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FRAMES 2010: Media back on track

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M&E to post 13% CAGR over 2009-14

- We recently attended Frames 2010, a seminar on media and entertainment (M&E).
- M&E is already showing signs of recovery and is expected to grow at 11.2% in 2010, accelerating from just 1.4% growth in 2009.
- M&E will post a strong rebound at 13% CAGR, to touch INR 1091 bn in 2014.
- We remain positive on ZEEL, Sun TV, IBN18, Jagran Prakashan and other Hindi print players.

Size of Indian media and entertainment industry

M&E Industry (In bn)	2006	2007	2008	2009	CAGR % (2006-09)	2010P	2011P	2012P	2013P	2014P	CAGR % (2009-14)
Films	78	93	104	89	5.0	96	105	115	125	137	9.0
Television	183	211	241	257	12.0	289	337	382	448	521	15.0
Print	139	160	172	175	8.0	190	206	225	246	269	9.0
Radio	6	7	8	8	9.0	9	10	12	14	16	16.0
Music	8	7	7	8	2.0	9	10	12	14	17	16.0
Animation & VFX	12	14	17	20	18.0	23	28	33	39	47	19.0
Gaming	3	4	7	8	38.0	10	14	20	26	32	32.0
Internet	2	4	6	8	56.0	11	15	18	23	29	30.0
Outdoor	12	14	16	14	5.0	15	17	19	21	24	12.0
Total Size	443	516	579	587	10.0	652	742	835	956	1091	13.0

Source: FICCI – KPMG, Edelweiss research

Media: Back to growth

- In spite of the economic slowdown, the industry witnessed a recovery in Q4CY09.
- 2010 is expected to see the industry coming out of the slowdown, with an increase in ad spends.
- TV's contribution to the overall revenues has gone up considerably in 2009 compared with 2006 and is expected to achieve ~48% of total revenues in 2014.
- On the other hand, contribution from sectors like films, print, music and OOH has come down in 2009.
- TV is expected to grow at a higher rate of 15% over next five years against an almost 9% growth in both films and print sectors.
- The share of TV broadcasters in the subscription pie is expected to go up from 18% in 2009 to 27% in 2014.
- Hindi print ad revenues to grow much faster than English print.
- National advertisers like FMCG and telecom are increasing focus on tier II regional markets, which is positive for radio and Hindi print media.

Ad industry: Back on track

- TV, radio and internet to outperform overall ad industry over 2009-14.
- WPP's CEO, Sir Martin Sorrell, is bullish on ad growth rate for India and expects India to have one of the fastest growth rates in ads.
- Still lot of room available for ad spends to rise in India.

Size of ad industry

Ad industry (INR bn)	2006	2007	2008	2009	2010P	2011P	2012P	2013P	2014P	CAGR % (2009-14)
Television	61	71	82	88	99	113	133	155	182	15.6
Print	85	100	108	103	114	127	141	158	176	11.6
Outdoor	12	14	16	14	15	17	19	21	24	12.0
Radio	6	7	8	8	9	10	12	14	16	16.0
Internet	2	4	6	8	11	15	18	23	29	30.0
Total size	166	196	220	221	248	282	323	371	427	14.1

Source: KPMG, Edelweiss research

Media spend as a % of GDP

India	UK	US	China	Japan	World
0.41	0.78	1.08	0.75	0.90	0.80

Source: KPMG, Edelweiss research

Key themes in M&E

- **Digitisation**: Availability and penetration of new distribution platforms will benefit M&E in the years to come.
- **Regionalisation**: Regionalisation across print, TV, music, films and radio increased in 2009. It will be one of the significant factors driving growth with rise in literacy, consumption and disposable incomes in tier II and III cities.
- **Convergence**: Advertisers are looking at multiple delivery platforms for content to break through the clutter in existing platforms. The new media is merging the functionalities of customer end terminal devices like TV, PCs and mobile phones.
- **Consolidation:** With entry of new players, the industry is increasingly becoming fragmented. Rising competition is expected to give way to consolidation of operations.
- **Competition**: Entry of new players has had a positive impact on the overall market, as it has aided expansion in terms of size. This will continue in future with new entrants capturing new set of audiences, with advancements in their product, marketing and distribution to tap these customer segments.

Key themes in M&E (contd.)

