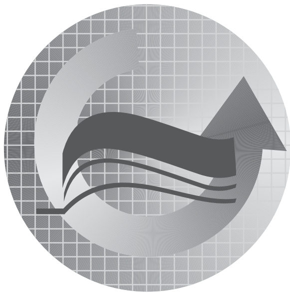

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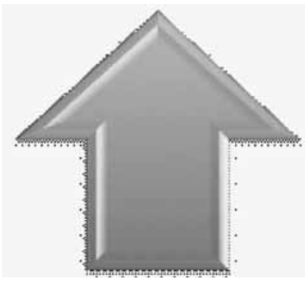
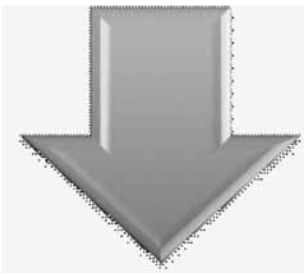
# Media & Entertainment Industry – Value Drivers and Constraints

Size of the Indian Media & Entertainment Industry (M&E) is over ₹ 82,000 crores. M & E Industry had grown over Compounded Annual Growth Rate (CAGR) of 10% during the period of 2006-10 and it is expected that during the period of 2011-16 CAGR would be over 14%. However growth of the industry is largely dependent on development & adaptation of the new technology and consumer's consumption pattern.

Key growth drivers and constraints for the entertainment industry in general are as under:



- Favourable Demographics, increase in income & spend by Middle Class Families.
- Invention of new Technology, Internet, Digitidation, Development of other Media
- Development of Regional Content, Corporate players
- Advertisement Revenue, Growth in Ancillary revenue.



- Lower Average Revenue per user
- Tax & Regulatory uncertainties
- Lack of infrastructure
- Piracy

We may analyse some of the key value drivers and constraints for some of the industries in the entertainment sphere.

## Movies

**Value drivers**

- **Single screen vs. multiple screen theatres:** Over the period of time there has been decrease in number of single screen theatres and at the same time there is gradual growth of multiple screen theatres/multiplex. Either single screen theatres have closed down or have been converted into multiple screen theatres. Each screen of multiplex is with a lower seating capacity as compared to single screen. This results into higher average occupancy rate. Further multiplex also enjoys direct and indirect tax breaks. Various worldwide multiplex chains had also entered into Indian markets e.g. Mexican Multiplex Chain Cinepolis.

- **Ancillary Revenue:** Exhibitors earn revenue from ancillary sources like sale of food and beverage, vehicle parking charges. Usually multiplex are developed at a shopping complex /mall, with/without gaming zone. Shopping complex helps to attract higher footfall which is mutually beneficial to retail shopping and the multiplex. Newer lines of revenue are being explored by the movie producers such as pay per view from DTH operators, sale of merchandise, sharing contents with telecom for providing VAS, sale of satellite rights, etc. besides traditional sources like sale of music rights, home video rights, etc.

- **Digitalisation:** Now new theatres are developed on digital formats and existing single screen are also adopting new digital technology. This helps to exhibit same movie simultaneously at large number of screens, across India at the time of release. Further this also eliminates cost of developing prints for exhibition in these theatres.

- **Overseas release:** Going by the recent trend Indian content is accepted at other overseas market like Middle East, Pakistan besides US and UK. Further large number of Indians placed abroad also fuels the demand from overseas territory.

- **Movie supply:** Every year more than 1,500 Indian movies in Hindi and other regional languages are released in India. In addition to this Hollywood movies are also released in India either in English or are dubbed in Indian languages or in both languages.

- **Good demand at regional market:** There is also growth in demand with Tier II and Tier III cities across the country.

- **Corporate player:** Traditionally production houses are largely in the individual capacity or in unorganised sector. Over the period, production houses have corporatized themselves, entered into joint venture with foreign large players or are absorbed by foreign players e.g., UTV taken over by Disney. Corporate also have comparative easy access to capital market, private equity, etc.

**Key constrains**

- **Piracy:** Piracy is one of the biggest issues faced by the industry. Due to piracy industry is not able to monetise its contents.

- **Cost of new theatre:** Cost of building new theatres or converting single screen into multiplex continues to be high. Cost of developing multiplex is around ₹ 150 lakh and redeveloping existing theatre is in the range of ₹ 1,000 to 1,250 per seat.

- **Quality of content:** Sector growth is limited due to availability of quality contents.

- **High cost:** Slowdown, inflationary pressures and easily available pirated contents reduces footfalls to the theatres.

- **Success ratio:** High cost of production coupled with lower commercial success ratio, increases the struggle of the various parties of the supply chain.

- **Sports:** Development in the sports like IPL and cricket season like world cup, T20 world cup has hampered the release of new movie during the IPL season etc.

