Media & Entertainment in India
Digital Road Ahead
Contents

Message from Deloitte Touche Tohmatsu India Pvt Ltd 4
Message from ASSOCHAM 6

Television 8
  Television is the ‘King’ 8
  Television – Revenue Streams 8
  Television – Value Chain 13
  Policy & Regulatory Framework 22
  FDI limits for investments in Television Industry 23

Films 25
  Indian film industry: Marching towards completion of 100 golden years in 2013! 25
  Key revenue streams 26
  Segments 28
  Distribution 28
  Exhibition 28
  Key challenges and opportunities 29
  Way forward 31

Animation and Gaming 32
  Animation 32
  Gaming 32
  Animation 32
  Size, Growth & Segments 35
  Recent Trends and Growth Indicators 35
  Indian Animation Entertainment Industry: Overall Outlook 37
  Gaming Industry 38
  Size, Growth & Segments 40
  Recent Trends and Growth Indicators 40
  Online Gaming 41
  Emerging Channels to promote gaming 41
  Customisation and advanced gaming 41
  Indian Animation & Gaming Industry: Future Outlook 42

Bibliography 43
Acknowledgements 44
The three focus segments of this paper: Television, Films and Animation & Gaming are set to ride the digital wave as digitalization starts showing profound impact on India’s Media and Entertainment industry.

Television in India is the most preferred entertainment medium with the highest impact of advertising on the audiences. India has the third largest TV households globally, second to only China and the US. However, the digital TV penetration in India is very low at 36% as compared to more than 90% in countries such as Finland, Spain, UK, Bahrain, Saudi Arabia. As a means to bring addressability into the system, the Ministry of Broadcasting recently accepted the recommendations made by Telecom Regulatory Authority of India (TRAI) on the sunset of analog transmission in India by 2014. Adherence to the sunset date would certainly have a positive impact on the media content distribution sector in India. Digitalization is not only expected to help players in the television value chain to realize the true potential of their content, but also to cater to the unique and diverse needs of the viewer when it comes to entertainment.

Indian film industry is proudly marching towards completion of 100 golden years. From the humble beginning through a silent film made in 1913 to Indian film-makers producing films in English, Indian film industry has truly come a long way. Impact of digitalization can be visibly seen in films right from the conceptualization and production stages to distribution and exhibition of films across platforms in India as well as abroad. Going forward, the film segment in India is expected to further reap the benefits of going digital with digital prints, digital cinemas and more sophisticated digital production techniques.

While the Indian animation industry is all set for an enhanced outsourcing pie from global players, it is also prepared to move up the value chain and play a larger role in the overall animation and gaming ecosystem. Where earlier only post-production work used to be outsourced from Hollywood studios, Indian studios are now looking to create their own IP through innovative business models. Also, with the popularity of 3D, a large amount of 2D-to-3D conversion is being done by indigenous studios.

The future of India’s media and entertainment landscape looks extremely promising with changes such as analogue cable sunset date by 2014, and players in the overall media value chain attempting to provide improved content to viewers through effective marketing and delivery strategies.

Sachin Sondhi,
Senior Director,
Deloitte Touche Tomhatsu India Pvt Ltd
The media and entertainment industry is at an inflexion point with digital being the buzzword. Rightly so, every segment within the media and entertainment ecosystem is getting impacted by digitalization in a significant way. The Government’s push towards digitalization and addressability for cable television by 2014, is expected to provide an impetus to DTH and digital cable growth. Similarly, more sophisticated digital production and post-production techniques coupled with the factors such as foray of big corporate houses across the film value chain, growth of digital distribution and exhibition, primarily through increasing penetration of multiplexes are increasingly influencing the film segment in India.

Additionally, convergence between entertainment, information and telecommunication is increasingly impacting India’s overall media and entertainment industry. Significant advancement in media devices over the last decade ensures that the same content can now be accessed on a variety of media platforms. This implies new business models and revenue streams not only for content providers, but for a variety of new players becoming a part of the new media ecosystem.

With increasing importance of new media along with customers increasingly adapting their preferences to the new media devices and technologies, the media and entertainment sector certainly is marching towards new horizons of growth.

Sandip Biswas,
Director,
Deloitte Touche Tomhatsu India Pvt Ltd
It gives me immense pleasure that ASSOCHAM has made significant contribution for the development of Media & Entertainment sector in India. For the past few years, it has been very actively involved in creating an interface among the Media & Entertainment industry, the Government and the end users through timely reports, summits and recommendations.

The recent recommendations of TRAI for the implementation of digital addressable cable system in India will witness a paradigm shift in the broadcasting sector and unlimited growth potential for the industry.

The report on the Media & Entertainment industry is a move in the same direction. We hope this report will help the Government, industry and other stakeholders understand and tap the opportunities that exist in digitalization.

**D.S. Rawat**
Secretary General,
ASSOCHAM
Digitalization is the inevitable path forward, to achieve better quality viewing and transparency in revenue earning and sharing. A true digital environ to give superlative experience will call for digital content, riding on digital platform, viewed on a digital screen.

Content protection that can easily be integrated into an end-to-end digital system can curb piracy, which leads to huge pilferage. Convergent billing system as a part of the solution will give healthier bottom-lines, by making the system leak-proof. Digitalized value chain would also enable both central and the state government to earn major taxes, while creating an encouraging growth environment through consumer friendly tariff regime.

Recognizing the limitations and inability of the traditional cable to keep pace with the growing demand of the industry; Ministry of Information and Broadcasting has accepted TRAI’s recommendation of ‘sunset of analogue transmission on the cable’ by December 2014. The TV distribution system would be digitalized in a phased manner within the given time frame. Digitalization is expected to bring addressability into the system, superior viewing experience and value added services (VAS) which in effect would have a positive bearing on the ARPU, which today is one of the lowest in the world.

The popularity of addressability is well established by the huge uptake of DTH services by the consumers, serviced by six operators. The potential of the volume of this business is huge in terms of service and hardware sale. In fact it will give the global hardware market a great boost, as the world’s largest market transforms digital. The whole advertising world would also go through a metamorphosis with addressability being a reality, opening up unconventional revenue streams.

In effect digitalization will be a win-win-win for customer-operator-government. Digital film is another aspect of the Digitalization era. If tape-less is the path forward for broadcasters then celluloid-less is the way ahead for the film makers. India like China has seen an intermediary phase of digital discs being physically transferred, to save the cost of satellite distribution. This “Village Cinema” model, though is a step ahead of analogue cinema, but, is not a full-proof model.

Digital cinema with satellite distribution is the only effective way to fight piracy. It brings down the cost of multiple prints and logistics of physical delivery. Simultaneous release in multi-locations helps in recovering cost within a short turn-around time, reducing the inherent risk exposure. India already has four operators in this space.

The speedy migration to digital is what the industry is looking forward to. The Government has a huge role to play by framing the right policies.

The caterpillar is soon to grow into a colorful butterfly....

Let’s go digital!

Sujata Dev
Co-chairperson,
Media & Entertainment Committee, ASSOCHAM
Television

Television is the ‘King’

Television (TV) plays a major role in the flow of information and is equipped with the power to influence people, their beliefs and their opinions. Being a visual medium, its impact transcends the social and educational background of its viewers; more so, in a diverse country like India, where TV dominates the Media & Entertainment landscape as the preferred choice of entertainment.

A global Deloitte study on ‘Media democracy’ in 2010 across over 2000 respondents confirms this domination and throws some interesting insights. Media consumption habits of consumers in Metro & Tier 1 cities in India closely resemble the sophistication to that of consumers in developed markets, like the UK and the US. On the other hand, media consumption habits of consumers in Tier II cities and rural areas are less sophisticated. However, TV remains a favorite media source for most consumers across age irrespective of domicile: 92% of the respondents rank ‘watching TV’ as their top media source while 94% respondents consider ‘advertising on TV’ as the most influential media source to impact their buying decisions.

While the media & entertainment market (M&E) in India is relatively small when compared with other countries, India has the third largest television market, in terms of number of viewers after China and the US. TV continues to dominate the M&E sector followed by print and filmed entertainment. The television sector in India has grown at −12%p.a. (2007-2010) and is estimated to continue this strong growth, owing to healthy advertising spends and increased penetration in semi-urban and rural areas, mainly by DTH. By the end of 2011, the industry is estimated to reach US$ 7.1 billion, a growth of −14% over 2010.

Television – Revenue Streams

In 2010, subscription revenues contributed around 63% to the total television revenues and stood at US$ 3.9 billion; while advertising constituted 33% at US$ 2.1 billion. The television content constitutes approximately 4% to the total television market at US$ 260 million. Despite one of the lowest average revenue per user (ARPU) for paid television in the world, TV distribution dominated the total Television revenue pie and saw a strong growth of −15% in 2010, largely on the back of rapid DTH expansion. TV Advertising which has a high contribution towards broadcaster’s revenue grew at 13% in 2010.

