Sector Update

31 March 2008

FICCI Frames 2008 (Media & Entertainment)

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We attended the FICCI Frames 2008 conference held from March 25–27, 2008, and present the key takeaways in this report.

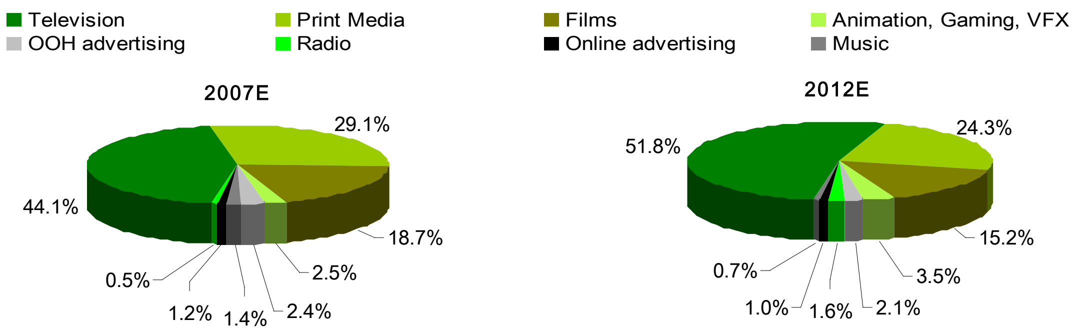
Recommendation snapshot

Company	CMP	Target	Reco
Balaji Tele	186	375	Buy
Cinemax	101	183	Buy
Deccan Chron	161	302	Buy
Fame India	62	105	Buy
HT Media	170	247	Buy
Inox Leisure	94	170	Buy
Jagran Praka	94	158	Buy
PVR	186	416	Buy
UTV	768	892	Buy

Key takeaways

- **Media & Entertainment (M&E):** As per the 2008 PWC report, India's Rs 513bn M&E industry is expected to grow at 18% CAGR over 2007–12, to Rs 1.2trn, driven by growth across segments.
- **Television:** New channels, increased CAS & DTH coverage, greater ad revenue share, and various tie-ups would drive a 22% revenue CAGR over the next five years to Rs 600bn.
- **Films:** Emergence of diversified revenue streams coupled with domestic & overseas box office collections is expected to double revenue growth to Rs 175.5bn by 2012.
- **Print:** New newspaper and magazine launches, as well as established publications, would drive a 14% CAGR in print circulation and ad revenues to Rs 281bn.
- **Radio:** With phase-II licensing in place, expected broadcast of news and sports content, and the presence of RAM, radio ad revenues are poised to grow at a 24% CAGR to Rs 18bn.
- **Music:** Digital music is expected to lead growth in the segment, contributing 31% to total revenues by 2012, though physical music sales would remain dominant because of its sheer size.
- **Animation & Gaming:** With a rising thrust on IPRs in addition to outsourcing, animation is set to grow at a 25% CAGR to Rs 40bn. Mobile gaming to contribute majorly to a 39% CAGR in gaming.

