and payment requests. Setting up owned content distribution website also requires setting up the necessary infrastructure in terms of servers, storage, networking gear etc. In addition to setting up hosting infrastructure media streaming requires usage of content distribution networks or CDN's which enable seamless streaming of content across the globe.

However, with the emergence of Cloud, many of the above components such as storage or computing and even CDN capability are available as a service from various Cloud Service providers and can be 'hired' on a pay-by-usage basis by the content publisher. IT departments need however to be capable of sourcing the right set of infrastructure and services from service providers for setting up owned content distribution platforms.

Furthermore, as the mobile payments platform is anticipated to be the next pathway for reaching out to the customers, the content owners must consider incorporating the same to distribute their content.

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Payments technologies in vogue

Transition of the number of users from the personal computers to the mobile has been swift. According to Morgan Stanley it took the US 16 years to reach 50 million PC users, however the number of mobile users reached 100 million in the same amount of time²². Moreover, with the availability of the 3G-enabled services, mobile devices will become the primary device for consumption of internet. Hence, mobile / online payments become integral to the payment cycle.

Existing technology solutions have proved to be very helpful in catalyzing this transition. Out of the various technical solutions of implementing payments, the Near Field Communication and the mobile wallet technology seem to be emerging as clear winners.

NFC technology enables your mobile device to act as a smartcard and with the integration of the RFID chip you can make payments wirelessly. NFC complements the former short-range wireless system Bluetooth by making it easier to exchange small amounts of information with a tap. It enables devices to share information at a distance less than 4 centimeters with a maximum communication speed of 424kbps. Since the functionality is highly limited it ensures a secured communication avoiding "sniffing" data. A NFC enabled device can communicate with already present readers and cards as well as with other NFC devices which makes it compatible with the existing infrastructures RFID for payments and public transport.

NFC bridges gaps between existing technologies and devices to enable new applications/services (enabling connections from real to virtual, connections to physical/real world). Visa, the global payments technology company has recently announced the "One-stop" solution that will allow financial institutions to wirelessly link Visa accounts with NFC-enabled devices.²³

The mobile wallet synchronizes credit card accounts to the Cloud and the mobile instrument can factually be used as a wallet. A Mobile wallet allows a user to use his handset as a financial tool enabling cashless payments and money transfers. Being delivered through a private cloud, it creates a shared service framework which allows the members present in the same ecosystem to process payment instructions seamlessly. IT companies are looking to collaborate with big financial and banking institutions to make this platform work.

Mobile network operator, Vodafone recently revealed its collaboration with Visa to facilitate Mobile wallets²⁴. The Vodafone stored value account will be used as a virtual debit card and will allow people to hold and top up low levels of money on their phones which could then be used in stores that accept the new form of payment to pay for goods up to USD 15 in value. Airtel money²⁵, a recently launched scheme, allows customers to use cash in their mobiles for making bill payments (e.g. electricity, gas, financial services) and recharges. Subscribers can also shop for products and

importantly, even transfer money to bank accounts their friends and family. Nokia money, a similar service by Nokia provides for a local authorized Nokia retailer to set up digital cash on the user's phone on payment of cash over the counter. The mobile can then be used to securely settle utility bills, phone top-ups, insurance premiums and tickets among other payments.

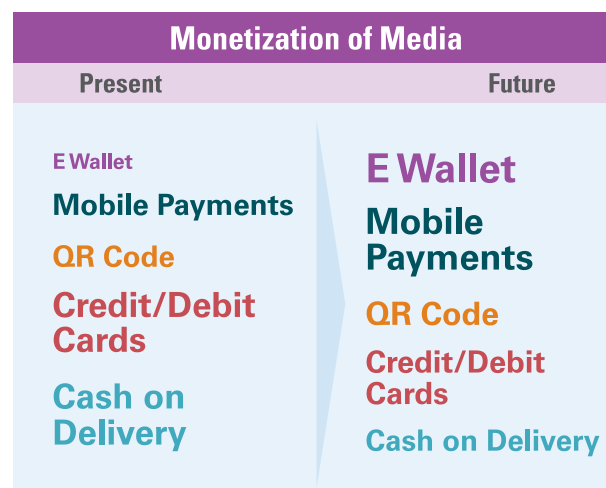
Mastercard²⁶ labs have also undertaken a project that aims to revolutionize the entire payment industry. This project has conceptualized the use of actions and senses to make payments. An individual could buy a song online by making the phone listen to a small snippet of it. Movies could be brought online by making the phone listen to the trailer. Although these technologies require a lot of integration and collaboration, it is not hard to believe that we could see such technology by the end of the decade.

Future of payment enablement technologies

Seen from a customer's point of view paying for content is yet not hassle free and marred with security challenges. The teenager on the block does not yet possess credit cards, but definitely has pocket money to spend to buy his favorite songs or access the internet.

In this context, nimble mechanisms to enable users to pay for content are required. Services like GharPay²⁷ or technologies such as NFC might provide the solution to the problem of connecting the large set of unbanked population to the payment grids.

Media companies however must wait and watch for technology players or financial entrepreneurs to devise innovative ways of enabling bit sized transactions in order to allow sale of content. Until then media companies shall need to rely on existing content distribution platforms such as Saavn or Gaana.com or mobile network operators to act as intermediaries between them and the end customer in order to monetize their content.



22. Morgan Stanley, Report: 'Tablet demand and disruption' (http://www.morganstanley.com/views/perspectives/tablets_demand.pdf)

23. Visa.com, Press releases: 'New Visa Service Provides Secure Mobile Payments' Press release: <http://corporate.visa.com/media-center/press-releases/press1180.jsp>

24. News Paper: Metro, Article: 'Mobile wallet: Vodafone and Visa unveil mobile payment revolution' (<http://www.metro.co.uk/tech/891499-mobile-wallet-vodafone-and-visa-unveil-mobile-payment-revolution>)

25. Airtel Money Official Website.-Home Page (http://airtelmoney.in/vps/wcm/connect/airtelmoney/airtelmoney/home/Pg_Home)

26. Master Card Annual Report, 2010 (http://www.mastercard.com/us/company/en/newsroom/annual_report/Mastercard_AR2010.pdf)

27. Gharpay (<http://gharpay.in/aboutus/>)

Social media monitoring and analysis

Social media platforms aid organizations to know their consumers better. In the media and entertainment industry, where organizations usually find it difficult to trace their actual customer, social media platforms enable them to reach out to them. However, without monitoring conversations and discussions on the Social Media platform, gaining feedback and reviews about the products and services offered becomes difficult.

Broadly, social media monitoring and analysis can be termed as the measurement, collection, and analysis and reporting of internet traffic to ensure maximum optimization and monetization of social media and web usage.

Businesses or organizations require a clearer picture of which technologies can help them optimize their relationship with their end consumers.

The tools broadly used by organizations worldwide for monitoring or tracking of social media are ComScore, Radian6, ScoutLabs, Nielsen Online,²⁸ etc. These tools effectively monitor consumer sentiments, engagement, reach, inbound links, text-mining, vote count or comment count posts and source tags to create a 'social web caller ID' system and segment results for in-depth reporting and analysis. With the increasing usage of social media in all diversified businesses in the world markets, the Social CRM tools can be classified according to their usage and suitability with the kind of business or organization.

Social CRM is often misunderstood as Social Media Monitoring, where organizations monitor their presence on popular social media sites for relevant mentions of their product and brand and react accordingly. However, this is a fallacy. Social CRM is a broader concept which also includes customer communities managed by the organization themselves. Social Media and Analysis however, forms a subset social CRM.

How does this work?

Collection of data

The Social Media monitoring tools require special crawlers which crawl or monitor various social media websites, numerous regional, national and international news sites and plenty more. This Crawler visits the web in near real-time and picks up queries, feedback, reviews or discussions regardless of the languages used.

Cleaning of data

Cleaning data is a very critical and an important exercise in social media monitoring and analysis. The data collected from various websites at regular intervals gives out a humongous output which can consist of inaccurate or irrelevant data. Hence, to avoid manual and time-consuming cleaning activities, these tools have in-built automated systems to avoid spam text, duplicated data, and out-dated data. A special advert and navigation text system is also instilled which specifically focuses on the real content and rule out the irrelevant data.