Figure 1: Extract of Deloitte Media Democracy Survey 2010

Source: IBEF, Industry estimates

Figure 2: Size of TV Industry in India

Source: IBEF, Industry estimates
i. Television Advertising

TV gets the highest of advertising spends amongst all the advertising mediums. Post the economic downturn, the advertising spends on TV has rebounded to a double digit growth. First half of 2011 hosted two mega events, the World Cup and fourth Indian Premier League, on the most popular sport in the country–Cricket. This gave a further boost to TV advertising. On back of this robust advertising spends in 2010 top broadcasters like Star, Zee and Sun have increased their rack rates. The advertisement spends on TV are expected to grow at around 12-14% in short to medium term and further it is expected that TV will continue to be preferred to other media for advertising.

Advertising revenue contributes almost 2/3rd to Broadcaster’s topline. Top five media buying agencies control almost 3/4th of the advertising spend in the country. With almost 600 channels operating, consolidated media buyers have significant power over the fragmented sellers. Hindi and regional channels garner majority of the advertising spends, followed by movies and news.

Interestingly, 9 of the Top 10 advertisers on TV are from FMCG, and account for over 45% of TV advertising volumes. Players such as HUL, Reckitt Benckiser and P&G intensely compete with each other on television advertising. Many other leading FMCG players have also joined the TV advertising battle; given that TV broadcasting has historically been an effective advertising vehicle for consumer products. Apart from FMCG, sectors such as telecom, automobile, and consumer durables have also joined the TV advertising bandwagon. Currently, these four sectors have almost 3/4th share in the TV advertising spend pie.

With increased digitalization of the distribution system, new and niche channels will provide increased inventory...
and options to the advertisers to reach their target market. However, this increase in inventory would put pressure on the rack rates facing mostly the smaller players. Major broadcasters, however, on back of large and established viewer base should be able to continue commanding a premium.

**ii. Television Subscription**

Television subscription is the amount collected from pay TV households in the country. In a typical scenario, the subscription amount is collected either by the Local Cable Operators (LCOs) or the Direct-to-Home (DTH) players depending on the type of pay TV connection the end user has subscribed to. The amount collected by LCOs is shared between multi-system-operators (MSOs), the broadcaster and the LCO. In case of DTH, the amount is shared between the broadcaster and the DTH player. As per industry estimates, the number of LCOs operating in the country is 50,000+ while number of multi-system operators (MSOs) is 7,000+, along with six direct-to-home (DTH) operators. The industry is highly fragmented with top five MSOs accounting for less than 1/3rd of the revenue. Due to the high fragmentation and dominance of non-addressable analogue cable, the industry suffers from under-reporting of subscriber numbers by as much as 75% and low ARPU realization.

Till 1990, TV Households (HH) were dominated by Doordarshan (DD) through free-to-air (FTA) terrestrial signals. Liberation and live transmission of First Gulf War by CNN in the country saw emergence of Direct-to-Home (DTH) players. And subsequently by ZEE. Currently digital DTH made addressable system is the torchbearer of growth in HH. Due to technological advantage over incumbent analogue cable, DTH has been able to connect semi-urban and rural area to the world of Indian Television channels.
Despite being the third largest pay TV subscribers market, India, in terms of pay TV revenues is a distant ninth behind North American and Western European countries. Under reporting by LCOs and high competition between the DTH operators has ensured low ARPU in the country.

Recognizing the limitations of the traditional cable, The Ministry of Information and Broadcasting has accepted the Telecom Regulatory Authority of India (‘TRAI’)’s recommendation of ‘sunset of analogue transmission on the cable’ by December 2014. The TV distribution system would be digitalized in a phased manner. Digitalization is expected to bring addressability into the system, superior viewing experience and value added services (VAS) which in effect would have a positive effect on the ARPU.

Currently, India is the third largest digital market on basis of subscribers mainly due to increased DTH push. However, in terms of overall digital penetration it remains extremely low. This presents a compelling case for digitalization.

Figure 6: Top digital countries and India at end-2010

### iii. Television Content
Most channels produce their own television content. Given the increasing demand for differentiated content, a handful of quality content creators have emerged who sell television content to channels. This contributed about 4% of the overall television industry in 2010 at US$ 260 million, a growth of 12% over 2009. Due to increased number of channels, there is a need for differentiated and niche content; TV content segment is expected to surge further.

The last few years witnessed a near explosion of the number of television channels in India. From the black and white television broadcasting on a single national television channel (Doordarshan) in 1980s to almost 600 channels operating in India with almost 1/3rd channels operating in GEC (General Entertainment Channels) space – Indian television industry has truly come a long way.

Source: Digital TV Research Ltd
This explosion of channels and intensive competition started the scramble for differentiated and niche content pushing up the content cost. As per industry estimates, typically non-fiction shows cost ~Rs 8-10 lakhs per episode with costs rising at 15-20% per year. Reality shows on the other hand can cost anywhere from Rs 40-70 lakhs per episode for medium budget to Rs.2.25-3 crores per episode for shows with high celebrity quotient. Growing reliance on non-fiction and Bollywood content has also pushed up the overall content cost for a broadcaster.

**Television – Value Chain**

TV value chain consists of three main players, content creators, broadcasters and distributors. Content creators produce the TV programming which is aggregated by broadcasters and aired to the end user through the pipe providers i.e. Cable, DTH.

---

i. Television Value Chain – Broadcasters & Content creators

The Indian television broadcasting segment currently has more than six genres. Niche and differentiated content targeted towards specific needs and tastes of consumers have primarily driven the number of genres at national and regional levels.

Figure 9: Viewership across TV Genres in India (%)

i. GEC (General Entertainment Channels)

a. National GEC:

Colors in 2009 disrupted the position of the incumbents STAR, ZEE and Sony with the right balance of innovative content and distribution. 2010 saw an interesting race between the four channels for the top slot. STAR was able to remain in the top slot of most part of the year with ZEE and Colors fighting for the second spot. Sony, which remained in the sideline for most of the year,
has very recently been able to grab the second spot on the strength of KBC and Bade acche lagte hai. Major channels are trying innovative strategies like introduction of weekend and late night prime time bands to attract advertisers. Here are some key highlights of emerging changes in the Hindi GEC space in the last calendar year:

• Rebranding exercise by STAR followed by ZEE to connect with younger audiences
• Emphasis on non-fiction and Bollywood content to garner more eye balls
• International expansion by top channels
• Successful regional channels being remade for National GEC
• Increased deals for new Bollywood content to garner more eyeballs

b. Regional GECs:
Regional GECs have emerged as key focus areas for most of the players due to its connect with Non-Hindi Speaking Market audiences. The number of operational regional GECs is four times of national GECs. Regional channels are attractive for advertisers due to lower cost of connect with the right audience. For the broadcasters the attraction is due to lower cost of content and distribution costs coupled with increasing advertiser’s interest. Regionalization has caught the eyes of most established broadcasters, catering to specific interests of the viewers:

• Tamil, Malayalam, Telugu, Kannada, Bengali and Marathi are the key languages in the regional GEC space
• Sun TV Networks has been a leading TV broadcaster in the South Indian television market
• Infotainment channels like National Geographic and discovery launched Telegu and Tamil feeds

National broadcasters are increasing their presence in the regional market while the regional players are increasing their penetration through niche channels.

ii. News channels
India has one of the highest numbers of news channels in the world with almost 150 channels in the genre. The major attraction for players in this space stems from factors like political ambition and driving public opinion besides profitability. English news channels command the highest advertising rates due to their connect with male urban audiences, while Hindi news channel garner major share of total advertising pie.

iii. Music
Few years ago, there were 12 pure music channels. Today, the genre is experimenting between pure music and youth centric reality content. Mastii, a new channel launched by Sri Adhikari Brothers relies mostly on pure music content, as traditional players like Channel V and MTV are positioning themselves as youth channels. This has led to blurring of lines as channels try to retain audiences.

iv. Sports
Sports channels in India have increased manifold over the last few years, primarily on the back of Cricket. Traditionally, Cricket had been the major driver for sports channels; however, other sports like football and F1 have also started attracting loyal fans although still in a nascent stage.

2011 saw two major cricketing events, the Cricket world cup and IPL 4. With India winning the World cup, sports channels garnered huge TRPs and advertising revenue on the back of India’s performance. However, as per reports, IPL 4 did not perform as well as previous editions of the event. All together both the events together garnered large share viewers and consequently the advertising pie.

v. Kids
After GEC, Movies and news, Kids channels have the largest share of viewership. The channels are responding well by incorporating increasingly vivid, superior and local content. The year 2010, saw regionalization in this genre with national channels starting Tamil & Telugu feeds, while SUN starting a dedicated kids channel in Tamil. This genre has tremendous potential to grow given that the target audience for the ‘kids’ channels is not only kids, but also some viewers from the adult segments.