M&E industry growth



Source: PWC Report 2008, Religare Research

Television

TV has clocked a 21% CAGR over last four years to Rs 226bn in 2007

Highlights of 2007

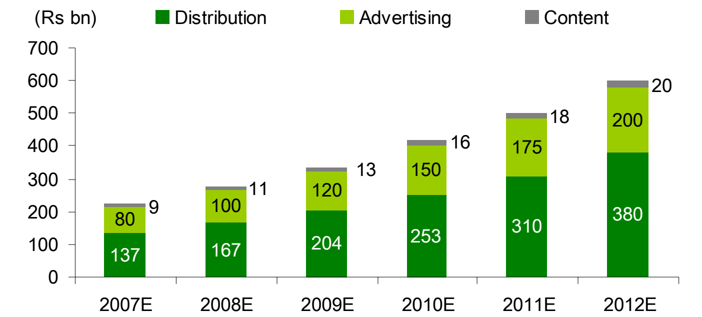
- The year was marked by the launch of several new channels in the general entertainment space.
- General entertainment channels recorded the highest number of new programmes during the year, followed by news channels.
- After Chennai, CAS was made mandatory in some areas of Delhi, Mumbai and Kolkata. However, by December 2007, the number of set-top boxes had risen only marginally to 503,233 as compared to 466,000 in 2006. While CAS implementation fell short of expectations, DTH services witnessed increased penetration with 3.5mn subscribers.
- The number of advertisers grew at a CAGR of 29% during FY03-FY07, with the number of per-day advertisements per channel logging an average growth of 50% as compared to 2003.
- The segment saw various collaborations and tie-ups during 2007, such as the Viacom Network18 joint venture and NBCC Universal's stake acquisition in NDTV.
- The television industry has clocked an 21% CAGR over the last four years to reach an estimated Rs 226bn in 2007.

Sector growth potential

The television sector is projected to grow at a 22% CAGR over the next five years, from Rs 226bn in 2007 to Rs 600bn in 2012. Of this, distribution revenues are expected to clock a 23% CAGR to Rs 380bn, advertising a 20% CAGR to Rs 200bn, and content a 16% CAGR to Rs 20bn. The revenue contribution from these three segments would thus amount to 63%, 33% and 3% respectively by the end of 2012. Television contributes a bulk of M&E revenues, at 44% in 2007. It is expected to account for an even higher share of overall revenues, at 51.8%, by 2012.

TV would contribute over 50% of M&E revenues by 2012

TV segment growth trend



Source: PWC Report 2008, Religare Research

Growth in the distribution segment is expected to be backed by higher subscription revenue, which is being generated through pay-channel subscribers. The advertising segment would largely benefit from overall growth in the advertising industry, with television and print garnering the highest revenues in this space. In terms of content, the mushrooming number of channels catering to diversified audiences would lead to more, better quality content.

Films

Highlights of 2007

Film business de-risked due to emergence of TV, home video and internet rights

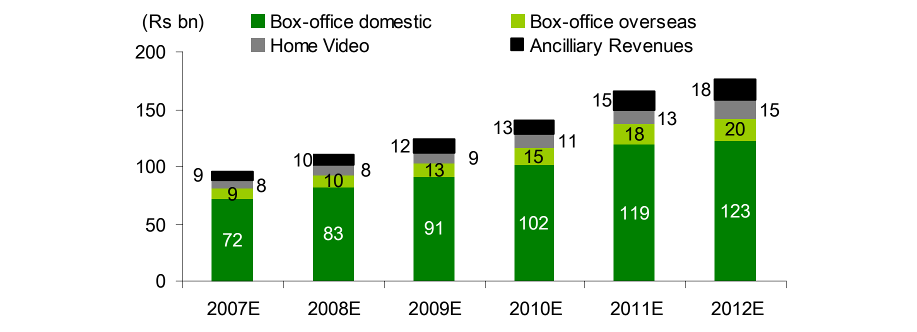
- The film business is becoming increasingly de-risked due to the emergence of various revenue streams, including television, home video, movie merchandise, internet and re-make rights.
  - With the growing number of channels, the need for qualitative programming includes cinematic content. This opens up scope for revenues from films by way of television rights.
  - Home video rights are becoming more lucrative as the market expands due to the presence of higher income groups, and cheaper and better quality viewing devices.
  - Growing internet penetration has helped film makers to tap the net as a medium to showcase cinema to internet broadband subscribers, thus creating internet rights.
  - Re-making of older movies has caught on in a big way, thus giving rise to re-make rights as a revenue generator for film right owners.
- Digital cinema is revolutionising the film industry in a big way by curbing piracy and also making cinema viewing a more memorable experience in terms of picture quality and sound. At present, ~1,500-plus screens out of the 13,000-odd screens in India are digitised, and this number is projected to grow exponentially.
- The film industry has grown at a CAGR of 17% over the last four years to Rs 96bn in 2007, led by growth in the domestic box office segment which constitutes 74.5% of the total revenues.