- **Innovation:** Innovation across product, process, marketing, distribution and business model is essential for players to adapt to the changing market scenario, technology and consumer behaviour. New content formats and strategies adopted by industry players have given customers more choices.
- **Growing importance of pay markets**: Subscription revenues are becoming important, with consumers paying for media services. Growth in ticket prices at multiplexes, increasing penetration of DTH, digital cable and introduction of VAS by media players are some examples.
- **Consolidation inevitable**: Indian M&E is ripe for mergers and acquisitions as bigger players look to consolidate against the backdrop of an overhang of debt and losses.
- **Focus on cost to remain**: 2009 was marked by players' focus on cost efficiencies across sectors. Cost efficiencies which came about last year proved to be a silver lining for the industry in a bad year, and many of these measures are here to stay.

TV to outperform print

- TV will grow faster than the overall M&E sector, at a 15.2% CAGR over 2009-14 to touch INR 521 bn in 2014.
- Ad revenue will grow at 15.6%, slightly higher than subscription income that is set to post 15% CAGR.
- The share of broadcasters in the subscription pie is expected to go up from 18% in 2009 to 27% in 2014.
- The share of subscription revenues in the top line of broadcasters is expected to increase from 26% to 33% by 2014.
- The disadvantage of reality TV is that it is more expensive than fiction and does not generate high TRPs compared with fiction.
- On the ad front, regional GECs have gained share from 21% in 2006 to 29% in 2009. This share came at the expense of Doordarshan that was earlier preferred by advertisers looking for a regional reach.
- The lack of transparency in analogue cable systems remains a challenge for broadcasters. LCOs still garner ~75% of subscription revenue due to under declaration, while broadcasters get 20% and MSOs 5%.

Multiple growth drivers for TV

* **Key growth drivers**: Wider digital penetration, fiercer competition in the TV distribution business and deeper advertising support.
* Number of advertisers on TV increased from ~8,500 in 2008 to ~9,400 in 2009.
* Average time spent on watching TV has been on an uptrend, which means better utilisation of ad inventory.
* Penetration is increasing with growth in the number of TV households.

Average time spent watching television

	Minutes
2006	119
2007	135
2008	151
2009	152

Source: KPMG, Edelweiss research

Growth in no. of TV households in India

In mn	2008	2009
Total TV HHs	123	129
Non TV HHs	95	93

Source: KPMG, Edelweiss research

Digitisation happening rapidly for TV

- Penetration for cable & satellite households increased from 70% of total TV households in 2008 to 74% in 2009.
- One of the biggest drivers for this has been the DTH expansion in smaller markets.
- DTH has been the biggest contributor to digitisation, with 20 mn gross subscribers and 16 mn subscribers (excluding churn).

Growth in no. of C&S households

In mn	2008	2009
Non C&S	37	34
C&S	86	95

Source: KPMG, Edelweiss research

Pay TV subscriber base

In mn	2008	2009
Analog	69	70
Digital	2	4
DTH	10	16
IPTV	0	-

Source: KPMG, Edelweiss research

TV ad volumes zoomed in 2009

- TV ad volumes zoomed in 2009, partly due to addition of new players and partly due to robust ad spends by the FMCG sector.
- Print volumes remained largely flat.

Growth in ad volumes across TV, print

	2007	2008	2009	CAGR (%)
TV- Duration of Ads in Hours	94	114	149	26.0
Growth %		21.0	31.0	
Print- Volumes in CC (in mn)	172	177	183	3.0
Growth %		3.0	3.0	

Source: TAM Adex, Edelweiss research

Hindi and regional GECs dominate

- More than 50% viewership share of Hindi GECs and movie channels in Hindi markets.
- However, in South India, regional GECs have viewership share of ~50%.

Viewership share (%) by genres

	All India			HSM			South		
Genres	H1'08	H1'09	Difference	H1'08	H1'09	Difference	H1'08	H1'09	Difference
Hindi GECs	22.0	25.0	3.0	34.0	36.0	2.0	4.0	4.0	-
Hindi Movies	12.0	12.0	-	17.0	17.0	-	4.0	4.0	-
Hindi News	4.6	3.8	(0.8)	7.0	5.7	(1.3)	0.5	0.4	(0.1)
Infotainment	0.9	1.1	0.2	1.1	1.3	0.2	0.6	0.8	0.2
Kids	5.8	6.1	0.3	6.0	6.8	0.8	5.4	5.0	(0.4)
Music	2.6	2.4	(0.2)	3.6	3.2	(0.4)	0.9	0.9	-
Regional GECs	26.0	24.0	(2.0)	10.0	11.0	1.0	51.0	49.0	(2.0)
Regional News	2.6	3.4	0.8	1.5	2.1	0.6	4.4	5.8	1.4
Sports	3.2	2.5	(0.7)	3.6	2.8	(0.8)	2.5	1.9	(0.6)
Others	20.3	19.9	(0.4)	16.2	14.1	(2.1)	26.7	28.2	1.5