Emerging Trends & Opportunities

Increasing HD Channels
Increasing digitalization and need for differentiation coupled with penetration of LCD and LED screens would propel more channels to launch HD feeds. 2010 saw launch of two HD specific channels Food Food, a food specific channel and Movies Now, English movie channel. Other big launch was by BIG-CBS, a joint venture between RBNL and CBS, which launched three channels, BIG Prime, BIG Spark and BIG Love targeted specific at urban audiences. The competition amongst broadcasters is expected to increase further with Government approving 75 licenses for launch of new channels or re launch of existing channels in HD after a two year freeze. The major players who are launching new channels and HD channels are Discovery, UTV, Fox, ZEE and STAR amongst others.

Content Repurposing
Traditionally TV content is aired in predefined timeslots on Television within a limited period. However, to sustain in a highly competitive Indian television industry, the content owners have to identify new revenue sources from the existing content. One of the immediately deployable solutions could be repurposing of the existing content. Repurposing can be done through the conventional television media or through emerging media like smart phones, internet access through desktops and laptops, 3G/4G enabled handheld devices etc. The final aim of repurposing is make the content available through cataloging and categorizing it in such a way that it would be able to reach the right audience at the time and through the medium of their choice.
The competition amongst broadcasters is expected to increase further with Government approving 75 licenses for launch of new channels or re-launch of existing channels in HD after a 2 year freeze. The major players who are launching new channels and HD channels are Discovery, UTV, Fox, ZEE and STAR amongst others.
Most of content can be repurposed based on conditions like content relevance, customer demography, customer preferences and push methods available to reach the customer. This can be easily achieved by digitalization of the content. Other major component of content repurposing are:

- Tagging the existing content and mapping it with a metadata.
- Using robust content management system to upload, deliver, update, archive and retire the contents.
- Managing accurate demography details of the customers in order to deliver preferred content in both pull and push modes.
- Capturing analytics for monitor and refining the content usage.

Some of the advantages of content repurposing are:

- Extra revenue from the existing contents, in effect increasing its shelf life
- Customer specific contents
- Demography based targeted ads
- Utilization of user data generated for developing targeted content
- Digitalization and tagging will ease content management
- Availability of content in non-broadcasting countries and areas

ii. Television Value Chain: Distribution

DD covers around 131 million households through 1000 transmitters\(^1\). The cable & DTH covers little more than 10 million households, making India the third largest pay

---

\(^1\) India–Broadcasting & Digital Media – Paul Budde Communication Pty Ltd, 2011
TV market. There are multiple organized players that are providing satellite signals directly to the homes. New digital mediums are emerging – DTH, Digital Cable and IPTV led by DTH which has been the epitome to growth in C&S HH through 2010. There are approximately 37 million digital homes – 28 million out of these are on the DTH platform. DTH players have been rapidly expanding in the rural areas, with addition in more subscribers in than urban.

Digitalization is expected to speed up both on account of DTH and digital cable.

- An industry report by Digital TV research Ltd. estimates digital market in India to be the 5th largest in the world in terms of revenue by the end of 2015.
- Another industry report by IDFC suggests, four times growth in digital homes to 86 million by 2015. This would potentially address the ‘under-reporting’ of revenues earned by local cable operators. DTH would constitute 48 million homes (28 million in 2010) and cable would be 38 million homes (as against 9 million in 2010)

This indicates digitalization is underway and the television distribution is moving towards being more organized.

The Ministry of Information and Broadcasting recently gave a shot in the arm of digitalization by accepting sunset date of December 2014 for the analogue transmission on the cable.

1. **Analogue Choke and under declaration**

Cable television came into existence in India in 1983 when Doordarshan started its services on cable networks in rural areas of Rajasthan. In 1989 few entrepreneurs setup small Cable TV Networks and started local video channels showing movies & music videos catering to a small neighborhood. Satellite television was introduced in India during 1991 with the live coverage of the Gulf War by CNN and spread through the launch of channels from Zee and STAR groups.4

The LCO model was sustainable in the beginning, since the number of channels was limited. However, with the increase in number of channels and subscription charges (due to both increase in subscription rate & number of pay channels), LCOs started facing operational problems in terms of increase in investment requirement and fragmented negotiation power with broadcasters. This led to the advent of MSO as aggregator & provider of channel feeds. The MSOs also represented the collective negotiating strength of the LCOs.

Owing to lack of early regulation, ease of set-up and rapid growth in C&S households, the number of LCOs servicing the country has increased rapidly. Currently, 50,000+ LCOs service the Indian C&S market. Due to this fragmentation, the cable network today is dominated by analog technology, which is characterized by low channel carrying capacity and little addressability. These factors have resulted in power being concentrated with the LCO, giving him the ability to garner

---

4 “Restructuring of Cable TV Services”, TRAI, July 15, 2007

**Figure 11: Digitalization Sunset Dates**

<table>
<thead>
<tr>
<th>Phase</th>
<th>Areas Suggested</th>
<th>TRAI initial recommendation (5th August 2010)</th>
<th>I&amp;B Proposed Schedule (28th January 2011)</th>
<th>Revised timelines recommended by TRAI (22nd February 2011)</th>
<th>Final schedule by I&amp;B Ministry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase II</td>
<td>Cities with Population more than one million</td>
<td>31st December 2011</td>
<td>31st March 2012</td>
<td>31st December 2012</td>
<td>31st March 2013</td>
</tr>
<tr>
<td>Phase IV</td>
<td>Rest of India</td>
<td>31st December 2013</td>
<td>31st March 2015</td>
<td>31st December 2013</td>
<td>31st December 2014</td>
</tr>
</tbody>
</table>

Source: TRAI, Ministry of Information & Broadcasting, IDFC
approximately 75% of the subscription revenue, rest 25% being shared between the broadcaster, MSO and the regulator.

On an average, the last mile operator can carry 60-70 channels on his analog network due to technological constraints versus approximately 600 channels available in the country. This demand-supply mismatch has fueled the inorganic growth in distribution cost for the broadcasters in terms of carriage and placement fees. The broadcasters paid an estimated amount of US$ 333 million (INR 1,600 crores) as carriage & placement fee in 2010\(^1\). Carriage fee outgo depends on the negotiating power of the broadcaster which is based on the genre and pull of a channel. In case of a new channel or niche channel carriage fee can make the business almost unviable.

2. Digitalization as long term solution

Digital platforms like Digital cable, DTH, IPTV will overcome the technological challenges of analogue with increased carrying capacity of the pipe to customer while being addressable.

![Figure 12: Strengths and Weakness of various TV distribution channels](http://www.afaqs.com/news/story.html?sid=30603_Behind+the+smokescreen+called+carriage+fees)

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analogue Cable</td>
<td>• No further special infrastructure requirement</td>
</tr>
<tr>
<td>Digital Cable</td>
<td>• Limited capacity to carry channels</td>
</tr>
<tr>
<td>DTH</td>
<td>• High cost of infrastructure</td>
</tr>
<tr>
<td></td>
<td>• Placement of CPE</td>
</tr>
<tr>
<td></td>
<td>• High cost of placing new cable/fiber to reach subscriber (if required)</td>
</tr>
<tr>
<td></td>
<td>• Enhanced picture quality</td>
</tr>
<tr>
<td></td>
<td>• Bypass the constraints of terrestrial transmission</td>
</tr>
<tr>
<td></td>
<td>• Last mile connectivity directly to the home of the subscriber through satellite</td>
</tr>
<tr>
<td></td>
<td>• Lack of return path</td>
</tr>
<tr>
<td></td>
<td>• High Cost of start up infrastructure</td>
</tr>
<tr>
<td></td>
<td>• Placement of CPE</td>
</tr>
<tr>
<td></td>
<td>• Effect of weather on transmission</td>
</tr>
</tbody>
</table>

\(^1\) http://www.afaqs.com/news/story.html?sid=30603_Behind+the+smokescreen+called+carriage+fees

On an average, the last mile operator can carry 60-70 channels on his analog network due to technological constraints versus approximately 600 channels available in the country.
Digitalization of the cable network, which was perceived as a long-term solution, has not taken off due to high cost of network upgrades & STBs, low consumer education on the benefits and the failure of Conditional Access System. Currently, most of the investment in this sector goes towards buying the subscriber base from the LCO, with little left for network upgrade.

3. Consolidation – the game changer?
• Currently, the broadcasters are reeling from the effect of high carriage fee and low subscription realization from dominant analogue distribution system. Although digital platforms like DTH have partially been able to address the realization of subscription revenue, they have also started charging carriage fee due to transponder crunch. Recently even Doordarshan has introduced carriage fee on its DTH platform6.

• To reduce their dependency on advertising revenue and address the effects of the current distribution system on the margins, STAR and ZEE have recently announced merger of their distribution arms. This would have a profound impact on the industry due to collective bargaining power of the top two GECs led channel bouquets. Already, TV 18 and Sony have initiated talks to merge their distribution arms7. The coming year will be interesting to watch the results and impact of these alliances on the TV distribution landscape.