Sector growth potential

Going forward, the industry is expected to witness a 13% CAGR to Rs 175.5bn by 2012. Despite nearly doubling in size, the contribution of films to revenues of the M&E industry will dip from 18.7% to 15.2%.

Film revenues to witness a 13% CAGR to Rs 176bn by 2012

Film segment growth trend



Source: PWC Report 2008, Religare Research

The **domestic box office** segment will continue to contribute the largest revenues, logging an 11% CAGR in the next five years to Rs 122.5bn on the back of higher ticket prices as well as higher occupancies. Average ticket prices are estimated to increase from Rs 22 to Rs 35 by 2012. However, the segment's contribution to the overall pie would decrease to 70% during 2012 from 74.5% now.

Overseas box office revenue, which has become an important component of the industry's income, is expected to grow at a 19% CAGR over 2007-12 from Rs 8.5bn to Rs 20bn. Its contribution to the overall pie would rise from 9% to 11% over this period. The growth would be backed by an increased focus on the overseas market, with innovative products, packaging, marketing and organised distribution efforts.

The **home video** market is poised to grow at a 15% CAGR to Rs 15bn, doubling from its current size. With more players like Moser Bear in the market, the focus is likely to shift towards the sell-off-model from the rental-model home video market. However, in terms of a percentage share in the whole revenue pie, there would be a marginal increase to 8.5% from 7.8% now.

The **ancillary revenue** stream consisting of all other rights would grow from Rs 8.5bn to Rs18bn going forward, a 16% CAGR.

Print media

Highlights of 2007

New editions and forays into e-publishing are driving growth in print media

- The print media industry witnessed the launch of several newspaper editions in 2007 including *MetroNow* (a JV between HT Media and the Times of India group), business daily *Mint* by Hindustan Times, and Gujarati editions of *The Economic Times*.
- The year also saw some significant developments in terms of alliances in the e-publishing segment. Most print publishers entered the online space to cash in on the rising internet penetration.
- In 2007, newspaper publishing constituted 87% of the Rs 149bn print industry pie, growing at a 15% CAGR over the last four years. Magazine publishing comprised the balance, growing at 17% during the same period.

Sector growth potential

Newspaper publishing revenues to grow to Rs 243bn by 2012

The sector is expected to grow at a 14% CAGR to Rs 281bn from Rs 149bn in five years. Newspaper publishing would log a 13% CAGR to Rs 243bn by 2012 and magazine publishing is expected to record a 15% CAGR to Rs 38bn, doubling from Rs 19bn today.

Advertisement revenue forms 63% of the total and is expected to register a 16% CAGR to Rs 200bn from Rs 94bn now. The revenue share would increase to 71% by then. Circulation revenue which is 37% of the pie would grow at an 8% CAGR to Rs 81bn in 2012, diminishing to 29% of the pie.

Print media growth trend

Source: PWC Report 2008, Religare Research

Radio

~150 radio channels commenced by end-2007

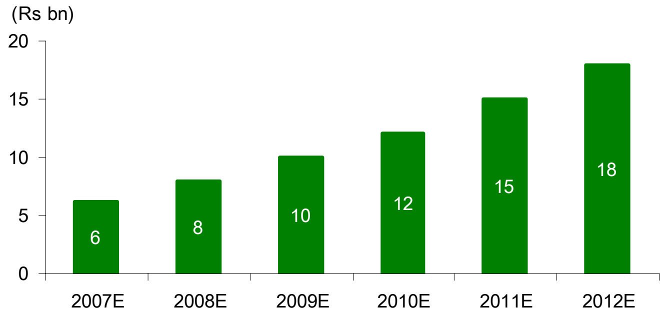
- With the introduction of phase-II of radio licensing, the industry took off by the end of 2007 with ~150 channels commencing operations.
- 2007 also saw the introduction of Radio Audience Measurement (RAM).
- The radio industry has logged a 37% CAGR during the last four years to Rs 6.2bn in 2007, albeit from a very low base. About 60% of the radio ad revenue comes from private FM broadcasters and the rest from state broadcasters.