Source: TAM TV Trends 2009 Report, Edelweiss research

Regional channels clearly gaining ad share

- Regional channel share of ad spend moved up to 29% in 2009 from 21% in 2006.
- This came largely at the expense of Doordarshan.
- Regional channels are being added to the portfolio of national broadcasters.
- Star and Zee group have become aggressive in the regional space, while Sun continues to dominate the South Indian market.

Genre-wise TV ad spends

(%)	2006	2007	2008	2009
Regional Channels	20.9	24.5	26.6	28.6
Hindi GECs	26.1	26.4	25.7	25.3
Sports	7.2	7.1	9.7	12.2
News	17.7	19.1	17.9	17.7
Doordarshan	15.5	10.1	8.8	7.2
Cinemas/Movie Channels	6.1	5.8	5.8	4.7
Kids	2.1	4.7	2.0	1.7
Others	4.3	2.3	3.5	2.5

Source: Adex, Edelweiss Research

Cost per rating point

	Hindi GEC	Kannada GEC	Tamil GEC	Telugu GEC	Malayalam GEC	Marathi GEC	Bengali GEC
Avg CPRP	16,000	2,800	1,800	2,500	1,000	2,000	2,000

Source: Data compiled by Mudra, , Edelweiss Research

Favourable shift of subscription towards broadcasters

- Both ad and subscription revenues are expected to grow at similar rates for the TV industry.
- However, for broadcasters, subscription revenues will grow faster at 24% CAGR over 2009-14 as digitisation will lead to a shift.

TV industry size

(INR bn)	2006	2007	2008	2009	2010P	2011P	2012P	2013P	2014P	CAGR in % (09-14)
Subscription revenues	122	140	158	169	191	223	249	293	340	15.0
Advertisement revenues	61	71	82	88	99	113	133	155	182	15.6
Total	183	211	240	257	290	336	382	448	522	15.2
Ratio of sub to ad revenues	2.0	2.0	1.9	1.9	1.9	2.0	1.9	1.9	1.9	

Source: KPMG, Edelweiss research

Broadcasting industry

(INR bn)	2009	2010P	2011P	2012P	2013P	2014P
Sub revenue	31.0	39.0	49.0	59.0	74.0	90.0
Ad revenue	88.0	99.0	113.0	133.0	155.0	182.0
Sub revenue as % of total	26.0	29.0	30.0	31.0	32.0	33.0

Source: KPMG, Edelweiss research

Digitisation could yield huge upsides for broadcasters

- Penetration of DTH and digital cable is expected to rise much faster than earlier expectations.
- DTH and digital cable subscribers to cross 40 mn each by 2014.
- However, ARPUs likely to remain under pressure due to increasing competition.

No. of subscribers

(Mn)	2009	2010P	2011P	2012P	2013P	2014P
Analog	69.0	68.0	63.0	59.0	56.0	55.0
Digital	4.0	10.0	19.0	27.0	35.0	40.0
DTH	16.0	24.0	30.0	35.0	39.0	43.0
IPTV	-	-	1.0	2.0	2.0	3.0