In the month of May, STAR and ZEE announced the merger of their distribution arms STARDEN media services and Zee Turner into a new company Media Pro Enterprise. The new company would distribute all the channels in STAR and ZEE bouquet consisting more than 70 channels.

• Due to increased bargaining power, the new alliance would be able to realize
  - better subscription revenues from the cable operators
  - reduce carriage fee for the channels in its bouquet
• Cost savings through synergies in distribution

• Aid rapid digitalization which would curb piracy, and introduce transparency in the value chain
• Carriage fee for other broadcasters not part of the alliance might go up
• Force consolidation between other broadcasters’ distribution arms. As per industry reports, Sony and TV 18 are in talks to merge their distribution arms The One Alliance and Sun18
• Force distributors to consolidate. As per industry reports, four big MSOs, Digicable, DEN networks, Hathaway and Incable are in talks to form an alliance

Policy & Regulatory Framework
Improvements in the current taxation regime and increased FDI limits could aid the goal of digitalization in India.

Current Taxation Regime for Digital distribution players
Currently, the Digital Cable and DTH sectors is reeling under multiple taxation structure. The taxation applicable on Cable and DTH, currently are as follows:

Figure 15: Taxation on Cable and DTH sectors

<table>
<thead>
<tr>
<th>Taxation on Cable &amp; DTH service</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Tax</td>
<td>10.3% of the subscription amount</td>
</tr>
<tr>
<td>Entertainment Tax</td>
<td>On average 30% of the subscription amount</td>
</tr>
<tr>
<td>Cumulative tax burden</td>
<td>Up to 40.53%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxes on Customer Premise Equipment ('CPE')</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Duty on Set Top Boxes ('STB')</td>
</tr>
<tr>
<td>Excise/CVD</td>
</tr>
<tr>
<td>(i) VAT on Sale</td>
</tr>
<tr>
<td>(ii) VAT on Rental of CPE (Right to Use)</td>
</tr>
<tr>
<td>Entry/Octroi</td>
</tr>
<tr>
<td>Cumulative tax burden</td>
</tr>
</tbody>
</table>

Source: Industry Estimates, ASSOCHAM
Cable TV and DTH Services (which is essentially the transmission of programme (images, audio, video, etc. through radio frequency) is effectively being taxed thrice

- As ‘Services’ by the Central Government
- As ‘Entertainment Services’ by the State Governments, and
- Also being taxed as a local service tax by assigning a different nomenclature i.e. entertainment tax, thus making the cumulative tax as high as 40.53%

Similarly, cumulative tax on Customer Premise Equipment (CPE), 80% of which is imported and is expected to stay that way is very high. This has made the entry cost very high for the consumers.

The digital distribution sector which is already subsidizing the STB for new customers, to provide their services at competitive rates is facing longer payback periods. Further, the high cumulative tax burden on services and equipment has become a major stumbling block for rapid Digitalization of the industry.

As an example of effect of addressable digitalization, uptake of DTH services by the consumers has resulted in a clean and transparent revenue generation medium for the government. By way of an example, last publicly available CBEC report in 2005-06 shows only Rs.75 crores of service tax as being collected from the analogue cable sector whereas the 6 DTH operators together are paying much more than Rs. 75 crores in service tax alone.

We believe a balanced approach is required to achieve the goal of digitalization and incentivizing local manufacturing.

FDI limits for investments in Television Industry
India’s Television industry experienced a remarkable upturn with the initial FDI flow in broadcasting in early 1990s. Today, as the industry looks forward to embark on the journey towards digitalization, the role of FDI remains as important as during the initial wave.

Figure 16: FDI limits in Television sector

<table>
<thead>
<tr>
<th>Content Production</th>
<th>100% (FIPB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadcasting</td>
<td></td>
</tr>
<tr>
<td>Up-linking a Non-news &amp; Current Affairs TV Channel</td>
<td>100% (FIPB) (for their Entertainment content)</td>
</tr>
<tr>
<td>Up-linking a News &amp; Current Affairs TV Channel</td>
<td>26% (FIPB) (FDI+FII) (for their news channel)</td>
</tr>
<tr>
<td>Down linking of TV channel</td>
<td>100% (FIPB)</td>
</tr>
<tr>
<td>TV Distribution</td>
<td></td>
</tr>
<tr>
<td>DTH</td>
<td>49% (FIPB) (FDI+FII) (FDI will not exceed 20%)</td>
</tr>
<tr>
<td>Cable</td>
<td>49% (FIPB) (FDI+FII)</td>
</tr>
<tr>
<td>HITS</td>
<td>74% (FIPB) (FDI+FII)</td>
</tr>
</tbody>
</table>

Source: Industry Estimates, Deloitte Analysis

As digitalization requires capital expenditure, FDI ceilings would need to be rationalized to meet the sunset dates for digitalization. Ministry of Information & Broadcasting has recently validated TRAIs recommendation on increase in FDI for DTH & IPTV sectors to 74%

10 “Govt moots hiking FDI in MSOs going fully digital to 74%”, Cable Quest magazine, August 2011
Way forward

Television industry in India is on a transformation path. Multiple channels in each genre competing with each other for TRP, increasing pay TV penetration, expanding yet fragmented local as well as overseas viewership of Indian channels, demand for more specific content – clearly set the stage for the next level of growth and transition for players across the television value chain. Content creators and broadcasters need to be cognizant of the ever increasing demand for differentiated content. While on one hand, new digital content distribution platforms are emerging; on the other hand, new formats of entertainment - computers, mobiles and other handheld devices are gaining importance. Monetization of content through these new opportunities in existing platforms and new media platforms are going to be key focus areas for the content owners. Some key trends and challenges that lie ahead are:

• Digitalization of the TV distribution: DTH is leading the race for digitalization of the distribution system. The government’s announcement on sunset date coupled with the right set of incentives and regulation, has the potential to change the distribution landscape in the country. Digitalization is not only expected to help the players in the value chain to realize the true potential of their content, but also to cater to the unique and diverse needs of the viewer when it comes to entertainment.

• HD and 3D TV: LED and LCD Televisions are outselling the conventional televisions. Some broadcasters have sieged this opportunity to provide the subscribers with high quality viewing experience. This year will also see an increase in number of HD channels as broadcasters vie for larger share of viewers time spend on TV entertainment. 3D although an exciting and popular technology, thanks to Avatar, is still in a very nascent stage in evolution on TV.

• Technology led new opportunities: New platforms for reaching consumers and new technologies in content management are providing unique opportunities to increase the shelf life of the content. To meet the need of the right consumer at the right time through the medium of his choice, it is imperative for players across the value chain, to be digitally adept to fully garner these opportunities.

• Consolidation in TV distribution: First half of 2011 saw two of the biggest names in TV (SUN & ZEE), come together to deal with current anomalies in the distribution system. This has led to a flurry of activities amongst other players in the value chain to consolidate. Second half of 2011 and 2012 will be an interesting period to watch the effect of this alliance.

• Need for improved measurement tools: An effective measurement system is the backbone of advertising dependent industry. It has been well recognized that the current measurement system needs to be overhauled. Recently, a government committee has suggested increasing the sample size from the current 8,000 to 30,000 in next three years in both urban and rural areas.11

• Evolving viewer interests: The viewer today is not only looking for new-fangled content but is also very quality conscious. From new movie broadcasts to reality shows with more and more celebrity appearances, from IPL to EPL – the need for differentiated and fresh content is on an all time high. Regional viewers, both in India and overseas, are also gaining importance.

Players across the television value chain need a sound action plan to address some of these challenges and harness the opportunities in a growing and high potential sector. While there isn’t any one-size-fits-all approach to realize the true potential of this sector, there are some areas that the players may need to focus more on and prioritize. It would be important, for instance, to address the demand for regional content; to work closely with the regulator in developing transparent and more accurate techniques to measure viewership; to influence the regulator for incentives to value chain players for digitalization; to influence stakeholders across the value chain for controlling production costs; to evolve new content management system to increase the ubiquity of current content and to enhance value delivered to the end-customer both in terms of varied content experience (by content creators / broadcasters) and effective customer-service (by distributors).

Films

Indian film industry: Marching towards completion of 100 golden years in 2013!

Indian film industry has come a long way – from the first motion pictures brought to India by Lumière Brothers in the form of soundless short films in 1896, to India’s first silent feature film King Harishchandra in 1913; to Indian filmmakers making films in English such as Delhi Belly. Rightly so, in 2013 Indian cinema completes 100 years!