Sector growth potential

The radio industry is projected to grow at a 24% CAGR in the next five years to Rs 18bn. About 49% of the radio audience are mobile listeners. With the proportion of radio-enabled mobile handsets in use set to rise from 50–60% at present to 70–75% in the near future, the radio audience will also swell. Further, news and sports events could soon be broadcast on radio, which would boost listenership and serve as an effective medium for advertisement.

Swelling numbers of mobile listeners to boost radio revenues

Radio growth trend



Source: PWC Report 2008, Religare Research

Music

Highlights of 2007

Mobile music has garnered tremendous popularity

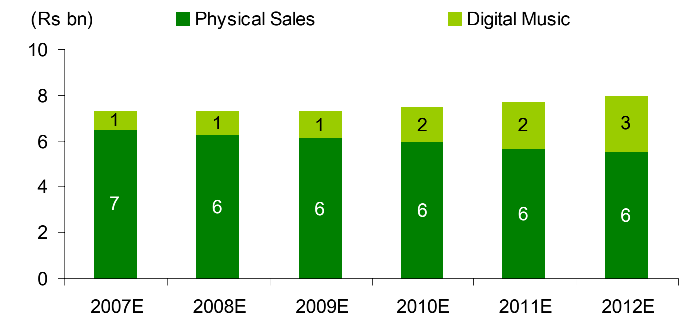
- Mobile music has become one of the most important segments in the music space. With cell phone ownership rising to more than 230mn by the end of FY07, the mobile music space is slated to grow further. The music industry in India, however, grew by only 1% during 2007 with physical sales dropping and digital music sales picking up.
- With a changing pattern of listenership in favour of the radio, physical sales have been hit, with the price per unit decreasing and volumes remaining stagnant. Revenues of the physical music industry has declined from Rs 6.6bn to Rs 6.5bn in 2007.
- Digital music revenues have gone up significantly by 33% YoY during 2007, although from a small base. Mobile music dominates the space with 88% of the digital music pie and 10% of the overall music pie.

Sector growth potential

Over the next five years as well, digital music is expected drive growth in the segment, contributing 31% of revenues by 2012. Physical music would remain dominant due to its sheer size, but prices per unit will slowly decline. In the digital space, mobile music would have a major presence, but would eventually lose some share to online music.

Digital music eating into physical sales

Music segment growth trend



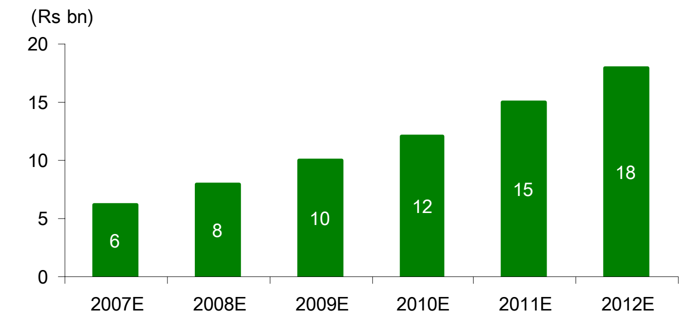
Source: PWC Report 2008, Religare Research

Animation & Gaming

Increased outsourcing of animation to India

The Indian animation industry has grown at an estimated 24% YoY to Rs 13bn in 2007. The outsourcing of animation to India has been the major contributor to overall growth. With an increasing quantum of local content, demand is expected across media like television, films and ad-commercials, and the segment is likely to clock a 25% CAGR to Rs 40bn in 2012.