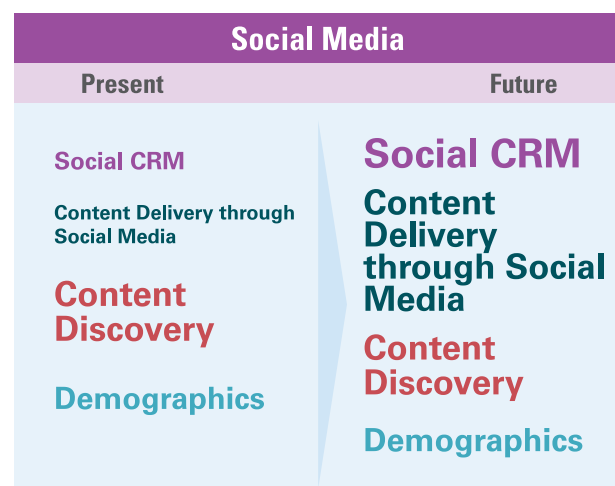
Data analysis

Analyzing data is a very critical and the most important task of the entire process. The Crawler goes through a set of automated set of processes like:

- i. Language detection: The Crawler recognizes the language used in the page; this improves the accuracy of the other analysis processes which enables the customers to filter the data by language
- ii. Title and Content Extraction: The title and the main content of the page is extracted, so that navigation text and adverts do not interfere with the other analysis processes
- iii. Sentiment analysis: Smart sentiment classifiers analyze the mentions and recognize the tone (positive, neutral, negative) of each reference or discussion
- iv. Recurring phrase identification: New recurring phrases are continuously identified with recent mentions, highlighting new or growing trends amongst the online coverage
- v. Cluster Analysis: It involves complex statistical calculations that analyze how certain words are gathering or "clustering" which are relative to your search topic. It picks the words that are related to the search word. This may provide unexpected insight into what's being said about the brand.

Presentation of data

Social Media Monitoring tools provide their customers with a dashboard where data can be viewed according to the preference or the need of their customer. Customized report generation of the with advanced segmentation, analytics and activities, Community Activation, Conversation Index, Demographics, Relationships and Connections, Sentiment or Tone, etc.



The reports can be viewed visually in the form of motion charts, geo-tracking, funnel, spark lines, scorecards, etc. These reports can include unlimited workspaces and the data can be downloaded from each component too.

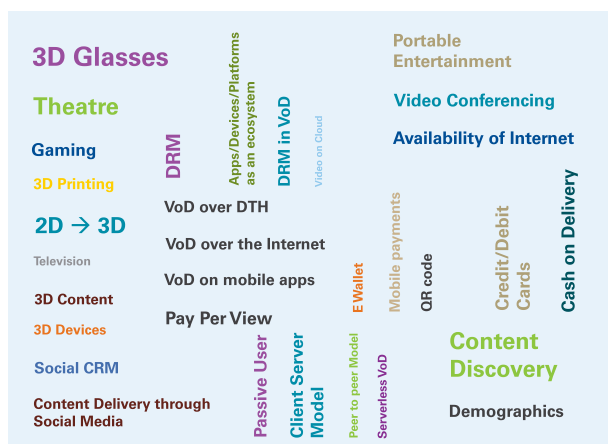
Hence, a social media monitoring tool can prove to be of great usage and guarantees optimum utility of the social media evolution and it determines to be a potential platform to collect ideas and get ideas for the next wave of content ideation.

28. <http://www.socialmediainformer.com/>

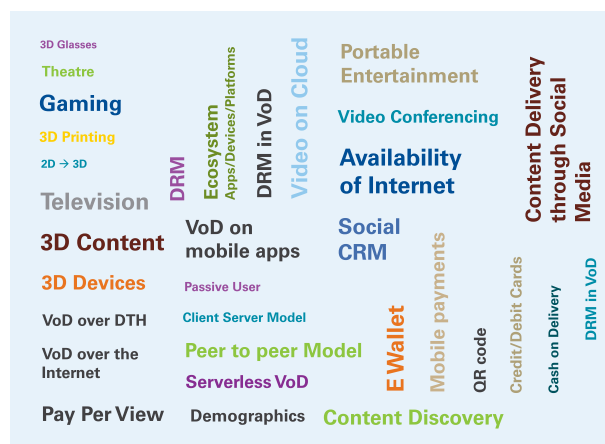
Conclusion

Technology in the M&E sector is undergoing multiple transformations in terms of new technologies impacting the complete content lifecycle from production to delivery to protection, monetization and measurement. Some technologies in vogue today are expected to die down while others will grow in significance and usage.

The emerging picture



With improved bandwidth and reach of digital networks, content buying will soon give way to content streaming and monetization is expected to move from one time sale of content to subscription or pay-per-view methods. This shall also mean that traditional methods of popularizing content shall have to change to give way to spontaneous content discovery by the audience.



The future holds promise for new services and new models of delivery and monetization – time is ripe for entrepreneurial ventures by established and new players alike!



11

Deal Activity

Small steps but potential
for big leaps





Deal Activity

Small steps but potential for big leaps

11

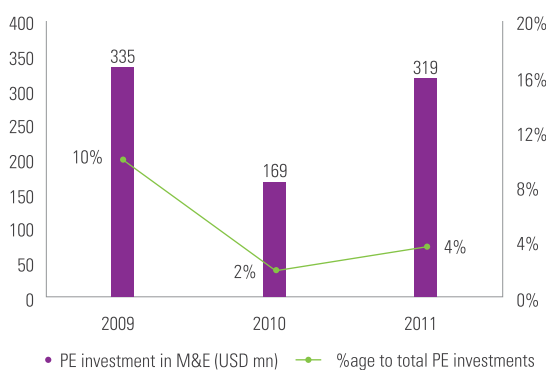


Deal Volume and Value in 2011

Against a backdrop of moderating growth in Western countries, a burgeoning middle class population, rising per capita income and the merger control provisions being notified by the Competition Commission of India (CCI), M&A activity resiliently kept pace and 2011 saw robust deal numbers. The year saw mergers and acquisitions and private equity funding clocking over 1000 deals and contributing over USD 50 billion¹.

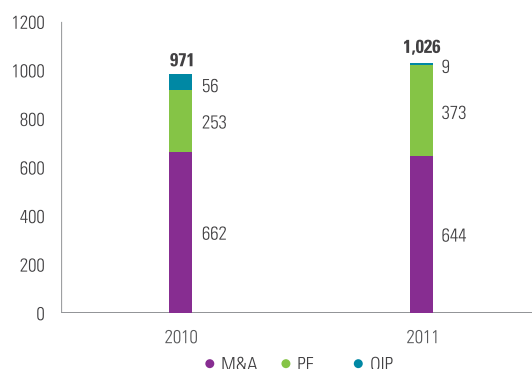
Deal activity in the M&E sector witnessed a significant uptrend in 2011 with 42 transactions valued at USD 940 million² as compared to 27 transactions valued at USD 693 million in 2010 and 27 transactions valued at USD 722 million in 2009. Deal activity however did not touch the peaks of 2008 which saw 38 deals valued at USD 1.5 billion. Private equity funds closed 16 deals valued at USD 319 million¹ while, within the M&E sector, television was the largest contributor, accounting for USD 320 million² of the total deal value.

Type of deal activity (by volume)



Source: GT Dealtracker, Bloomberg, Capital IQ, Mergermarket, Thomson – Reuters

Trend of PE investments in M&E (USD mn)



Source: GT Dealtracker, Bloomberg, Capital IQ, Mergermarket, Thomson – Reuters

While the overall mergers & acquisitions activity and private equity funding in India saw an increase in the volume of deals but a decline in the overall deal value from 2010, the M&E sector saw an increase in both volume and value from 2010. Marquee transactions in 2011 included The Walt Disney Company's acquisition of an additional 41 percent stake at a value estimated to be over USD 300 million in UTV Software thereby taking its total shareholding in UTV to approximately ~90 percent, Providence Equity Partners' PE investment in UFO Moviez India Ltd. (USD 58 million), and HSBC's PE investment in Avitel Post Studios Ltd. (USD 60 million)³.

Television

Television being the largest value creator in the Indian media and entertainment industry has resulted in significant interest from local players, private equity funds and global media conglomerates.² The large volume of funding received by this segment over the last five years has resulted in a continuing wave of consolidation. TV18's acquisition of

01. Grant-Thornton Dealtracker 2011

02. Bloomberg

03. Thompson-Reuters and Bloomberg



the Eenadu Group⁴ early in 2012 for a consideration of USD 395 million was the stand-out transaction of the year indicating the need for a complete channel bouquet focusing on profitable growth. The need for profitable growth and to more effectively build the business around its niche segments resulted in the Walt Disney Company making a delisting offer for UTV Software Communications Limited. Educational Trustee Company Private Limited, a company floated by the promoters of Dina Thanthi Group, acquired Metronation Chennai Television (an English news channel joint-venture between The Hindu and NDTV) for USD 3.2 million⁵ further reinforcing the theme that businesses are focusing on core competencies and exiting segments that witnessed hyper competition.

However, the regional advertising market boosted by increasing reach and consumption in Tier II and Tier III towns is reasonably under capitalized. Regional channels with a disproportionate share between viewers and advertisement dollars are likely to witness investment interest from financial investors and large broadcasters.

Intense competition in the general entertainment and news genres has resulted in broadcasters offering content across niche genres such as food, lifestyle, music, technology, science thus catering to an urban, upscale audience that enjoys a disproportionate value of advertisement dollars. For example, Reliance Broadcast Network Limited acquired Imagine Showbiz⁶, a music channel and we also witnessed a number of new channel launches across niche categories such as Mix (MSM), UTV Starz (Disney), Life OK (Star) and Sonic (Viacom18).