Film segment revenues in India comprise ticket collection at the box office (both domestic and overseas), home video (CDs and DVDs sale and on rent) and ancillary revenues that includes broadcast syndication rights, mobile VAS and other film related sales through new media. The film industry stood at nearly US$2.0 billion in 2007. It grew by ~12% to reach US$2.2 billion in 2008 but has been registering negative growth over the last two consecutive years and stood at around US$ 1.8 billion in 2010. The falling revenues of the film industry in 2009 and 2010 can be attributed to average performance of most films at the box office and closing down of single-screen theatres. In the first half of 2011, fewer films were released due to the World Cup and IPL 4; though light-hearted comedies like Tanu weds Manu managed to do well at the box office. The industry is expected to grow by ~9% p.a. till 2015 and reach nearly US$2.8 billion. This is expected to be fuelled by the multiplex chains’ renewed focus on expansion, increase in average ticket prices and expected higher quality content, as evident by the recent releases, namely ‘Ready’, ‘Singham’, ‘Zindagi Naa Milegi Dobara’, ‘Delhi Belly’ etc. (These movies have grossed > INR 80 Cr. as box office collections on an average)

Figure 17: Journey of Film Industry in India

Source: http://library.thinkquest.org/11372/data/film.htm

Figure 18: Size of Film Industry in India

Source: Industry estimates

India has the world’s largest film industry in terms of number of films produced and the ticket size. In India, there is a huge viewership for films. In fact, Bollywood...
and cricket are considered to be two major religions for viewers in India. Over 1000 films are produced every year in more than 20 languages. Regional cinema – Tamil, Telugu, Malayalam and Kannada constitutes a large chunk of these. Fourteen million Indians go to the movies on a daily basis (about 1.4% of the population of 1 billion) and pay the equivalent to the average Indian’s day’s wages (US$ 1-3) for watching a film.

A key recent policy initiative by the government has been granting ‘industry’ status to the entertainment segment as a whole in 2001; allowing sector access to institutional finance for new projects. The technology of film-making in India is among the best in developing countries. Indian film industry provides employment to nearly 6 million people. The industry is witnessing considerable advancements in areas like technology, marketing, exhibition with rampant digitalization across the value chain, resulting in enhanced reach and access to high quality content. As the number of digital theatres are surging, the future of Indian cinema looks promising! Viewership of Indian cinema abroad has consistently been on an upswing, especially in countries such as Japan, Malaysia, Singapore and Middle East. In fact concerted efforts have been seen to ensure presence of Indian films in global film festivals and markets.

Though the impact of digitalization can be seen across the film value chain, the level of impact varies at different stages of the value chain. Digital revolution is visibly impacting the distribution and exhibition of films in India. Production and post-production can also leverage the digital wave by incorporating sophisticated tools and techniques right from the concept stage till the management of post-production pipeline.

Increasing disposable income, growing popularity of alternate delivery mediums, digitalization of film distribution and value added services like movie on demand through pay television are set to open up new revenue streams and business models for the film industry. Emergence of multiplexes has already improved revenue reportage and average ticket price. Digital print duplication costs about one-twelfth (nearly Rs. 5000) as compared to the celluloid prints at Rs. 60,000. In addition to providing enhanced reach, digital prints also help in curbing piracy. Going forward, digital cinema would enable worldwide release of films on the day one like television broadcast, and shorten the theatrical window.

From the demand side, increasing mobile and internet penetration is significantly changing the consumption pattern of viewers in India as well as Indian diaspora spread outside India. A blockbuster like 3 Idiots was legally available on Youtube within 12 weeks of its theatrical release as a move to curb piracy.

**Key revenue streams**

**Figure 19: Film Revenue Streams**

Total 2010 = US$ 1.8 billion

<table>
<thead>
<tr>
<th>Source: Industry estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Box office collection 79%</td>
</tr>
<tr>
<td>Domestic 89%</td>
</tr>
<tr>
<td>Overseas 11%</td>
</tr>
<tr>
<td>Total = US$ 1.4 billion</td>
</tr>
</tbody>
</table>

The main revenue stream for new films released in India is the box office collection, contributing about 80% of the revenues. Home video segment, with a low contribution to the overall revenues is getting further impacted by a combination of factors. Firstly, availability of pirated versions of music and films significantly impacts the CD / DVD sales. Secondly, most leading general entertainment broadcasters have started showing television premieres for most of the recent releases within 4-5 weeks of their release. Technological advancements such as digitalization, onset of the next-generation networks and availability of more sophisticated devices to access media, are contributing to a growing chunk of ancillary revenues that comprise around 15% of the total film revenues in India. This includes broadcast syndication, internet, mobile and other new media revenue streams.
Increasing disposable income, growing popularity of alternate delivery mediums, digitalization of film distribution and value added services like movie on demand through pay television are set to open up new revenue streams and business models for the film industry. Emergence of multiplexes has already improved revenue reportage and average ticket price.
Segments
The value chain within the film segment comprises production, distribution and exhibition. Indian film industry experiences high level of fragmentation across the entire value chain. A handful of players, such as Yash Raj Films are only present across couple of parts of the value chain. However, only very few players, such as Reliance Mediaworks are present throughout the value chain.

Indian film sector is known for producing the highest number of films globally. Till a few years back Indian cinema was known for churning out low budget films (average investment of half a million dollars), being very self-sufficient, with no co-productions and relatively lower number of international films coming to screens in India. Also financial transparency was not an evident feature of Indian cinema till few years back. By 2000, with the onset of big corporate houses entering film production, organized multiplexes taking off, the theatrical segment in India is gradually moving from being fragmented to more and more organized. The film industry has grown from half a billion dollars in 2000 to nearly US$2 billion in 201014.

There are over 400 production houses in India. Nearly 30 corporate houses are involved in the film production business. There are three leading studios in India – Eros, UTV Productions and Yash Raj Films that together released 138 films in 2010, however they only contribute ~10% of industry’s total revenues. Indian film segment is known to make too many films in a year as compared to Hollywood studios where four leading studios released around 50 films in 2010 and accounted for 70% of Hollywood’s revenues. Making the most out of a film released in India is seen as a challenge due to a variety of reasons – lesser number of screens, low frequency of film viewing, and even too many films produced in a year14!

Distribution
Digital distribution of content is enabling distribution across many platforms and ensuring new revenue models. In fact, content is gradually becoming platform (or screen) agnostic. Digitalization is helping in leveraging the same content across various platforms such as home video, internet and mobile along with other conventional theatrical platforms.

Lately, digital TV distribution has picked up through digital cable, DTH, IPTV. Also, film prints and music libraries have gone digital. Digitalization across the distribution value chain has benefitted the industry in multiple ways. It has enabled content repurposing across platforms, making distribution of niche content feasible. Also, the end viewer gets access to improved picture and sound quality. Moreover, distribution of revenues across the value chain has become more transparent.

Exhibition
Digitalization is helping film-makers reach out to a wider audience. Availability of digital prints has significantly reduced the release window for each delivery platform. It not only helps reduce the time to reach tier 2 and tier 3 cities through theatrical release but also helps realize higher value from ancillary revenue mediums such as home entertainment, internet and mobile.

Exhibition

Figure 21: No. of Screens per million population

<table>
<thead>
<tr>
<th>Country</th>
<th>Screens</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>12</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>30</td>
</tr>
<tr>
<td>Belgium</td>
<td>43</td>
</tr>
<tr>
<td>Germany</td>
<td>45</td>
</tr>
<tr>
<td>Spain</td>
<td>46</td>
</tr>
<tr>
<td>Italy</td>
<td>52</td>
</tr>
<tr>
<td>Ireland</td>
<td>53</td>
</tr>
<tr>
<td>Denmark</td>
<td>61</td>
</tr>
<tr>
<td>France</td>
<td>77</td>
</tr>
<tr>
<td>United States</td>
<td>117</td>
</tr>
</tbody>
</table>

Source: Research on India

Indian cinema is undergoing remarkable changes from where it began. The aggressive expansion of multiplexes, access to organized funding, foray of leading corporate houses into film production and exhibition, popularity of digital cinema prints have been some remarkable changes seen in the Indian film segment over the last decade. Even though the number of multiplexes is on the rise, the average number of screens is extremely low in India at 12 screens per million as compared to 117 screens per million in United States.

Over the last decade, some phenomenal improvements were made in the theatre infrastructure in India – state of the art studios, world class post-production facilities and multiplexes across the country. Currently, there are around 12,000 theatre screens in India, out of which approximately 1000 screens are multiplex. Multiplex phenomena started in India in 2002, which in a span of the next 5-6 years improved box-office collections by 3.5 times. Moreover, average ticket prices have gone up twice and revenue leakages have improved especially in the metros as a result of the multiplexes. Since theatrical revenue forms major chunk of a film’s overall revenue, multiplexes have clearly been a boon to the film producers. And this is not all. Theatre chains are also investing to further strengthen their pan-India presence. Cinemax plans to invest up to US$ 21 million in opening and acquiring more digital screens by 2013. PVR Pictures also plans to invest US$ 21 million by 2012 for distribution and production of films. Based on this, the multiplex screens in India are expected to nearly double by 2015. Increasing popularity of digital prints (about 50% on an average for a new release as compared to about 10% some years back) is another advantage for the film producers, both in terms of cost per print as well as the flexibility and control over number of prints required.