Source: KPMG, Edelweiss research

Average revenue per user

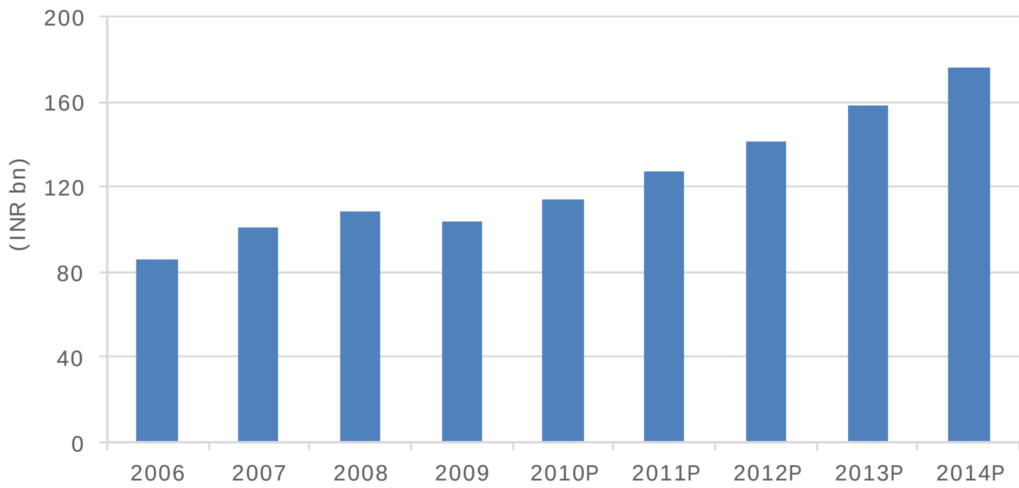
ARPU (INR)	2009	2010P	2011P	2012P	2013P	2014P
Analog	160	160	165	165	170	170
Digital	160	160	170	180	201	226
DTH	150	150	159	169	189	211
IPTV	160	160	170	180	201	226

Source: KPMG, Edelweiss research

Print: Set for a comeback

- The print industry grew at a modest rate of 2% to end the year at INR 175 bn.
- Decline in ad revenues was offset by growth in circulation revenues.
- Regional markets for print, particularly Hindi players, showed growth; national players (particularly English) were hit.
- Industry is projected to post CAGR of 9% over the next five years to touch INR 269 bn by 2014.

Print ad revenues



Source: KPMG, Edelweiss research

Print ad revenues to come back, albeit slower to TV

- Higher exposure to BFSI, real estate, tourism and auto led to a significant decline in ad revenues for English print players.
- Circulation revenues, which rose strongly in 2009, are likely to see a slower growth as ad revenues are now back and are likely increase competition in some markets.
- However, Hindi print ad revenues to grow much faster than English print.

Print industry size

(INR bn)	2005	2006	2007	2008	2009	Y-o-Y growth (%)	2010p	2011p	2012p	2013p	2014p	CAGR (2010-14) (%)
Advertising	69	85	100	108	103	(5)	114	127	141	158	176	12
Circulation	48	54	60	64	72	13	76	80	84	88	92	5
Total industry size	117	139	160	172	175	2	190	207	225	246	268	9

Source: KPMG, Edelweiss research

Hindi print players to do well

- English print ad revenues disproportionate to its readership.
- This is likely to be positive for Hindi print players as they catch up with English counterparts.

Print media penetration in urban and rural India

Language	2007 R2	2008 R2	2009 R2	CAGR(%)
English	369	305	305	(9.1)
Hindi	1,491	1,593	1,588	3.2
Vernacular				
Bengali	368	344	335	(4.6)
Kannada	250	222	206	(9.2)
Malayalam	370	271	285	(12.2)
Marathi	541	514	565	2.2
Tamil	649	533	514	(11.0)
Telegu	314	292	382	10.3

Source: IRS 2009, Edelweiss research

Comparison of ad volumes by language

mn col cm	2008 volumes	2009 volumes	growth (%)
English	60	59	(1.5)
Hindi	48	55	13.5
Vernacular	70	70	(0.1)
Total	177	183	3.1