The cable and satellite (C&S) distribution market witnessed minimal deal activity. However, in 2011, we witnessed a landmark distribution tie-up between Star and Zee, two of India's foremost media groups. Zee Turner and Star Den Media Services formed a 50:50 joint-venture company, to jointly distribute channels, called Media Pro Enterprise India⁶, with a vision to create efficiencies in the distribution sector, to increase bargaining power with cable and Direct-To-Home (DTH) players, and to address piracy issues.

The C&S distribution market has over the last few years seen its fair share of investment activity from financial and strategic players on the key premise that this unorganized market dominated by Local Cable Operators (LCOs) will witness disruptive changes brought forward through digitization which is likely to shift the balance of power to Multiple System Operators (MSOs) and DTH players.

In their quest to build a sizeable subscriber base each player is saddled with high customer acquisition costs leading to low profitability and being in the investment stage. Going forward, we may witness consolidation amongst MSOs, LCOs being acquired by MSOs and capital raises by MSOs. DTH players, promoted by large business houses with diverse business interests, may pave the way for consolidation by exiting non-core, non-profitable operations.

Print

The print industry is expected to grow at a compounded annual growth rate of 9 percent⁷ on the back of higher literacy levels, higher per-capita income levels and presence of a large vernacular market. Favorable demographics saw larger players seeking to expand reach by entering new markets by acquiring smaller regional players. For example, G+J International, a global magazine publisher acquired a majority stake in Maxposure Media Group India and BCCL bought out the 50 percent stake held by BBC in their joint venture Worldwide Media Pvt. Ltd.⁵

The newspaper industry, which is facing declining readership in many international markets, continues to thrive in India, driven by increasing literacy rates, consumer spending and the growth of regional markets and specialty newspapers. Newspapers account for 42 percent of all advertising spend in India, the most of any medium. The newspaper industry has high entry barriers as existing players have developed strong brand equity and have developed control over their distribution network. Hence, regional print companies with strong operating dynamics are expected to raise capital through the capital markets or private equity to expand their

04. Stock exchange announcement

05. Grant-Thornton Dealtracker 2011

06. Company Website

07. Ministry of External Affairs, Government of India report

presence across the media value chain and also launch niche city centric supplements.

In addition, consolidation is imminent as the larger players will continue to seek regional players to add to their portfolio. For example, Asianet acquired 51 percent stake in Kannada Prabha Publications Ltd., a Bangalore-based newspaper, and DB Corp. acquired 60 percent in Divya Prabhat Publications Pvt. Ltd., an Indore-based afternoon newspaper.⁸ Activity from international players may remain muted till such time that FDI caps are rationalized.

Radio

As the oldest and one of the most cost-effective form of advertising, radio has more reach than both traditional print media and television. The radio industry is fragmented and highly regulated with over 240 private radio stations present across India. Although deal activity was limited, 2011 witnessed the re-emergence of satellite radio services with SaReGaMa India Limited acquiring a 10 percent stake in Timbre Media⁹ to push their content library across a satellite radio platform with customized channels across various languages and genres that can be streamed through mobile phones, internet and DTH networks

The Phase III round of licensing is expected to bring about regulatory changes such as relaxation of FDI limits, granting permission to own multiple frequencies in a city and the permission to air news and current affairs. As a result, this segment is likely to witness deal activity in the form of

consolidation amongst existing players, PE investments / exit and increased interest from international strategic players such as Fox, Walt Disney, Hearst, Rogers Communications, Virgin Group and CTV Globemedia.

Films

With over 3.5 billion tickets sold annually and over 1000 movies produced annually,⁹ India remains the largest film consuming market in the world and continues to attract interest from financial and strategic investors. With economies of scale and cost efficiencies being prime value drivers in the film exhibition space considering low value of ticket sales, the film exhibition segment is expected to witness further consolidation and also embrace technological innovation. The investment of USD 58.5 million by Providence Equity Partners in UFO Moviez India Limited¹⁰ is one such example of a company seeking institutional capital to augment its growth plans to digitize screens across the country. On the back of the investment received from Providence, UFO Moviez India Limited acquired a majority stake in Scrabble Entertainment to globally expand its business of digitizing screens. The process of digitizing screens benefits the entire ecosystem resulting in wider release across screens, increased copyright protection and reduced release windows from months to weeks. Large players in the media and entertainment ecosystem may consider taking minority stakes in production houses.



08. Grant-Thornton Dealtracker 2011

09. Ministry of External Affairs, Government of India report

10. Bloomberg

Gaming

Deal activity in the online gaming segment surged in 2011 as both financial and strategic investors clamored to get a share of the industry, estimated at USD 280 million¹¹. Private equity players invested in and Games2Win while UTV Software Communications Limited acquired the additional 30 percent stake in Indiagames Ltd. in a deal worth ~USD 20 million¹². The growth prospects for the industry remain strong as global gaming firms enter into distribution alliances to promote their games through the web, mobile phones, consoles and gaming cafes.

The growth strategy of most media and entertainment companies in the US and Western Europe is linked to India. However, to succeed in India these companies have to navigate unique challenges in the areas of content localization, distribution, pricing, regulations and piracy. Media conglomerates globally have been able to create value

through exploitation of their content libraries and through their technological prowess thereby aggregating their customer base and addressing diverse media consumption patterns.

Similarly, the key trend driving M&A activity in the sector is the creation of specialized media and multimedia holding companies that include print and publishing companies, internet resources, radio, TV and a number of other media assets.

To that extent, consolidation will be a major theme going forward as media and entertainment companies will seek to grow inorganically by expanding into newer geographies and by adding to their existing portfolio. Consequently, robust deal activity is expected across all platforms and segments in 2012.

Table - Key transactions in 2011

Key deals in 2011					
Month	Investee	Investor	Stake (%)	Deal Value (USD Mn)	Sector
M&A					
Sept	Scrabble Entertainment Pvt. Ltd.	UFO Moviez India Ltd. (Valuable Group)	26%	44.4	Film
April	TV18 Homeshopping Network Ltd.	SAIF partners, Network 18, GS Shopping	Undisclosed	21.74	Homeshopping
Oct	Indiagames Ltd.	UTV Software Communication (Walt Disney)	30%	21	New Media
Aug	Worldwide Media Ltd.	Bennett, Coleman and Co.	50%	10.15	Print
Feb	Maxposure Media Group India	Gruner + Jahr AG & Co KG	55%	1.668	Publications
June	Timbre Media Pvt. Ltd.	Saregama India Ltd.	10%	Undisclosed	Radio
Feb	Kolkata Cable and Broadband	Gujarat Telelinks Pvt. Ltd.	51%	Undisclosed	TV Distribution
June	Divya Prabhat Publications Pvt. Ltd.	DB Corp.	60%	Undisclosed	Print
PE					
June	Avitel Post Studioz Limited	HSBC Principal Investments	Undisclosed	60	Film
April	UFO Moviez India Ltd. (Valuable Group)	Providence Equity Partners LLC	Undisclosed	58.5	Film
March	Games2Win	Clearstone Venture Partners, Silicon Valley Bank (SVB India Capital Partners)	Undisclosed	6	New Media
Key deals in Jan-Feb 2012					
Month	Investee	Investor	Stake (%)	Deal Value (USD Mn)	Sector
M&A					
June	Eenadu Group	TV 18 Network Ltd.	100%	395	TV Broadcast
April	V&S Cable Private Limited	Gujarat Telelinks Pvt. Ltd.	51%	Undisclosed	TV Distribution

Source: Grant-Thornton Dealtracker 2011, Bloomberg, Merger Market, Thompson-Reuters, CapitalIQ, BSE, NSE

11. The Hindu article

12. Stock exchange announcement

12

Post Merger Integration in the media industry

Measuring deal success



Post Merger Integration in the media industry

Measuring deal success

12

Introduction

Despite registering advertising growth of 15 percent CAGR over the last 5 years¹ and a significant increase in media consumption (increase in TV households) in the country over the same period, ROI for investors in the media sector has been mixed.

Battling fragmentation and competition from new entrants on the one hand, and the rise of digital consumption and increased regulation on the other, players in this industry continue to face significant challenges to their business models. Muted advertising growth last year, and increase in content and distribution costs has resulted in several sub-scale players struggling to remain profitable with limited access to capital.

2011 saw some large deals being announced in the broadcast industry, led by Disney's takeover of UTV and the Eenadu acquisition by Network 18. This consolidation story in the media sector will continue over the next couple of years as the M&E landscape matures in India. Valuations, however are unlikely to come down significantly. Continuing consumption growth, scarcity of quality targets, growth prospects from looming digital distribution and sustained interest by foreign investors will ensure that sellers will demand price premium for good quality assets.

Despite paying high multiples for assets in the M&E industry, most acquirers in India have historically ridden the growth wave and often not needed to integrate their acquisitions to deliver value. Over the last two quarters, Indian industry has seen operating costs rising faster than the top line, and a "wait and watch" approach to Post Merger Integration will just not work anymore. Over the next few years, the ability to successfully integrate and realize synergies from these transactions will be the key differentiator between winners and losers in the M&A game in the M&E industry. This is especially true for deals where consolidation and cross-sell opportunities arising from multi platform leverage are the key drivers behind the acquisition.