Key challenges and opportunities
The sector faces some significant challenges. The problem of piracy has been a pain-point for years leaving players across the value chain with low realization per print. There is a shortage of overall support infrastructure – lack of adequate and world-class production facilities, trained manpower, training institutes to meet the skill gap. From the demand side, viewers face shortage of high-quality content being produced by Indian film-makers. Also, challenges such as low screen penetration and average performance of Indian films at international platforms such as Oscars are concerns that need significant attention. These challenges also showcase opportunities that exist before India’s film industry that completes 100 years in 2013.

The Perennial Piracy Problem
Piracy is not a new challenge for the industry. Piracy in the form of physical CD sale and online download is estimated to be around 40% to 50% of the film trade and the film industry is losing Rs.300 to Rs.400 crore a year due to piracy. Often pirated DVDs are seen much before film prints. India is among the top five countries in terms of piracy. Steps taken to curb piracy include setting up of formal alliances and associations such as Motion Pictures Distributor’s Association of India, Alliance Against Copyright Theft (AACT). Though these initiatives have taken concerted steps to curb piracy and spread awareness, government intervention is required to set up targeted anti-piracy measures that help effective enforcement.

Lack of high-quality content
While film-makers in India attempt to provide something new and refreshing to viewers, the quality of content produced in 2010 has not been successful in attracting viewers. With viewer expectations in terms of quality and variety and quality of content growing further, it becomes an imperative for Indian film makers to be cognizant of not only attracting viewers in India and outside India but also make Indian cinema globally competitive at international film festivals.

Lack of quality infrastructure as well as training institutes
Big corporate houses such as Reliance Mediaworks are spending on setting up of state-of-the-art film studios, but with the old studios getting demolished, the film infrastructure in India is far from adequate. At the same time, there is a shortage of world class institutions to provide training in film and media.

Low screen penetration
According to a recent study on cinema in India, there is a requirement of more than 20,000 screens as against the current figure of about 12000. The multiplex revolution has started and with government’s move to allow 100% FDI on the automatic approval route, the multiplex penetration is expected to improve further.

Growing viewer base outside India, but lack luster appeal at international film festivals
Indian diaspora spread globally helps Indian films succeed in international markets. However, it has been observed that most of the films that have performed exceptionally well are limited to films with leading star cast or are based on Indian culture showcasing Indian festivals and customs. Films like Dilwale Dulhania Le Jayenge, Raja Hindustani, Jodhaa Akbar and My Name is Khan have been received very well by the international audience. Though such films have successfully fetched the global audience, performance of Indian films at international film festivals has not been competitive to global cinema.

Shift to alternate distribution mediums
With the growing popularity of cable and satellite syndication and other new media platforms, small to medium budget films are expected to increasingly shift towards these mediums as opposed to conventional theatrical release that entails huge marketing and distribution expenditure. Moreover, social networking sites are also emerging as an effective marketing and promotion tool for films, enabling high level of involvement and interaction with the viewer.

Way forward
The film segment in India saw declining revenues for two consecutive years, but is expected to recover the growth over the next five years to reach ~$3 billion at a growth rate of around 9%p.a. Today, multiple factors are redefining the Indian film industry with every single function and activity related to the film domain becoming more sophisticated and well-defined. Digital is rightly the buzzword for the coming decade.

While on one hand, there is a need for the Indian film industry to embrace digitalization to reap the opportunities created by advancing technologies; on the other hand, the changes being seen in the industry are not only in terms of better visual effects, newer distribution channels or use of the internet, but also the viewer’s appetite for improved content itself with better story lines and screenplays. The viewers of Indian cinema today transcend much beyond the Indian sub-continent. Films like Ra.One are all set to target audiences abroad. Indian film-makers need to leverage the global audiences to make Indian films far more appealing to the international market as well as gain higher mindshare at the international film festivals.

With the growing popularity of cable and satellite syndication and other new media platforms, small to medium budget films are expected to increasingly shift towards these mediums as opposed to conventional theatrical release that entails huge marketing and distribution expenditure.
Animation, briefly described, is rapid display of time sequenced frames to create an illusion of continuous movement. The sub-segments within Animation and Gaming may be defined as follows:

**Animation**

**Animation Entertainment**: Custom animation development for television, movies, or DVD.

**Visual Effects (VFX)**: Special effects development used mainly in movies and ad productions.

**Custom Content Development**: Development of custom content catering to multiple segments, including Corporate, Higher Education etc.

**Online Games**: Games played over the internet. The platform can be through PC, Mobile or Console.

**Animation**

Indian animation entertainment industry is a highly fragmented industry. Indian players are primarily involved in the labour-intensive production and post-production activities, as a ‘Service Provider’ (Refer Fig. 23), working on the revenue model of ‘Work-For-Hire’. This means that most skill sets are at the lower end of the value chain. Though there are a few firms offering world-class capabilities for India to emerge as a global animation hub, there is a need to upscale these capabilities across a wider section of the industry by focusing on owning the IP.

Content development and pre-production activities are nascent in India, both for the domestic and the outsourcing market. However, this is expected to see some momentum owing largely to corporate e-learning programs.

Content requirement for corporate e-Learning is expected to grow at 11% per annum (2009-13). This requirement for content, added to the inclination of corporate in the US to outsource custom content development is likely to be a future opportunity for custom content development companies in India.

**Gaming**

**PC Games**: Games played on the personal computer; can be single-player or multi-player.

**Mobile Games**: Games played exclusively on the mobile handset. Currently consists of mostly single-player short games.

**Console Games**: Games played on dedicated gaming consoles. These boast of better graphics, and controllers than other types of games.
The Indian Animation industry was worth US$ 511 million in 2010 and is expected to grow at CAGR of 23% to reach US$ 961 million by 2013.
Figure 23: Animation Entertainment Value Chain

<table>
<thead>
<tr>
<th>Activities</th>
<th>Percentage Effort</th>
<th>Outsourcing</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPR and Content Development</td>
<td>5%</td>
<td>Emerging</td>
<td>Emerging</td>
</tr>
<tr>
<td>Pre Production</td>
<td>10%</td>
<td>Emerging</td>
<td>Medium</td>
</tr>
<tr>
<td>Production</td>
<td>45%</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Post Production</td>
<td>30%</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Marketing Distribution and Exhibition</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>

Source: Nasscom Industry Report 2009, Deloitte Understanding

Figure 24: Animation Entertainment Service Models

<table>
<thead>
<tr>
<th>IPR and Content Development</th>
<th>Pre Production</th>
<th>Production</th>
<th>Post Production</th>
<th>Marketing Distribution and Exhibition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Content Creation</td>
<td>Service Provider</td>
<td>Integrated Studio – Offshore Facility</td>
<td>Co-Production</td>
<td>Integrated Studio Owned Content</td>
</tr>
</tbody>
</table>

Source: Animation & Gaming Report, Secondary Research
Size, Growth & Segments

Figure 25: Animation Industry Size, Growth & Seg-mental Split

The Indian Animation industry was worth US$ 511 million in 2010 and is expected to grow at CAGR of 23% to reach US$ 961 million by 2013.

Recent Trends and Growth Indicators

The Animation Entertainment Industry in India is expected to be shaped by trends and growth drivers in both domestic (Contribution: 25% in 2009) and Outsourcing (Contribution: 75% in 2009).

Animation gradually comes of age

For animation to achieve the same level of success in India, as in the west it requires an audience appeal not just restricted to kids. Animation has gradually come of age from its perception of being only for kids. Increasing viewership of animation content among adults as a percentage viewership of kids’ channels indicates, substantial increase in viewership for the 14+ age group category. Increasing popularity of animation content among adults is expected to be a key propeller for the domestic animation entertainment industry.

Growing Focus on Kids’ Genre

In 2010, 2 channels for kids were launched. The number of TV channels dedicated to animation and kids has been steadily increasing in India (Refer Figure 26).

Global channels cater to original Indian content

The demand for original Indian content has been increasing over the years. Channels such as Turner network that hold a substantial market share in Kids’ channels have forayed into the live action original productions space in India with iconic shows like M.A.D and the animation series such as Kumbh Karan.
This focus on originally produced content has been witnessed across kids’ channels in India.

**Comics’ Players: Increasing scope for character licensing**

The rising number of TV channels, greater accessibility to Internet, proliferation of mobile devices that leads to the popularity of video and gaming content is set to offer a huge potential for the animation and character licensing in India. Hence, Comics’ players are looking to monetize their content libraries through other new media mediums in addition to TV and Film. Recently, Diamond comics joined hands with License India, a licensing solution provider to market its famous characters to be used in animation films marketing campaigns.

Indian publishers like Diamond, Raj, Vimanika and Chandamama have announced plans to enter the movie space with their famous comic characters. Some of key events in this area were:

**Figure 27: Increasing influence of comics’ players in the animation industry**

Diamond Comics considers the launch of a TV channel with shows based on some of its popular characters in animated versions, including Chacha Chaudhary. May also look at promoting and selling them on other digital platforms like Internet, television, Direct-to-Home (DTH) and mobiles.