- **Lower average revenue per person:** Though India is a country with huge population, but average revenue per user is very low. Hence industry can earn only on large volumes.
- **Infrastructure:** Production of good movies is highly dependent on quality of studios and recording houses. But in a country there are limited advanced and equipped studios as compared to international studios.
- **Tax and regulatory issues:** Indirect tax like entertainment tax is very high. Further levy and collection of taxes vary not only from State to State but also within the same State.

## Television industry

**Value drivers**

- **Liberalisation:** Up to late 80's television broadcasting was mainly with the State owned companies. With the opening of industry to private sector broadcasters, change in television industry has seen sea change.
- **Regional content:** Regional diversity creates strong demand for regional contents with Tier II and Tier III cities.
- **Launch of niche channel:** Tapping the requirement of changing lifestyle, various Indian and international broadcasters have launched niche channels on sports, business, children - cartoons, etc. e.g. Like OK (Star & Viacom 18), Disney (UTV Starz).
- **Last mile compulsory digitisation:** It has been statutorily prescribed for compulsory digitisation of last mile distribution in a phased manner. This would not only curb revenue leakages but also can be a game changer and driver in value creation. Digitisation would also have capacity to deliver many more channels as compared to current analogue system.
- **Broadcasting alliance:** Last mile distribution is largely through the cable operators. Broadcaster lose subscription on account of underreporting by cable operators. Now with the formation of broadcaster & distribution alliance (e.g. Star India, Den Network and Zee Turner) and compulsory digitation, subscription loss may be minimised.
- **Favourable regulatory environment:** Regulatory steps like compulsory digitisation, higher FDI limits for DTH, etc. would create conducive environment for investment in product development, acquisitions, etc.
- **Corporate players:** Higher investment by the corporate players and merger/ alliances/network amongst the domestic players and foreign players helps in creating quality contents and delivery.
- **Development of DTH:** With the development of DTH, personalised and premium services can be offered to the viewers as per their choice.
- **Broadband:** Internet innovation with the introduction of broadband, 3G & 4G networks, newer platforms like IPTV has been launched in India.
- **Live sports:** Cricket world cup, IPL, etc. have created new peaks in viewership which has resulted into higher advertisement revenue.

**Key constraints**

- **Lower Average Revenue Per User (ARPU):** Though India has third largest viewers after US & China, ARPU is under pressure. This may improve and grow at faster pace, post digitisation.
- **Advertisement driven:** Television industry is largely advertisement driven. Various

factors like economic slowdown, quality of content plays important role in generating advertisement revenue.

- **Regulation:** Broadcasting contents and timelines for broadcasting is highly regulated.
- **Taxation:** Multiple taxation and lack of clarity on taxation front create added challenges for the industry.
- **TRP evaluation:** There is need to improve measurement tools for measuring viewership.

## Radio

### Value drivers

- **Mobile handset:** Supply of low cost mobile handsets with FM capabilities has made FM radio within the reach of people of lower income group, which lead growth of FM radio. Further person while on move are also the user of FM radio.
- **Phase III policy:** With the introduction of FM radio Phase III policy, FM radio would be available in all cities with population of 100,000. Further longer licence period of 15 years will help players to recoup their cost over the period. Reduction in maintaining shareholding period from 5 years to 3 years will help consolidation and M&A activity.
- **Mobile VAS:** Various mobile operators or FM radio players in association with the mobile operators has introduced mobile radio as a VAS services e.g. RadioGAGA for Airtel User. Radio Player viz. Radio Mirchi and Big FM have launched mobile radio. Using the mobile application listener can enjoy Mumbai Radio Station from any city in India.

### Key constraints

- **Content differentiation**: Film music is the basic format of the Radio industry. There are limited efforts for content innovation.
- **Revenue sharing models**: Considering revenues earned by operators under Phase II licence and royalty issue, higher minimum reserve price for e-auction of phase III licences may be a point of concern. Further CCI investigation for sharing of royalty is also pending.
- **Limited FM Radio channels:** As compared to developed countries numbers of FM Radio channels are limited. Cities like London, New York has 40+ radio channels, whereas in India active places like Mumbai has only 8-9 FM radio channels. This provides limited choice to the listeners and also low revenues in the form advertisements, etc.

## New age media

Broadband and mobile Internet connections are now within the reach of Indian middle class. It is estimated that by 2016 total number of internet users would reach 70 per cent of television viewer. This provides favourable environment for increased consumption of online media through smart phones, tablet, etc. Further declining cost of smart phones, availability of low cost tablets in market and usage of internet on these devises would increase consumption of online space in days to come. Alliance amongst the technology partner and content providers would lead growth in this sector, e.g. recent investment by Reliance into TV18 group.