Lessons from successful acquirers

Serial acquirers that have grown by acquisitions in the M&E industry, have typically managed successful integrations using three key principles

Successful Integrations

Clear vision and strategy	Take control	Address people issues
<ul style="list-style-type: none"> Be clear on why you are doing the transaction and if integration is a key driver of value Develop a view on the sources of synergy and cost of achieving these synergies during the diligence phase If the target is being carved-out from an exist business, understand the realistic cost of running the business on a standalone basis Decide on level of integration and be clear on the principles which you will use to manage the integration Have a clear strategy on how the combined brand portfolio will be managed going forward and the impact of any planned back end integration Establish key success factors you will use to measure the success of the integration 	<ul style="list-style-type: none"> Establish a clear integration programme with governance, project management, escalation and decision making processes Manage the integration with a small team and let the rest of the business manage day-to-day operations Select an integration team and resource with strong individuals Ensure you are prepared for Day 1 with a clear communication plan and integration roadmap Allocate synergy targets to respective workstreams and align with performance measures Build a robust synergy tracking framework with active involvement from the finance function 	<ul style="list-style-type: none"> Answer the "Me" questions early Identify top talent and business critical resources and put in place appropriate retention mechanisms Compare differences in policies and have a plan to deal with major gaps Announce the new organisation design, on Day 1 and have clear reporting lines in place Be sensitive to cultural differences, but be clear on approach for the integration Communicate early and often, and put in a formal change management process Establish regular feedback loops to track progress of the integration

01. KPMG India analysis



These principles assume that acquirers start the integration planning process early in a deal process, usually at the same time as the due diligence is being conducted and have a roadmap ready for communication by the time the deal closes.

In the Indian context, the period between deal signing and closing (when regulatory clearances and other precedents are completed), is the ideal time to kick off the early stage planning. Typically, access becomes more easily available during this time and also having a structured integration

program with involvement from participants from both sides, serves as a good change management tool – countering some of the speculation and uncertainty that an acquisition normally generates.

Planning done during this phase should look to address 5 key areas that typically cause integration in the M&E sector to fail. Some of these items are slightly different for companies that are not content focused, but the themes by and large are common.

Area	Typical M&E Integration Risks
Commercial and customer related	<ul style="list-style-type: none"> • Perceived loss of creative/content quality • Advertisers want consistent commercial terms across various brands/properties • Cross sell, co-production objectives are not met as performance incentives are not aligned
People	<ul style="list-style-type: none"> • Difference in organisational philosophy and working styles • Lack of clarity on reporting relationships and decision making authority • Uncertainty about future role • Frustration caused by change in performance metrics • Alignment of compensation and policies
Financial Control	<ul style="list-style-type: none"> • Different reporting periods and accounting policies • Inconsistent MIS and inability to effectively measure the performance of a combined business • Variable adoption of new working practices (for e.g. invoice matching, credit terms, investment approval processes)
Governance and Compliance	<ul style="list-style-type: none"> • Different standards of corporate governance and ethical standards • Poorly understood regulatory impact on the acquired business (for e.g. TRAI regulations on SMS marketing and its impact on CRBT revenues) • Inadequate appreciation of risks related to non compliance (for e.g. UK Bribery act, FCPA etc.)
Systems	<ul style="list-style-type: none"> • Incompatible operational platforms that need significant investment to be merged • Lack of integration in back end systems to support commercial objectives • Data migration takes significantly longer than expected

While going through this process, the key challenge for the integration team is to prevent silo thinking and manage dependencies between various streams of work, especially when integration decisions cut across multiple functions. Integration teams, that are responsible for managing this process, are often dealing with uncertainty about their own roles and may not have prior experience of managing a transformation of the scale and often make up the process as they go along. Several well established change management tools exist to enable Integration Programme Managers to do this effectively, but adoption in India today remain low.

In summary, as post merger integration moves further up the agenda and as the Media industry in India goes through a consolidation phase, acquirers in India will need to have credible integration methodologies in place to manage and measure the success of the integration.

Managing carve-outs

Another theme that will play out in some parts of this sector over the next few years will involve sellers breaking up their businesses and selling them piecemeal to acquirers (driven by buyer preferences, distress or potential to acquire better value through a sum of parts approach). For a buyer the idea of buying a divested business can offer significant upside, especially if it can integrate it with its existing operations and provide the right level of management and funding support to it.

However, acquirers looking at buying businesses that have been carved-out, need to ensure that their integration plans take a realistic view of the actual cost of running the business on a standalone basis and the risks associated with transitioning the business from the seller into its own fold.

Pressure to execute the deal, combined with limited access to the target, means that buyers often have to make important assumptions about the target's cost structure and its operational capability. Only to find that once they take control of the business, key capability is missing or woefully inadequate for it to run operations as a standalone entity. This could include:

- Use of IP assumed to be part of the deal has certain restrictions to it
- Key personnel assumed to be part of the deal are actually out of scope
- Access to shared systems is not available post deal
- Target's systems and processes are not able to support a partial business (e.g. inability to raise an invoice on original parent, as historically it was treated as an intercompany transfer)



“ Our experience has shown that the cost of running a separated business on a standalone basis can increase anywhere between 2-10 percent of total revenue post carve-out. Even for a business running on a perceived healthy EBITDA margin of 20 percent pre-deal, this can be devastating if not managed properly ”

- Varun Gupta
Director, Integration and Separation advisory,
KPMG in India

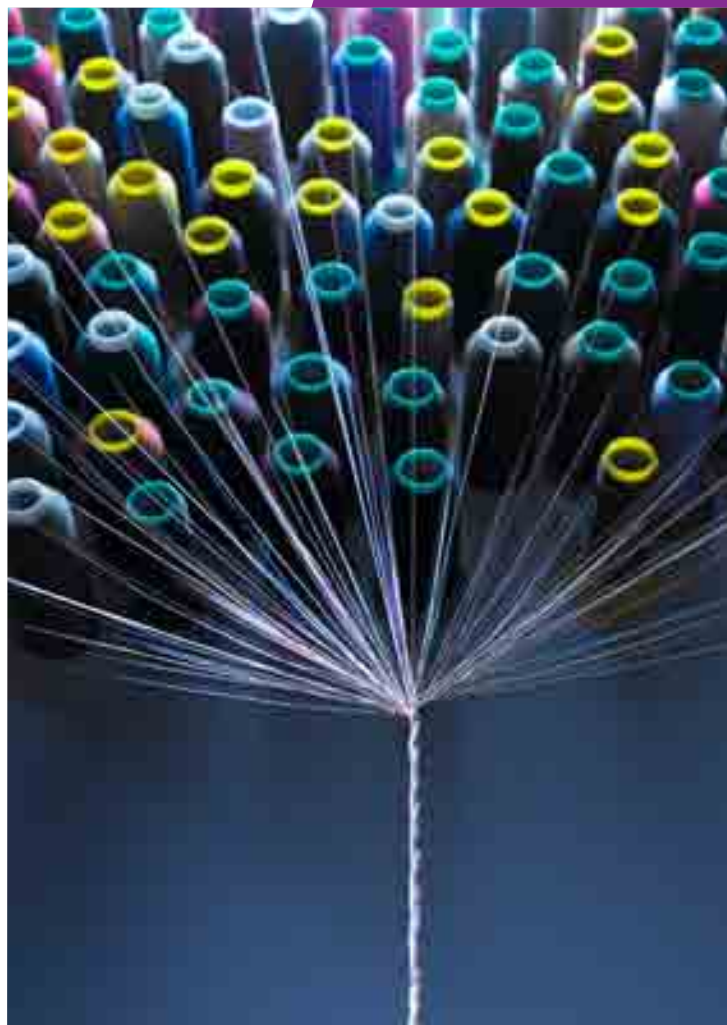
Assuming that these issues are uncovered during the operational diligence process, the challenge still remains for acquirers to successfully transition the business to a point that they can grow profitably independent of the old parent.

The approach to managing separation programmes does not differ dramatically from integration, but has one additional consideration:

Transitional arrangements – refer to services that a carved-out business receives from its original parent post deal to minimise disruption during the transition period. Several deals in the M&E sector in India don't formally define the nature and the cost of these services. Only for the integration teams to find that they are back on the negotiation table for transition support long after the deal is done and the seller has limited interest and/or incentive in supporting the divested business.

Where transition support is expected post deal, the approach for these transition agreements needs to be agreed during the integration planning phase with the seller. Buyers should also agree a credible separation plan before closing and have a clear understanding of who will bear the separation costs post close.

Traditionally, the focus for acquirers has been on getting the deal done. However, it's not long before shareholders view the real measure of success as the ability of the integrated business to deliver the value envisaged as part of the deal process. For deal makers in M&E, this means that they will need to place the same emphasis on managing the merger process as they do on getting the deal done.





The cover features a large, stylized number '13' in white, set against a background of overlapping geometric shapes in shades of purple and blue. On the right side, there is a blurred photograph of a person's hand holding a pen, suggesting a professional or academic context. The title 'Tax and Regulatory' is prominently displayed in white, bold font, with the subtitle 'Surviving the tax challenges' in a smaller, regular font below it.