Large production houses are also buying rights from these publishers to produce animated TV series - Big Animation Pvt. Ltd has bought rights from publishers of Chandamama to produce an animated TV series.

In Oct 2008, Toonz Animation entered into a partnership with Chandamama India to produce a full-length animated feature film based on a prime property from the library of Chandamama.

The dog-masked popular superhero from Raj Comics is set to be developed into a movie by film maker Anurag Kashyap.

**Animation in TV Advertising**

The Indian TV advertisement industry size is expected to increase to US$ 3.3 billion by 2013. This, coupled with growing popularity of animated characters is expected to boost the industry. The reasons can be attributed to making cost effective commercials or doing away with the clutter of celebrity overkill. Animation commercials cost far lower compared to advertisements with celebrities and establish connect with children and adults alike. They relate to audiences irrespective of language and cultural barriers. Further, in some cases animations are also used to increase the visual appeal of the advertisement or as a part of the concept of a commercial.

**Figure 28: Examples of animation used in Indian TV advertising**

**Animation Movies for Theatres**

The release of ‘Avatar’, a movie that is a hybrid of live action and computer generated animated characters became the largest grosser in India indicating that Indian audiences are interested in high quality animated content. The animation film industry sighted the trend and a number of animation films were made and released to capitalise on this interest. However, Indian animation films did not live up to the expectations set by their Hollywood counterparts.

As the country moves out of recession and Indian audience matures, animation movies in the pipeline are expected to see execution. (Refer figure 29 for major movies released in 2010 and 2011)
Figure 29: Animation movies released in 2010

<table>
<thead>
<tr>
<th>Movie Name</th>
<th>Release year</th>
<th>Produced by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toonpur Ka Superhero</td>
<td>2010</td>
<td>Kumar Mangat, Krishika Lulla</td>
</tr>
<tr>
<td>Luv Kush – The Warrior Twins</td>
<td>2010</td>
<td>Kanipakam creations, RVML Animations</td>
</tr>
<tr>
<td>Ramayana the Epic</td>
<td>2010</td>
<td>Maya Entertainment limited</td>
</tr>
<tr>
<td>Kuchi Kuchi Hota Hai</td>
<td>2011</td>
<td>Karan Johar</td>
</tr>
<tr>
<td>Alpha and Omega</td>
<td>2011</td>
<td>Crest Animation</td>
</tr>
<tr>
<td>Sultan</td>
<td>2011*</td>
<td>Soundarya Rajnikanth</td>
</tr>
</tbody>
</table>

* Under Production

Increased usage of VFX in domestic movies

There is a rising demand for visual effects in most mainstream films in India today. VFX has been used in live action films to increase the visual content in the screen. Films such as Patiala House, Tees Maar Khan, No One Killed Jessica, and My Name is Khan etc. have used VFX to improve shots. The use of VFX in live action films has seen a steady and significant growth over the years. Many live action films today include a VFX sequence and the sheer duration of these screen shots has also risen substantially. Further, owing to its large domestic film industry India is bound to find increasing opportunities to use VFX in the domestic market.

Cost advantages drive increased domestic and outsourced VFX

Usage of VFX in broadcast helps in significant reduction of costs. Its usage brings down the set creation costs for a broadcast by almost 60-65%, particularly for mythological shows. It also helps in costs savings of 30-40% for commercials. The whopping success of VFX extensive movies at the box office overseas is expected to drive the VFX usage in other movies as well. This coupled with the cost savings is expected to lead to greater outsourcing. Indian studios are increasingly receiving work for quality western productions. Pixion, a post-production company that offers visual effects services, has worked in globally acclaimed films such as The King’s Speech18.

Growth in e-learning to drive custom content development

Growth in e-learning market has been rapid in the past few years and is expected to continue going forward. However, the market is now expected to be more mature and stable. Major markets for e-learning globally are the US and western European nations across both educational institutions and Corporate Sector for training purposes. Currently, e-learning initiatives amongst mid-sized firms and SMEs are low. However, a large number of these small and mid-sized companies are expected to show willingness to adopt e-learning, the main drivers being cost savings and wider reach. As the corporate sector expands its distribution and adopts IT increasingly, demand for custom content development is expected to increase. Most of the increased demand is expected to come from the small and medium enterprises (SMEs).

Indian Animation Entertainment Industry: Overall Outlook

The Indian animation industry which set out as an outsourcing hub to global companies is poised to witness a significant growth, both in terms of revenue and up scaling in the value chain. Increasingly, players are developing original characters, lines and voices. Further, Indian production houses are also slowly moving up the value chain. Where earlier only post-production work outsourced from Hollywood studios used to be sent to India, Indian studios are now looking to create their own IP through innovative business models. Also, with the popularity of 3D, a large amount of 2D-to-3D conversion is being done by indigenous studios.

As the industry gains expertise and tries to move up the value chain, it faces a few daunting challenges, which it needs to overcome to come close to realizing its potential:

Skilled Manpower

A large English-speaking talent pool with a wide base of technical skills is the need of the hour. Similar to IT Services, skilled manpower is the basic requirement for...
producing quality animated content. As per Nasscom Industry Report 2009, manpower requirement for animation in India is expected to grow from 29,500 by 2012. However, lack of employable resources poses a large constraint, which is primarily due to low awareness of animation as a career and non-existence of a standardized and quality curriculum across the handful of institutes in India.

Limited focus on original content
The industry at present is focused on being specialists in delivery. Typically, pre-production (including concepts, designs, and pre-visualization) and post-production (music, sound mixing, and final editing) are considered to require “global cultural sensibilities,” and are either handled in-house or outsourced to firms in Western markets. However, as the industry continues to gain experience and expertise along with doing outsourced work, it should also focus on creating its own content. This could be spread across formats such as television series, direct-to-DVD or full-length films both for the domestic as well as the global market. Increased focus on the domestic market will help develop skill sets required for original content development.

Low Domestic consumption
Domestic demand for animation is restricted to select animation movies that have achieved box office success and find use in advertising. Given the immense competition in the global markets it is important that companies set their sights on the domestic media. Certain companies such as the Toonz group in addition to being involved in projects set for the global stage are taking steps in this direction by making efforts to develop local original content. They have made efforts to cater to the Indian Diaspora and Bollywood fans around the world by casting Bollywood actors in animated formats. TV channels are not far behind and are increasingly focusing on indigenous content both at the national and regional levels. However, what needs to be seen is the sustained increase in domestic consumption in the medium term to inspire content creators towards original content for the domestic market.

Gaming Industry
Indian Gaming Industry Overview
The Indian gaming industry is worth approximately ~US$ 198 million in 2010 and expected to grow to ~US$ 467 million by 2012, at CAGR of ~53%.

Figure 30: Indian Gaming Consumer and Services Market (USD Mn)

Gaming consumer market in India comprises revenues from:
• PC Gaming: Sale of CD-based gaming software
• Mobile Gaming: Sale of software through mobile downloads
• Console Gaming: Sale of hardware e.g. gaming consoles
• Online Gaming: Advertising and subscription of online games

Gaming services market in India comprises:
• Outsourcing development services
• Ancillary services such as voice and email BPO support, porting, testing, etc.

Gaming industry in India is a fragmented industry, with several players present across the value chain. It is the development and post development activities (Refer Fig.31) which are usually outsourced. Concept creation, feasibility testing and pre-production are still limited to only the online and mobile platforms in India, that too done only by a handful of players.
**Figure 31: Gaming Value Chain**

- **Concept creation & feasibility testing**
  - Involves concept creation
  - Publisher validates the concept and identifies the market opportunity

- **Pre Production**
  - Creation of storyboard 3-D pre-production, character drawing
  - Game engine decision (for console, PC and online)

- **Development**
  - Programming 3-D Art Asset Building: This includes character modeling, set design & modeling, texturing

- **Post Production & testing**
  - Involves final sound recording, color testing and special sound effects

- **Gold release**
  - The final build is delivered to the publisher

- **Final testing/porting**
  - Game made compatible with various graphic cards/mobile handsets (for mobile games)

**Source:** Nasscom Industry Report 2009

**Figure 32: Presence of Indian Gaming Players across the Value Chain**

- **Concept creation & feasibility testing**
- **Pre Production**
- **Development**
- **Post Production & testing**
- **Final testing/porting**

<table>
<thead>
<tr>
<th>Component</th>
<th>Concept creation &amp; feasibility testing</th>
<th>Pre Production</th>
<th>Development</th>
<th>Post Production &amp; testing</th>
<th>Final testing/porting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Console</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
</tr>
<tr>
<td>Mobile</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
</tr>
<tr>
<td>PC</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
</tr>
<tr>
<td>Online</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
<td>§</td>
</tr>
</tbody>
</table>

- **Limited Presence**
- **Moderate Presence**
- **No Presence**

**Note:** For Mobile, PC, and Online Games, concept creation and feasibility testing and pre-production are done only for domestic clients while the other steps are done for both domestic and overseas clients.