Source: Adex, Edelweiss research

Comparison of cost per thousand

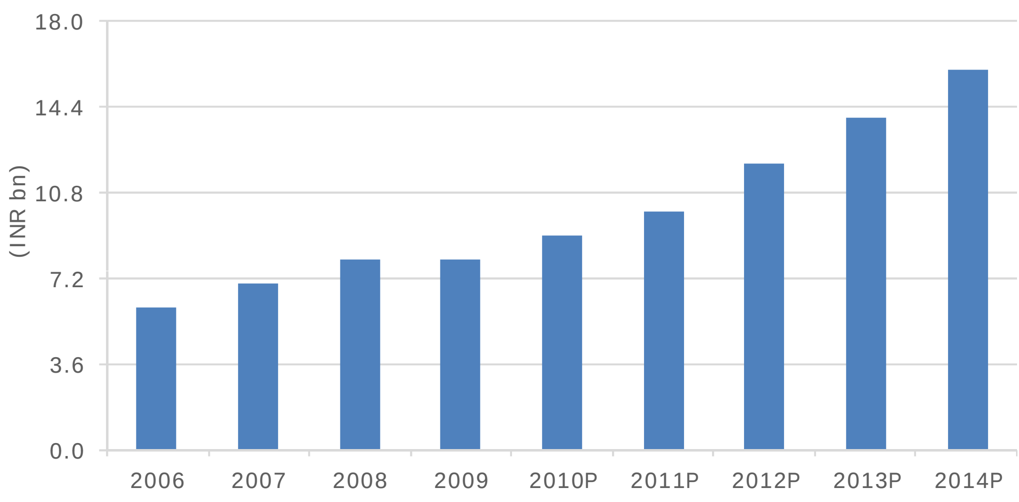
Language	CPT
English	87
Regional	34

Source: Estimates from Mudra, Percept, KPMG, , Edelweiss research

Radio: Local media increasingly gaining importance

- The radio industry fell 0.3% to INR 7.8 bn in 2009 due to a drop in ad volumes and rates.
- Radio is expected to post 16% CAGR over 2010-14, reaching a size of INR 16.4 bn by 2014.
- Economic slowdown was a blessing in disguise as many new advertisers tried the medium due to its low cost.
- **Key growth drivers**: Increase in the number of radio stations in Phase III, expected regulatory reforms that could improve profitability and stimulate foreign investments, enhancement of current measurement systems and growth in locally targeted advertising.

Radio ad revenues



Source: KPMG, Edelweiss research

Radio: Part of the regional boom

- Share of local ads is on a clear uptrend.
- National advertisers like FMCG and telecom are increasing focus on tier II regional markets, which is positive for radio.

Key ad category on radio

Top 10 categories share of voice (%)	2006	2008	2009
Cellular Phone Services	3.0	7.8	7.0
Independent Retailers	3.0	7.0	6.3
New licenses in phase 3	-	4.3	5.9
TV Channel Promotions	11.0	8.9	5.8
Real Estate	7.0	5.8	3.8
Jewellery	3.0	2.5	2.8
Educational Institutions	-	1.4	2.6
Election Campaign	-	0.6	2.3
Insurance	-	2.2	2.3
pan Masala/ Zarda/ Gutka	-	1.2	2.3

Source: TAM Adex, Edelweiss research

Share of ad revenues from national and local ads

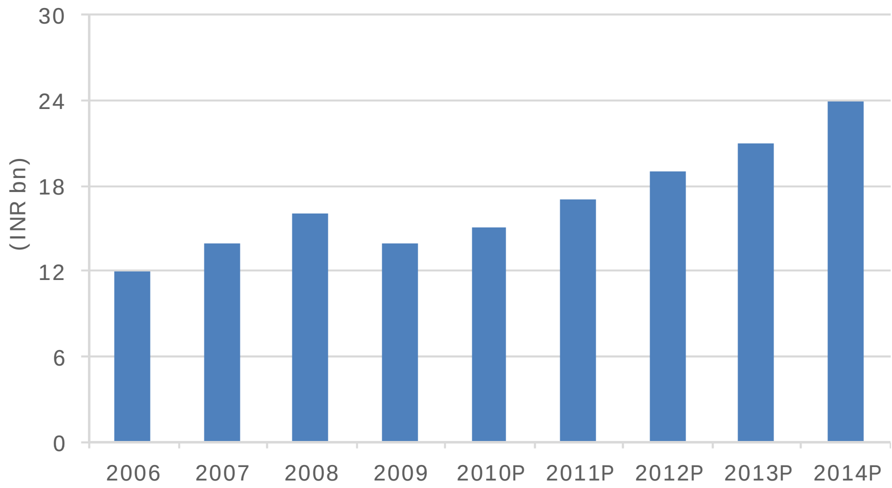
(%)	2007	2008	2009
Local Ads	20	30	40
National Ads	80	70	60

Source: Industry discussion, Edelweiss research

OOH: All set for a turnaround

- Out-of-home (OOH) suffered 15% drop in 2009 to end the year at INR 13.7 bn.
- Till now, growth has been centred largely in tier I towns, but a noticeable trend in 2009 was increased investments in tier II and III towns.
- Consumers are spending more time out of home in retail outlets, roads, airports and metro trains.
- Sector likely to grow at a faster pace than its past growth trajectory.
- OOH ad revenues to post 12% CAGR over the next five years, increasing size of the sector to INR 24.1 bn.