13

Tax and Regulatory

Surviving the tax challenges



Tax and Regulatory

Surviving the tax challenges

13

The Indian fiscal and regulatory landscape has witnessed significant developments in the last year. On the Regulatory front, the Government has allowed Foreign Direct Investment ('FDI') in Limited Liability Partnerships ('LLPs') and key amendments have been made in the uplinking and downlinking policies impacting the Industry at large.

On the tax front the Government had proposed new legislations by way of the Direct Tax Code ('DTC') and the Goods and Services Tax ('GST') regime. There have already been significant debates and representations on various issues emanating out of the draft DTC and GST legislations which are presently under consideration by the Indian Government. The proposed introduction of new concepts like the General Anti Avoidance Rule, the Controlled Foreign Company Rules, etc. will not only have a significant impact on the way business is done by foreign companies in India but also on the way Indian Groups operate abroad.

Landmark judgments by the Supreme Court in the case of Vodafone and other Courts/Authorities in the cases of E-Trade, Aditya Birla Nuvo, etc. have also unveiled a new chapter in global M&A activity involving India. As more and more key foreign players look to enter the Indian Media & Entertainment ('M&E') space and as Indian Production Houses & Telecasting Players seek to establish a global footprint by way of cross border deals involving JVs, mergers, acquisitions, share sale, etc., the fast changing Indian judicial and legislative landscape will need to be taken into account to obviate any unexpected future tax complications which may adversely impact business activity.

The Union Budget 2012 is to be presented on 16 March 2012. On the economic front, India's GDP growth rate has slipped to 6.1 percent, its lowest in 3 years¹. While part of

this can possibly be attributed to the RBI's steps to combat runaway inflation last year, other factors including the lack of big ticket reforms, the gridlock in disinvestment and the crisis in the Eurozone may all have played a part. Under these trying conditions, all eyes are on the Finance Minister as he prepares to present the Budget. His task, clearly is an unenviable one, more so on the tax front. Government finances are in poor shape thanks to uncontrolled spending and less than stellar tax mop ups; yet broad based tax increases could imperil India's already fragile economic growth. There are also increased demands from industry groups for tax benefits to kickstart growth in sectors like the M&E Sector. All in all, it promises to be a Budget to watch out for.

In light of the above, the coming year promises to be a significant one for the M&E Industry. The Industry needs to keep a close eye on the Government's policy and legislative agenda and map those changes to their business, not only to analyse the impact that these might have but also to devise appropriate strategies to adapt to these changes.

Mindful of the above changes, in the following paragraphs we have discussed the several tax issues affecting the M&E Industry at length. While some of the issues are of recent origin, there are several other issues which have been affecting the Industry since a long time now. The M&E Industry has made an important contribution to the growth of the Indian economy. The Government, on its part, has taken several positive measures to propel the pace of growth. It is therefore imperative that the Government take cognizance of the tax issues discussed above and takes corrective measures at the earliest to resolve these issues. The key tax issues (encompassing both, existing issues as well as new issues) affecting the M&E Industry have been set out below:

1. The Indian Express, 29 February 2012

Key tax issues impacting various sectors within the M&E space

Film industry

- **Deduction of expenses**

Specific rules have been provided under the Income-Tax Rules, 1962 (Rule 9A and 9B) in relation to deduction of expenditure incurred on production of films / acquisition of distribution rights therein. These expenses are allowed as a deduction based on when the copyrights / distribution rights in the films are exploited and the date of release of the film. Based on the facts of the case, the expenditure is allowed as deduction either in first year or over a period of two years.

There are various controversies surrounding applicability of Rule 9A / 9B including whether Rule 9A / 9B is directory or mandatory, whether Rule 9A / 9B overrides all other provisions of the Income-tax Act, 1961, ('IT Act') for e.g. capital v. revenue expenditure, disallowance of expenditure on which tax has not been deducted, etc., deductibility of expenses not covered by Rule 9A / 9B, etc.

It would help the cause of the Industry if the Government can issue a circular / clarification on the above aspects.

- **Tax withholding on acquisition of copyright**

Under the IT Act, payments to Indian residents towards acquisition of copyrights in content (eg. satellite rights, home video rights, music rights, etc.) attract a tax withholding at the rate of 10 percent under Section 194J of the IT Act. This withholding rate is excessive considering the profit margins on which the Industry operates. This in turn aggravates the cash flow of the Industry players. It would be worthwhile for the Government to consider a lower withholding tax on such payments.

- **Joint production of films**

In cases involving joint production of films, care should be taken to ensure that the arrangement does not result

into an Association of Persons ('AOP'), which is taxed as a separate entity apart from its members. If the joint production activity is assessed as an AOP, several complexities could arise i.e. filing of a separate tax return of the AOP, withholding tax compliance of the AOP, availability of Tax Deducted at Source ('TDS') credit to the AOP, availability of losses in the hands of Joint Venture ('JV') Partners, etc. Hence, the arrangement between the JV Partners should be appropriately structured so as to avoid formation of the AOP. One possible option that could be explored in this regard is joint production of films through the use of Limited Liability Partnerships (LLPs) as a Special Purpose Vehicle.

- **Levy of Service Tax on distributors / sub distributors / exhibitors of movies**

Producers, distributors, sub distributors, exhibitors of movies, enter into different kinds of arrangements in relation to exhibition of movies. These arrangements are either entered into on a principal to principal basis (where the movies are exhibited by the exhibitor on his own account) or on behalf of the distributor / sub distributor / producer, or on a revenue sharing basis.

The Service Tax department has recently clarified (in December 2011) that levy of Service Tax would not depend on the nature of such arrangements, but would depend on the nature of transaction involved. As a result of this, it has been clarified that Service Tax would be applicable on the exhibition of movies by the exhibitor, whether on a principal to principal basis or on behalf of the distributor / sub distributor / producer or on a revenue sharing basis.

This has the impact of taxing the activity of movie exhibition and the said tax would ultimately get passed on to the viewers by way of increase in ticket prices.

The Industry expects that the Government consider this issue on a priority basis, as the same is turning out to be a huge burden to the Industry.

Broadcasting Industry

• TDS on various payments by TV channel companies

TV channel companies make significant payments to software production houses towards outright acquisition of TV programs. They also pay carriage fees / placement charges to Direct-to-Home ('DTH') operators, multi system operators and various cable operators towards placement of the channels on prime band. The channel companies are of the view that such payments attract TDS under section 194C of the IT Act at the rate of 2 percent by contending that such payments are in the nature of consideration for "work". However, the Tax Authorities have been contending that such payments are liable for TDS at 10 percent under Section 194J of the IT Act on the ground that such payments are towards technical services / royalty. This has resulted in protracted litigation.

A suitable clarification by the Government on this matter to the effect that tax needs to be deducted on the above payments at the rate of 2 percent and not at the rate of 10 percent is much needed to put the above controversy to rest. To mitigate tax exposures for TV channels companies on account of the above issue, it would be advisable to obtain confirmation from the recipients of the income to the effect that the recipient has offered the income to tax in its tax return of income.

• Deductibility of cost of content

Generally, TV programs / right to telecast films are acquired by broadcasting companies either on an outright basis or for limited number of airings over a period of time. The issue that arises is regarding the deductibility of the cost of acquiring such rights. In the case of TV programs, significant value of the programs is derived at the time of first airing itself, after which there is hardly any residual value of the programs. Accordingly, broadcasting companies generally amortize the cost of TV programs in their books over two years; a predominant portion of the cost (around 70 percent to 90 percent) is amortised in the first year and the balance portion is amortised in the next year. From a tax perspective, a possible view is that the entire expenditure on acquisition of TV programs should be allowed as deduction in the year of first airing itself. Alternatively, the deduction should be allowed as per book amortization policy. In case of movie rights acquired for limited period or limited airings, the expenditure may be allowed over the period of license / number of airings. The contrary view is that the expenditure on acquisition of such rights in TV programs / movies, being in the nature of an intangible asset, should be eligible for depreciation at rate of 25 percent on written down value basis.

Having regard to the lack of clarity on the issue, it is imperative that the Government issues a clarification on the matter to avoid protracted litigation.

• Taxation of Foreign Telecasting Company ('FTC')

The two primary sources of revenue of FTCs are income from sale of advertising airtime on the TV channel and subscription revenues.

– Taxation of advertisement revenues

Under the IT Act, advertisement revenues of the FTCs would be taxable in India in case the FTCs have a 'business connection' in India. In case an FTC operates



from a country with which India has a tax treaty, the advertisement revenues would be taxable in India only if the FTC has a Permanent Establishment ('PE') in India.

The taxability in such cases is only on the income which is attributable to such PE / operations carried out in India. The circumstances in which the FTCs constitute a PE / business connection in India and the determination of income attributable to such PE / operations carried out in India, continues to be a contentious issue between the FTCs and the tax authorities.

FTCs generally appoint an agent in India for marketing of advertisement airtime slots. The agent also facilitates collection of advertisement revenues from the advertisers and its remittance abroad.

The Tax Authorities have been contending that the agent of the FTC, who concludes contracts on behalf of FTC or secures orders wholly or almost wholly for FTC in India, constitutes its PE in India.