For Console Games, all stages except content creation are done only for overseas clients.

**Source:** Nasscom Industry Report 2009
Integrated companies that have presence in the complete gaming value-chain – from conceiving a gaming idea, publishing it, developing the complete game and distributing it across geographies are again limited to a few companies, that too only for mobile gaming.

Size, Growth & Segments
Among the various segments consoles are the largest contributor to gaming consumer revenues, while Mobile and Online Gaming are the largest contributor to gaming service revenues.

However, one needs to note that a large % of the consumer revenues is shared with international players viz. Sony, Nintendo, Microsoft, Electronic Arts, etc. Moreover, the margins involved in this distribution business are very low. This high revenue share model applies to PC and Online Gaming as well, where Indian presence in creating games is limited.

Figure 33: Consumer and Services revenues across type of games in 2010 (US$ Million)

Recent Trends and Growth Indicators
Distribution business (low revenue share, low margins) is not a significant contributor to growth of gaming industry in India. Hence, in this report, trends related to consumer business of consoles or distribution of games of foreign players has not been considered. Both domestic and outsourcing trends and growth drivers have been analysed to understand the future of gaming market in India:

Mobile Gaming: Growing mobile subscribers & Introduction of 3G-enabled handsets
In the end of 2010 while there were only 80 million\(^\text{19}\) Internet users, there were 752 million cell phone subscribers. Mobile phone is widely owned today in urban areas and is expected to continue its growth, given the large scope for further penetration in rural-India. Further, about 15% of Internet users in India access the internet through their mobile handsets. As exposure to mobile phones increase, higher downloads using these are expected. In addition, the introduction of 3G is likely to make the consumer demand more gaming content given the superior user experience. 3G subscriber numbers are projected to cross 107\(^\text{20}\) million by 2015. Such a demand would help building an ecosystem for the development of mobile games. Also, higher demand for smartphones is driving the demand for mobile games as well. Further, leading Indian gaming companies, such as Zapak, ibibo, and Indiagames are launching mobile based gaming platforms to provide users access to multiple games in addition to incorporating social networking functionalities with gaming.

Telecom operators: Declining ARPU and Need for Differentiation
It can be observed that India has considerably low non voice revenues as a percentage of overall mobile revenues. Further, the increase in competitiveness between operators as well as handset manufacturers has resulted in a greater need to differentiate themselves from their competitors through mobile value added applications and services. Moreover, as the ARPUs of telecom operators have been declining Telcos are looking forward to mobile value added services as an alternate revenue source. Mobile gaming is one of the important categories in the non SMS services space.

Figure 34: Non - Voice Revenue (% of Overall Mobile Revenues)

\(^\text{19}\) http://www.livemint.com/2011/02/23223924/Internet-penetration-expected.html
Mobile gaming is expected to significantly grow on account of this supply driver: mobile entertainment being considered as a means to differentiate and a channel for increased revenues per user.

**Online Gaming**

Increasing internet penetration in India, introduction of Broadband Wireless Access, growth in Massive Multi-player Online Role Playing Games (MMORGs), are the emerging channels to promote gaming and increased customisation are expected to grow the online gaming market in India significantly.

**Increased internet penetration and Broadband Wireless Access Introduction**

At the end of 2010 there were 80 million Internet users and 11 million broadband users in the country. The introduction of Broadband Wireless Access (BWA), would lead to increased broadband penetration and facilitate playing of online games in India.

**Growing trend of MMORGs**

All types of games in India can be broadly classified into: Single Player Single Session Games, Multi Player Single Session Games and Multi-Player Online Role Playing Games. Multi-player games are expected to repeat their success of other developing economies such as China in countries like India. There is greater stickiness amongst consumers in the case of MMORPG games, as they attach to the characters and also due to the community that develops around such games. Currently in India, single player games dominate the market with 80% of the active Internet using gamers playing such games. In 2009, only 27% of Indian online gaming populace was playing MMORGs. However, it is the fastest growing among the three, not only in India but worldwide as well. Growing MMORGs is expected to boost the online gaming in India.

**Emerging Channels to promote gaming**

Social networking sites are likely to increase online gaming. It is estimated that globally, Zynga, the leading game developer for social networking sites has over 230 million monthly active users playing its games through social networking sites. These games include FarmVille, Treasure Isle, Zynga Poker, Mafia Wars, YoVille, Café World, FishVille and PetVille. Zynga games are available on Facebook, MySpace and the iPhone. Further, DTH service providers are also offering games to their subscribers.

**Customisation and advanced gaming**

Gaming in India is gaining market owing to content localization. T20fever.com launched by Indiagames and ICC World Cup 2011 game launched by Zapak are such examples.

**Indian Gaming Industry: Outlook**

Indian Gaming industry is expected to witness large changes, primarily in the domestic market. Introduction of 3G and telco’s focus on value added services are expected to lead to exponential growth for mobile gaming in India. This will also lead to the Indian gaming players moving up the value chain and getting involved in end-to-end game development and publishing. As the Indian market matures and gains expertise, Indian players will gain the confidence of their foreign counterparts and attract a greater share of the outsourcing pie and co-publishing deals.

---

However, realizing the potential of the Indian gaming industry is constrained by factors below:

**Lack of Skilled Manpower and Budget:**
Lack of employable manpower, primarily arising out of the lack of high quality institutes coupled with limited budgets impedes the development of PC / console games in India.

**Infrastructure:**
The existing infrastructure in India in terms of limited bandwidth limits the ‘in-home’ playing of these games. However, the advent of 3G and later BWA is expected to overcome this shortcoming.

**Grey Market:**
The presence of a strong grey market selling pirated games is impacting the console gaming market in India. The pirated gaming market is thriving on the back drop of high duties on imported games which make the purchase of original versions unaffordable for Indian consumers.

**FDI Policy Framework**
The animation and gaming sector, which is part of the entertainment industry, enjoys a liberal FDI regime which allows 100% FDI in the sector through the automatic route, provided it is in compliance with RBI guidelines. Hence, this has and is expected to result in continued investment in the Indian animation and gaming space by foreign investors, either in the form of partnerships, strategic investments or private equity/ venture capital funding.

With a favourable FDI regime, the deal activity is bound to increase in future as India moves towards tapping further indigenous opportunities in this segment.

**Indian Animation & Gaming Industry: Future Outlook**
As global companies are betting big on the India’s animation, VFX and gaming industries, India is taking steady steps to live up to this expectation. As a testimony to the growth of the industry from strength to strength there is an increase in the number of co-production deals, an increased focus on development of original content and own IPs, rise in the setting up overseas offices and greater recent investments from Private Equity/ other funds. These factors emphasize on the industry’s commitment to move up the value chain. However, some short term and long term challenges remain. Regular availability of employable talent needs to be ensured for the industry’s potential to be realized in the long term. Telecommunication infrastructure needs to be strengthened and data penetration increased to sustainably tap the growing market within India. These coupled with Government incentives to boost this industry will help it take wings from its existing nascent status.
3. India-Broadcasting & Digital Media - Paul Budde Communication Pty Ltd, 2011
4. “Restructuring of Cable TV Services”, TRAI, July 15, 2007
10. “Govt moots hiking FDI in MSOs going fully digital to 74%”, Aug 2011, Cable Quest magazine,
22. Deloitte Media Democracy Survey, 2010
23. “Entertainment”, November 2010, IBEF
24. “Advertising Outlook: looking through the fine print…”, April 2011, Edelwiss Securities Limited
25. “DTV World Databook” Digital TV Research Ltd.
26. “India – Broadcasting and Digital Media” – Paul Budde Communication Pty Ltd
29. Deloitte ASSOCHAM MVAS report
Acknowledgements

Deloitte

Sachin Sondhi
Senior Director and Leader
Strategy & Operations Consulting
Mobile: +91 96195 98972
Email: sacsondhi@deloitte.com

Sandip Biswas
Director
Strategy & Operations Consulting
Mobile: +91 99300 09225
Email: sandipbiswas@deloitte.com

Gunjan Gupta
Manager
Strategy & Operations Consulting
Mobile: +91 99200 31190
Email: gunjangupta@deloitte.com

Nishant Jalan
Manager
Strategy & Operations Consulting
Mobile: +91 98197 01976
Email: nijalan@deloitte.com

Anupriya Nayyar
Senior Consultant
Strategy & Operations Consulting
Mobile: +91 98208 25275
Email: anayyar@deloitte.com

Giridhar Athmanathan
Consultant
Strategy & Operations Consulting
Mobile: +91 96206 77796
Email: giridhara@deloitte.com

Assocham

D S Rawat
Secretary General
ASSOCHAM
Email: d.s.rawat@assocham.com

Sujata Dev
Co-chairperson
Media and Entertainment Committee, ASSOCHAM
Mobile: +91 98923 31499
Email: sujataiptv@gmail.com