OOH ad revenues



Source: KPMG, Edelweiss research

Contribution of various sectors to OOH industry

(%)	2007	2009
Telecom	38.0	19.0
Financial Services	23.0	15.0
M&E	12.0	13.0
Auto	4.0	5.0
FMCG	5.0	10.0
Others	18.0	38.0

Source: Group M report, Edelweiss research

Split of revenues from various OOH formats

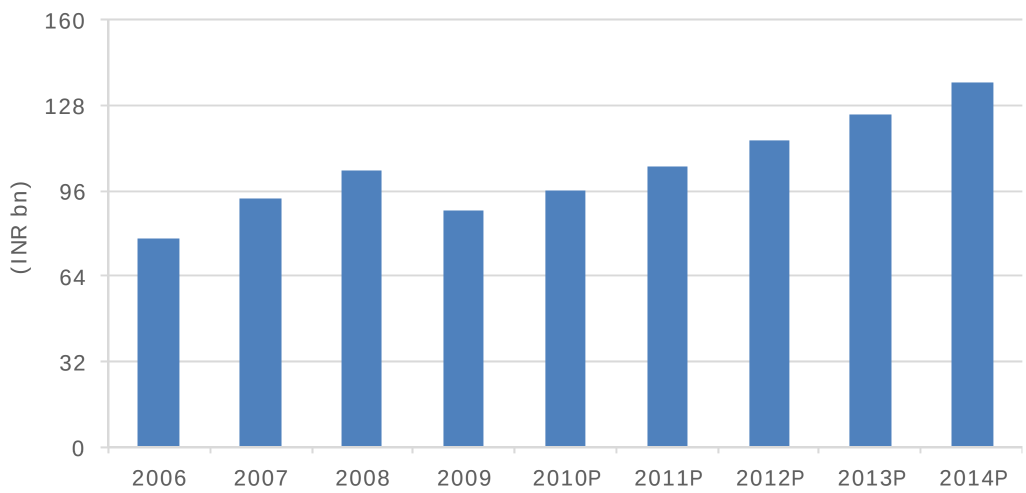
	(%)
Street furniture	16.0
Billboard	60.0
Airports and other transit media	22.0
Others	2.0

Source: Industry Interview, Edelweiss research

Films: Show continues

- Hit by a two-month strike and impact of IPL, the film sector de-grew 14% to clock INR 89 bn in 2009.
- Sector to post 9% CAGR over the next five years, sizing up to INR 137 bn by 2014.
- **Key growth drivers**: Expansion of multiplex screens resulting in better realisations, increase in number of digital screens facilitating wider releases, higher C&S revenues, improving collections from the overseas markets and ancillary revenue streams like DTH and digital downloads that are expected to emerge in future.

Film industry size



Source: KPMG, Edelweiss research

Films: Show continues (contd.)

- Home video and cable & satellite rights revenues will be key growth drivers for the film industry and are expected to post CAGR of 11.8% and 12.8%, respectively, over 2009-14.

Indian film industry

Film industry (INR bn)	2006	2007	2008	2009e	CAGR % (2006-09)	2010p	2011p	2012p	2013p	2014p	CAGR % (2009-14)
Domestic Theatrical	62.1	71.5	80.2	68.5	3.3	73.3	79.3	85.8	93	100.8	8
Overseas Theatrical	5.7	8.7	9.8	6.8	6.2	7.3	7.9	8.6	9.3	10.1	8
Home Video	2.9	3.3	3.8	4.3	13.1	4.7	5.2	5.9	6.6	7.4	11.8
Cable & Satellite Rights	5	6.2	7.1	6.3	7.9	7	7.9	9	10.1	11.4	12.8
Ancillary Revenue Streams	2.5	2.9	3.5	3.5	12.9	4.1	4.7	5.4	6.2	7.1	15
Total Industry Size	78.2	92.7	104.4	89.3	4.6	96.5	105.1	114.6	125.2	136.7	8.9

Source: KPMG, Edelweiss research

Animation and VFX

- The animation & VFX segment, at INR 3.2 bn, posted 13.6% growth in 2009.
- The industry is expected to post CAGR of 18.7% in the next five years to reach INR 46.6 bn by 2014.
- **Key growth drivers**: Increased consumption of animated content, focus on IP creation and growth of 3D formats.