The Bombay High Court in the case of SET Satellite (Singapore) Pte. Ltd. has held that where a FTC has an Agency PE in India (i.e. PE on account of its agent), the payment of arms length remuneration by the FTC to its Indian agent extinguishes its tax liability in India. Similar view has been taken by the Delhi High Court in the case of BBC Worldwide Ltd. The matter is now pending before the Supreme Court.

- Taxation of subscription revenues

Subscription revenues are generally collected by the Indian distributors and subsequently paid to the FTCs. The FTCs have been taking a stand that the payment for grant of distribution rights is not for any "copyright" and hence, is not in the nature of "royalty" (taxable on gross basis at a specified rate). FTCs contend that the payment is in the nature of business income and is not taxable in India in the absence of any PE in India. However, the Tax Authorities are contending that the subscription fees are liable to tax as "royalties." The issue is pending adjudication at appellate levels.



“The complexities in the business environment are further exacerbated by uncertainties in the interpretation of tax laws which result in prolonged litigation. To avoid undue hardship to tax payers arising from high pitched assessments by the Revenue, the Government needs to enforce greater accountability in the tax administration. Certainty on tax issues would greatly help in building the overall business confidence.”

- Nitin Nadkarni
CFO
Multi Screen Media Pvt Ltd.

• Mandatory Permanent Account Number ('PAN')

Finance Act (No. 2) of 2009 mandated higher withholding tax rate of 20 percent in case of payees (i.e. recipients of income) not having a PAN by introducing Section 206AA in the IT Act. This provision also impacts payments made to non-residents.

With the changed dynamics of the Industry, the involvement of non residents in the Industry has increased to a great extent. While non resident technicians are assisting in film production, a lot of content is also being procured from foreign parties by broadcasters. Further, various payments are being made to foreign artistes participating in films, reality shows, etc.

Most of the above contracts with non residents are 'net of tax' contracts i.e. taxes are borne by the payer. In case of one off payments, usually non residents can't be expected to hold an Indian PAN at the time of receiving the payments from residents (i.e. when tax deduction has to be made). This has given rise to a situation, where even if appropriate rate of deduction of tax at source in terms of the provisions of the IT Act or the applicable Tax Treaty is much lower, taxes are being withheld at a higher rate (in absence of PAN). This has led to a significant increase in the overall costs of Indian entities.

Accordingly, it is imperative that appropriate relief should be provided in this regard, especially in the case of payment to non residents.

It may be possible to mitigate tax withholding in respect of content acquisition if the contracts are structured appropriately.



“Uncertainty surrounding TDS on several payments, higher withholding tax @ 20 percent in absence of PAN and levy of VAT as well as service tax on copyright, are some of the issues that Government needs to consider & address.”

- Narayan Prabhat Ranjan
CFO
Viacom 18 Media Pvt. Ltd

• Commission earned by Indian agents of foreign broadcasters

Services provided by the Indian agent / representative of a foreign broadcaster in relation to selling of time slots for broadcasting of any program or obtaining sponsorship for any program or collecting broadcasting charges or permitting the right to receive any form of communication is liable to service tax in the hands of the Indian agent / representative under the taxable service category of broadcasting services.

Typically, the Indian agent collects the broadcasting charges from customers in India and remits the same to the foreign broadcaster after retaining its commission / service fee. This commission / service fee retained by the Indian agent has also been subject to service tax levy under the same category of broadcasting services.

This leads to taxation of the same commission / service fee twice, firstly as part of the broadcasting charges collected by the Indian agent from the customers and secondly as commission / service fee retained by the Indian agent. Further, even if the commission / service fee retained by the Indian agents is considered to be towards service, the same should qualify as export of service and service tax should not be levied on the same.

It is expected that the Government issues suitable clarifications in this regard to stop service tax being levied twice on the same amount.

• Transponder hire charges

For the purpose of providing their services, broadcasters hire transponders located in the satellite (in space). In cases where the licensors (of transponders) are in India, service tax on the hire charges recovered from the broadcasters is being discharged by the service providers in India (i.e. the licensors). However, in cases where the licensors are situated outside India, the liability to discharge the service tax falls on the service recipient in India on a reverse charge basis.

While the service tax authorities are seeking to levy service tax on the Indian recipients, i.e. the broadcasters, on such transponder hire charges under the taxable service category of Business Support Services, the Indian broadcasters are taking a view that such services are not covered under any taxable service category or if still considered taxable, at best can be covered under the taxable service category of Supply of Tangible Goods services, in which case as the transponder is located outside Indian territory, the same should not be liable to service tax in India. This conflicting position is resulting in protracted litigation with the Service tax Authorities.

• Sale of Set Top Boxes

The DTH industry has been subjected to variety of taxes on its various transactions such as Value Added Tax ('VAT') on sale of Set Top Boxes ('STBs'), service tax on subscription revenues, entertainment tax on its subscriptions revenues, etc. To get the STBs installed and the service activated, the customers are charged installation charges and activation charges, on which service tax is being levied.

Providing DTH service is the predominant objective of the DTH players and therefore to build the subscriber base, majority of the DTH players have shifted from the model of selling STBs to customers to providing the STBs to the customers on entrustment basis without charging any consideration for the same. While, there should be no VAT applicable on such a transaction effected without consideration, the VAT authorities of various States are still seeking to levy VAT on such transactions on the ground that the installation and activation charges are recovered from the customers towards the cost of STBs.

This would lead to double taxation of the same consideration (i.e. installation and activation charges on which service tax is presently levied) and would cause great harm to an already bleeding industry.

• Taxability of rechargeable vouchers

Taxability of recharge vouchers for subscriptions with DTH players, etc has been a matter of dispute for a long time, especially whether the same qualifies as goods or services.

The Industry has been adopting a position that the rechargeable vouchers are in the nature of actionable claims and cannot qualify as goods. Moreover the intrinsic value of the same is insignificant and the same is used in the course of provision of services. However, the VAT authorities of various States have been seeking to levy tax (VAT as well as entry tax) on such rechargeable vouchers on their face value, treating them as goods.

While there are judicial precedents which have held that rechargeable vouchers would not qualify as goods, it would do well to the Industry if the Government comes out with a suitable clarification that rechargeable vouchers are not goods and provide suitable amendment to the VAT schedules, so as to avoid litigation across India.

Music Industry

Deductibility of cost of acquisition of license / copyright in music has been a controversial issue. The issue is whether such cost would be entitled to depreciation (at the rate of 25 percent on written down value basis), or is it in the nature of revenue expenditure deductible in the first year, or is to be treated as amortizable over the period of license. The Mumbai Tribunal in the case of Tips Cassettes & Record and the Calcutta Tribunal in the case of Gramophone Company of India have taken the view that payment for acquiring music rights is in the nature of acquiring raw material and hence revenue in nature. It would help the cause of the Industry if the Government can issue a circular / clarification clarifying this position.

Radio Industry

The radio broadcasters are required to pay license fees, viz. one time entry fee and recurring annual fees to the Government as per the terms of the license. The issue that arises is whether such fees are in the nature of revenue expenditure to be claimed as deduction in the year in which it is incurred or is in the nature of capital expenditure, entitled to depreciation. Since the annual license fee is payable for each year of operation, it should be allowed as revenue expenditure. Further, the one time entry fee should be allowable as a deduction over the period of license. However, another view is that the payment for the one time entry fee could be treated towards acquisition of 'license', specifically covered as an intangible asset, eligible for depreciation at rate of 25 percent. This is likely to be a bone of contention between the tax payer and the Tax Authorities. The need of the hour is for the Government to issue a circular / clarification on this aspect so as to curtail litigation thereon.



“Advertisement in free to air mediums like radio should be treated differently and lower or nil service tax should apply for the same. We also seek clarity in tax amortization rules for intangibles like license fees paid by radio broadcasters which need to be amortized over the license period”

- Asheesh Chatterjee
CFO

Reliance Broadcast Network Ltd.

Transfer Pricing ('TP')

With the increase in cross-border transactions across the globe, the scrutiny by the Tax Authorities of such transactions undertaken between related parties has also increased manifold. Hence, it is imperative for companies to have a robust TP policy in place to support the pricing of cross-border transactions between related parties. The Indian TP regulations require a taxpayer to undertake its 'international transactions' with 'associated enterprises' on an arm's length basis. Further, the regulations mandate the use of one of the five prescribed methods as the most appropriate method for the determination of the arm's length price. From a compliance perspective, the regulations prescribe maintenance of mandatory documentation by taxpayers on an annual basis in relation to their international transactions and also cast a compliance obligation on the taxpayers, which involves filing of annual transfer pricing certificate (known as Accountant's Report) with the Tax Authorities disclosing details of such transactions in a prescribed format.

The increased activity coupled with the peculiarities of the nature of transactions undertaken in the M&E Industry poses practical challenges in establishing the fact that the transactions undertaken between related parties are at arm's length. The sections below give an overview of some of the peculiar TP issues faced by the M&E Industry.

Comparability for unique transactions

The nature of international transactions entered into between parties in the M&E Industry are unique and peculiar and are not comparable to those undertaken in any other Industry, mainly on account of the nature of assets or intangibles being traded between the parties. The following examples will help better understand the scenario. An Indian channel company purchases film rights from a related party situated abroad. However, the price paid may vary significantly for various films and would depend on factors such as whether a film is being telecast on television for the first time, the timing of telecast, etc.

Similarly, in case of an Indian company which owns a channel being telecast in a foreign country and which grants advertisement rights on a revenue split basis to related parties abroad, the proportion of split may vary significantly depending upon various economic and commercial factors in different years.

Given the unique nature of transactions undertaken, the same poses peculiar challenges from a benchmarking perspective. Firstly, it is usually difficult to gather information from public domain on similar independent transactions undertaken in this Industry. Secondly, even if some data is available on certain similar transactions undertaken between unrelated parties, they can seldom be used for benchmarking the related party transactions because of material differences between the two transactions being compared.

For example, in case theatrical rights of a forthcoming movie are proposed to be sold by a media house in different overseas jurisdictions, some of which may have their own subsidiaries located overseas, various commercial factors play an important role while arriving at the transaction such as market perception of the theatrical rights being sold and value ascribed to movies involving differing star casts in different locations, timing of transaction, credentials of the

transacting parties, advertisement and publicity involved, etc. On account of such factors, the determination of the arm's length price of a transaction with related parties poses serious difficulties despite data being available for similar transactions undertaken with unrelated parties. This is because it is difficult to quantify the impact of all these different factors in numeric terms so as to facilitate necessary adjustments that may be required to be made to uncontrolled transactions to make them comparable to controlled transactions.

Difficulty in application of prescribed methods

The Indian TP regulations have prescribed five methods under law (as prescribed by the Central Board of Direct Tax, ['CBDT']) for the purpose of determination of the arm's length price, viz., (1) Comparable Uncontrolled Price Method (2) Resale Price Method (3) Cost Plus Method (4) Profit Split Method and (5) Transactional Net Margin Method. Further the law enables CBDT to prescribe any other method. However, in practice, no such other method has been prescribed by CBDT till date.

Given the uniqueness of international transactions entered into between related parties in the M&E space, it is often felt that the benchmarking analysis may not always be possible within the purview of the five methods prescribed under law. For example, there may be issues relating to valuation of licenses being transferred between parties or forecasting expected revenues and cash flows to justify the payments being made today for acquisition of certain media / content rights. In such cases, one would often need the support of valuation reports to justify the transaction value. However, technically, since the valuation approach does not find any mention under the law, the taxpayers are saddled with the responsibility of adopting one of the five prescribed methods which may not seem to be the most ideal approach for benchmarking and this poses practical challenges in developing a strong audit defense to support the transaction value.

Conclusion

Given the overall set-up of the M&E Industry, it would be ideal for the law makers to consider the difficulties of the Industry players and issue guidelines that enable taxpayers to adopt unspecified methods to support their TP policy as well as enable them to explain the economic dynamics of the Industry that in many cases would help explain the pricing and the results of transactions entered into between related parties. Separately, it is incumbent upon taxpayers to proactively undertake planning analysis of their complex international transactions and maintain robust documentation to support the arm's length price of their international transactions.

Tax issues impacting the M&E Industry at large

Value Added Tax and Service Tax on copyright

The Union Budget 2010-11, introduced the levy of Service Tax on Copyright Services with effect from 1 July 2010, whereby, the temporary transfer of / permitting use or enjoyment of copyright has been made liable to Service Tax. Under this new category, all forms of licensing of copyright have been made liable to Service Tax, except original literary, dramatic, musical and artistic works. Further, even the negative list of services proposed to be introduced during the Budget 2012 considers the temporary transfer of copyright as a service.

Separately, the Government of various States have classified "copyright" as goods and made the transfer / licensing of copyright liable to VAT.

Therefore, the levy of Service Tax and VAT on the same transaction / consideration continues to lead to double taxation and cause great distress to the Industry. Further, in most cases, the recipient of the copyright is eligible to take credit of either the Service Tax or VAT, but not both, thereby increasing the cost.

The Industry expects that the Government bring out a suitable clarification to do away with such dual taxation of the same transaction, whereby Service Tax is not levied in cases where VAT is leviable.



In last few years there has been a clear revenue shift for the music industry from Physical to Digital. The burden of dual taxation of VAT and Service Tax is eroding the margins of the music companies as Digital operators do not come under the purview of VAT. This anomaly in the taxation structure needs to be addressed on priority basis

- Sumit Chatterjee
Director - Finance & Administration
Sony BMG Music Entertainment (India) Pvt Ltd.

Negative list of services

The Government is proposing to introduce a negative list of services in the Budget 2012, whereby the existing list of services would be done away with and Service Tax would be applicable on all services, except a specified negative list viz. health, education, services provided by the Government, etc. As per the negative list, services have been defined to mean anything which does not constitute supply of goods, money or immovable property.

The proposed negative list could bring within its ambit, services which are presently not liable to Service Tax, for eg. advertisement in print media. The proposed definition of service is very wide and could have the impact of taxing all activities of the Industry, which do not involve supply of goods.

The proposal in the present format would increase the issues faced by the Industry, which is already fighting the anomalies of multiple taxation and absence of cross credits of goods and services, thus leading to increased cost.

It would help the cause of the Industry if the Government reconsiders the definition of "service," taking into account the possible impact it could have on the Industry.

Clear roadmap for implementation of Goods and Service Tax

The introduction of Goods and Service Tax (GST) has been long awaited by the Industry and given the present scenario, there seems to be no clarity as to the exact date of implementation of GST. The introduction of GST would go a long way in reducing the tax costs of the Industry as credits of taxes paid on purchase of goods would be available for set off against taxes payable on services and vice versa. Further, the problem of dual taxation is expected to be sorted out with the implementation of GST.

Therefore, the Industry expects that the Government come out with definitive timelines and steps for the implementation of GST at the earliest.

Also, the Industry expects that other applicable indirect taxes such as entertainment taxes, be part of the GST. If the levy of entertainment tax is kept out of GST, it would be particularly unjustifiable in states such as Maharashtra, where the rate of entertainment tax being levied on films is pretty high. Therefore, entertainment tax should form part of the GST.



Roll out of GST is crucial for the broadcasting community as GST would (1) Subsume entertainment tax in GST which will lower the tax incidence (2) Do away with multiplicity of taxes on the same transaction and (3) give stability from a legislative and compliance standpoint //

- Nitin Nadkarni
CFO
Multi Screen Media Pvt Ltd.



Multiple taxes needs rationalization in this aggressively growing industry. Entertainment tax combined with service tax and VAT is not so encouraging. With most tax components not being pass through, it has to be borne by producers as a cost.

Internationally, entertainment is tax-free in most overseas countries. We expect that establishment of GST should bring in the much awaited tax rationalization. Any reduction can be passed on to the consumer through reduced ATP which will definitely boost the theatre footfalls and contribute to the overall industry growth //

- Kamal Jain
CFO
Eros International



The entertainment tax levied on release of films in cinema halls is irrational. Its the only basic entertainment item being taxed and is also uneven across various states and is in excess of 30-40 percent. The industry has been requesting the central government to help bring parity to it for a while now and waiting for action.

Streamlining of Entertainment tax as a part of the GST reforms and revising of service tax on property rentals for multiplexes is an urgent need of the hour for the industry to grow //

- Anil Arjun
CFO
Reliance MediaWorks Ltd.

Key tax cases impacting the industry

Withholding tax obligation on payment for grant of right to broadcast live events

Recently, the Mumbai Tribunal in the case of *Neo Sports Broadcast Private Limited* (the payer of income) has held that the payment made towards acquisition of right to broadcast live cricket matches is not "royalty".

Neo Sports Broadcast Private Limited had entered into an agreement with Nimbus Sports International Pte. Ltd. ('Nimbus') for obtaining the right to broadcast live matches that were to be played in Bangladesh. The Tax Authorities contended that the payment made for broadcasting of live matches to Nimbus was in the nature of "royalty" for the transfer of "copyright" in the match.

The Tribunal, however, held that the payment will be treated as copyright only when such payment qualifies as being towards a "copyright" under the Indian Copyright Act. Further, the Tribunal held that the taxpayer's case was not covered by the Copyright Act since the cricket matches cannot be equated with either literary, dramatic, musical, artistic work, sound recording or a cinematograph film as is required by the Copyright Act. Also, the Tribunal held that the definition of "royalty" under the IT Act does not include "live coverage of any event". The Tribunal observed that the draft Direct Taxes Code Bill 2010 specifically includes "live coverage of any event" under the definition of "royalty" which is missing in the definition of "royalty" under the IT Act. Further, the Tribunal held that in the absence of any business activity carried out in India by Nimbus, the payment is not liable to tax in India.

KPMG² Comments

This judgment comes as a welcome relief by clearing the controversy surrounding the issue and thereby providing greater certainty vis-à-vis the tax treatment of payment for acquiring rights in live events.

2. 'KPMG' mentioned in the Tax chapter refers to the Indian Registered Partnership firm

Whether payment for distribution of cinematographic films can be treated as royalty?