Animation and VFX industry size

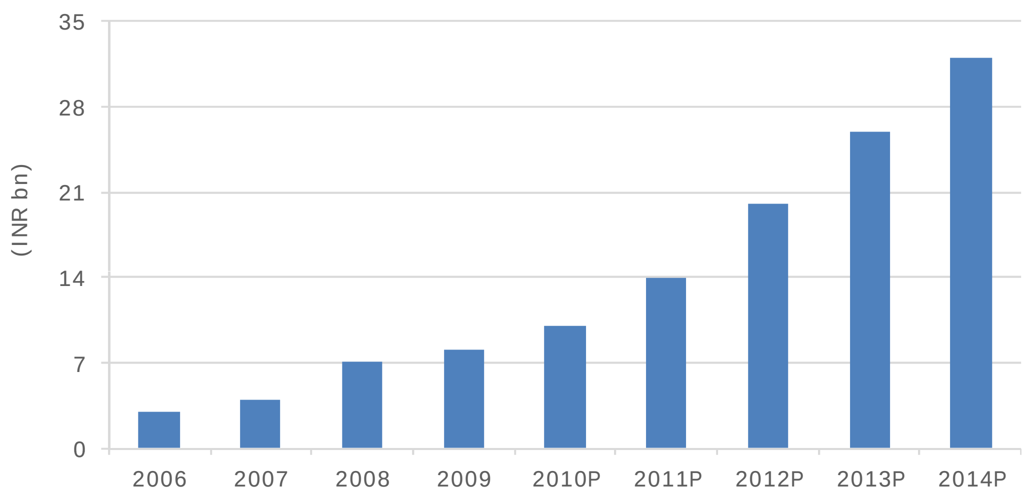
INR bn	2008	2009	2010	2011	2012	2013	2014
Post Production	6.8	7.4	8.5	10	11.7	14	16.8
VFX	2.3	3.2	4.4	5.7	7.2	8.6	10.3
Animation Product Creation	3.6	3.7	3.9	4.8	5.8	6.9	8.3
Animation Services	4.8	5.5	6.3	7.3	8.4	9.7	11.1

Source: KPMG, Edelweiss research

Gaming

- Gaming has shown 22% growth in 2009 and is expected to post 32% CAGR in the next five years, to reach INR 32 bn by 2014.
- Console gaming currently constitutes the largest share of the pie; but, going forward, mobile gaming platform is expected to eventually surpass levels of console games.
- **Key growth drivers**: Increase in number of casual and active games, arrival of 3G, availability of localised content, growth in ad funded gaming platforms and greater awareness of products and services.

Gaming industry size

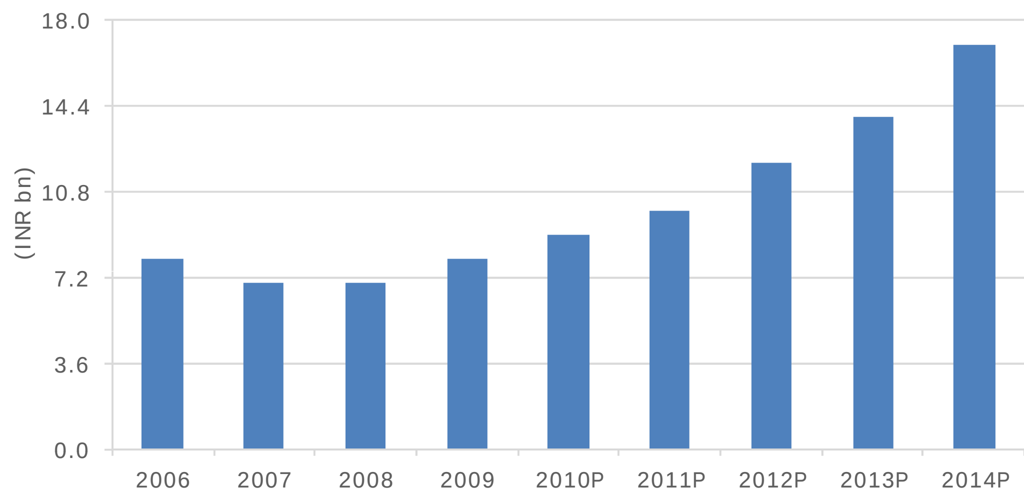


Source: KPMG, Edelweiss research

Music

- The music industry saw 14% jump to close 2009 at INR 8.3 bn.
- The sector is expected to post CAGR of 16% over the next five years to touch INR 17.2 bn.
- **Key growth drivers**: Increased acceptability of different digital distribution models, acceptability of music genres other than the Indian film industry, and broadcast and public performance licensing revenues.

Music industry size



Source: KPMG, Edelweiss research

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