Recently, the Mumbai Tribunal in the case of *Warner Brother Pictures Inc.*, has held that payments received by it for grant of exclusive rights to distribute the cinematographic films do not constitute “royalty” and are hence not taxable in India. The Tax Authorities had contended that the payment received by Warner Brother Pictures Inc was in the nature of “royalty” for transfer of copyrights, without having regard to the exclusion vis-à-vis rights in cinematographic films from the definition of royalty under the IT Act. In this regard, the Tribunal observed that the definition of “royalty” under the IT Act excludes the payment received with reference to sale, distribution and exhibition of cinematographic films. Accordingly, the Tribunal held that amounts received by Warner Brother Pictures Inc will not be treated as “royalty” and consequently will not be taxable in India.

KPMG Comments

This is a welcome decision, which reaffirms the legal position provided in the IT Act on the issue and will help in mitigating litigation thereon.

Whether transponder hire charges paid by a TV channel company can be classified as royalty

TV channel companies typically make payments towards the lease of transponder capacity to satellite companies, which are usually located outside India. In connection with such payments, withholding tax issues may arise on account of the characterization of payment as royalty or fees for technical service or business income and existence of PE / business connection of the non resident payee (e.g. Satellite Company) in India.

In the case of *Asia Satellite Communications Co. Ltd.*, the Delhi High Court has held that such payments do not constitute “royalty” and in the absence of any operations carried out by Asia Satellite Communications Co. Ltd. in India, are not taxable in India. In this regard, the Court observed that the transponder is an in-severable part of the satellite and cannot function without the continuous support of various systems and components of the satellite. Consequently, it is wrong to assume that the control and constructive possession of the transponder can be handed over by the satellite operator to its customers. Further, it also observed that merely because the satellite had a footprint in India would not mean that the process took place in India. Similar view has recently been taken by the Mumbai Tribunal in the case of *Times Global Broadcasting Co Ltd.*

KPMG Comments

The ruling of the Delhi High Court and Mumbai Tribunal has, for the time being, settled this long-standing controversy and aligned India's position with that of the international community.

Tax incentives and tax planning

Special Economic Zones ('SEZ')

The SEZ regime in the country allows tax breaks to eligible entities on export earnings for a period of 15 years (in a phased manner). Hence, entities engaged in content development, animation, etc. for exports abroad, may explore setting up units in a SEZ to claim tax holiday benefits. It is pertinent to note that with effect from 1 April 2011, SEZ units are liable to pay Minimum Alternate Tax at the rate of 18.5 percent on book profits³.

Nonetheless, the income-tax holiday, the concessions in other indirect taxes, the lower cost of operations by way of lower rents in most SEZs, etc make the SEZ route an ideal mode of doing business for players in the abovementioned sectors.

Intellectual Property Rights

The possibility of tax planning by separating production and distribution rights may be explored in certain cases. An offshore special purpose vehicle may retain and exploit the distribution rights (including satellite broadcasting rights, audio and music rights, video rights, etc.) overseas, in a tax effective manner. Such planning would need to be carefully evaluated depending upon the business model and in compliance with the TP provisions of the relevant jurisdiction as also the Controlled Foreign Company ('CFC') rules proposed to be introduced in the DTC.

Key regulatory updates

FDI in LLPs

In a welcome move, the Indian Government has issued Press Note No.1(2011 Series) dated 20 May 2011, wherein, it has approved the much awaited proposal to amend the FDI Policy in India, now allowing FDI in LLPs.

Apart from the operational flexibility, an LLP has various other advantages such as:

- Profits of LLP exempt from tax in the hands of Partners
- No dividend distribution tax on profits distributed to Partners
- No wealth tax on LLP and on the Partners' interest in the assets of LLP
- No cash trap on account of statutory transfer to reserves and depreciation provision that a company is subject to prior to dividend distribution.

LLPs with FDI will be allowed under the “approval route” in sectors / activities where 100 percent FDI is allowed under the “automatic route” and there are no FDI-linked performance related conditions⁴. The prospect of FDI in LLPs is truly an option worth evaluating for potential foreign players entering the Indian market as also the existing foreign players already having a presence in India. FDI in LLPs paves the way for a tax and regulatory efficient vehicle of doing business in India.

3. The Finance Act, 2011

4. The procedural aspects of inward remittances by foreign Partners in Indian LLPs on account of capital infusion and outward remittances by way of Partner's salary, interest on capital, profit share, etc. are yet to be notified by the Reserve Bank of India. Guidelines in this regard are expected to be notified shortly.

Following sectors in the M&E space could consider availing the benefits of FDI in LLPs:-

- Animation
- Gaming
- Advertising
- Films
- Music.

It is noteworthy that the LLPs (with FDI) are not permitted in certain sectors within the Media and Entertainment space which are under the Government approval route (eg.: FM radio, DTH, publishing of newspaper and periodicals dealing with news and current affairs, etc.).

Proposed increase in FDI in the broadcasting sector

The Government of India has recently proposed a hike in the foreign investment cap in different broadcasting services like DTH and cable TV networks to a uniform 74 percent from the existing 49 percent. The Finance Ministry has given its approval to the draft cabinet note circulated by the Industry Ministry for liberalising the sector. Among different segments, 74 percent FDI would be allowed in mobile TV, an area of future growth. The Department of Industrial Policy and Promotion in the Industry Ministry has suggested that FDI limits in the broadcast carriage services providers, including Head-end in the Sky, must be uniform. However, for the TV news channels and FM radio, the FDI limit will stay at 26 percent. (Source:- Financial Express dated 18 December 2011)

Policy guidelines for uplinking and downlinking of TV channels

The key highlights of the amendment made by the Ministry of Information and Broadcasting ('MIB'), Government of India, vide its Notification dated 5 December 2011, in respect of uplinking and downlinking of TV channels are captured below:-

Uplinking of television channels

- For availing permission for setting up of uplinking hub / teleports, the applicant company should have a minimum Net Worth as prescribed below:

Item	Required Net Worth
For the first Teleport	Rs. 3 Crore
For each additional Teleport	Rs. 1 Crore

The permission fees for the applicant company has been reduced to Rs. 2 lakhs per teleport, per annum.

- For availing permission for uplinking a non-news and current affairs channel, the company should have a minimum Net Worth as prescribed below:

Item	Required Net Worth
First TV Channel	Rs. 5 Crore
For each additional TV Channel	Rs. 2.5 Crore

The permission fees for the applicant company has been reduced to Rs. 2 lakhs per channel, per annum.

- Transfer of permission for uplinking of TV channels
The permission holder shall not transfer the permission without prior approval of the MIB. On a written request from the permission holder, the MIB shall allow transfer of the permission in case of merger / demerger / amalgamation, or from one Group Company to another, provided that such transfer is in accordance with the provisions of the Companies Act, 1956 and further, subject to the fulfillment of following conditions:
 - The new entities should be eligible as per the eligibility criteria including the net worth and should be security cleared.
 - The new entities should undertake to comply with all the terms and conditions of permission granted.
- Renewal of existing permission / registration
Renewal of permission / registration will be considered for a period of 10 years at a time, subject to the condition that the company / channel should not have been found guilty of violating the terms and conditions of permission including violations of the program and advertisement code on five occasions or more.

Downlinking of television channels

- The entity applying for permission for downlinking a channel, uplinked from abroad, (i.e. applicant company) should have a minimum Net Worth as prescribed below:

Item	Required Net Worth
For Downlinking of First (Non-news or news and current affairs) TV Channel	Rs. 5 Crore
For Downlinking each additional TV Channel	Rs. 2.5 Crore

- Transfer of permission for downlinking of TV channels

The permission holder shall not transfer the permission without prior approval of the MIB. In case of transfer of permission of a Satellite Television Channel uplinked from India from one company to another as per the provisions of Uplinking Guidelines, the registration of the channel under the Downlinking Guidelines shall also stand transferred to the new company. In case of companies permitted to downlink channels from other countries, on a written request from the permission holder, the MIB shall allow transfer of permission in case of merger /demerger / amalgamation, or from one Group Company to another, provided that such transfer is in accordance with the provisions of the Companies Act, 1956 and further, subject to the fulfilment of following conditions:

- The new entities should be eligible as per the eligibility criteria including the net worth and should be security cleared.
- The new entities should undertake to comply with all the terms and conditions of permission granted.

KPMG Comments

The new guidelines specify that the transfer of permission of TV channels downlinked from other countries can only take place by way of a merger / demerger / amalgamation as understood under the Companies Act, 1956. It would help the cause of the Industry if the transfer of permission is also allowed under other modes of transfer of business, e.g. by way of slump sale of undertaking, etc.

- Renewal of existing permission / registration

Renewal of permission/ registration will be considered for a period of 10 years at a time, subject to the condition that the company / channel should not have been found guilty of violating the terms and conditions of permission including violations of the program and advertisement code on five occasions or more.

In conclusion

While the M&E sector has tremendous growth potential, prudent fiscal legislation would only help it to perform at its full potential. The Government may do well to introduce appropriate tax and regulatory reforms to enable the Indian M&E sector reach new heights and become truly global.





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