Animation growth trend

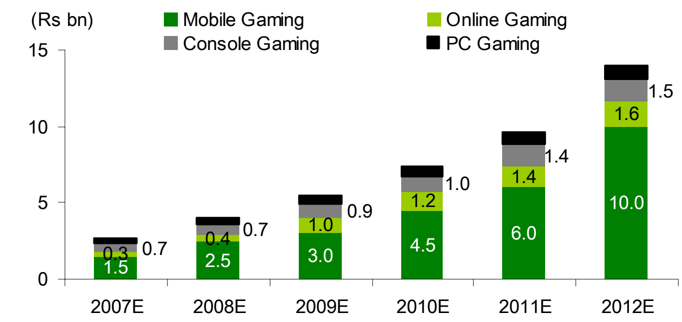


Source: PWC Report 2008, Religare Research

Mobile gaming to grow from Rs 1.5bn to Rs 10bn by 2012

Gaming has expanded 32% YoY to Rs 2.7bn in 2007. Mobile gaming grew at 50%, contributing 55% of the segment's total income. Revenues from console gaming increased by 8%, and comprised 24% of total revenues. PC gaming (11% of revenues) grew 20% while online gaming increased by 25%.

Gaming growth trend



Source: PWC Report 2008, Religare Research

The gaming industry as a whole is expected to log a 39% CAGR over 2007-12 from a small base of Rs 2.7bn to Rs 14bn. Mobile gaming would increase at a 46% CAGR to capture the lion's share of revenues at Rs 10bn, followed by a 45% CAGR in online gaming to Rs 1.6bn. Console and PC gaming would follow with 18% and 25% growth in the same period respectively.

Advertising

Online

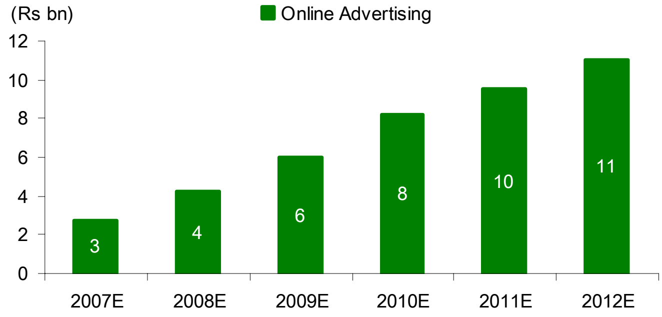
Online advertising grew at a rapid rate of 69% YoY to Rs 2.7bn in 2007. It is expected to grow at a 32% CAGR to Rs 11bn by 2012 on the back of increased internet usage, with its share in the overall M&E pie increasing to 2.4% from 1.4% in 2007.

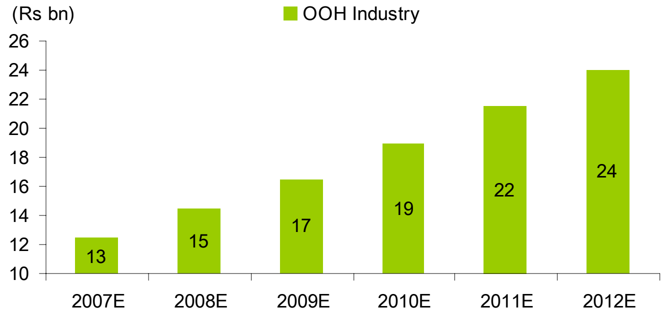
Out-of-home advertising

OOH set to nearly double to Rs 24bn over next five years

Out-of-home advertising (OOH) has logged a 14% CAGR over the last four years, contributing 6.4% to the overall advertisement pie of Rs 10bn in 2007. The segment is expected to register a 24% CAGR in the coming five years to Rs 24bn by 2012.

Advertising growth trend





Source: PWC Report 2008, Religare Research

Conclusion

UTV, Balaji, PVR, Jagran – our preferred media picks

UTV, Balaji Tele, PVR and Jagran are our top picks

The Indian M&E industry has grown quite substantially and is expected to witness continued momentum across segments. Apart from the established areas like television, film and print media, we expect animation, gaming, OOH and online advertising, and radio to throw open tremendous opportunities for growth. Advances in technology and the advent of new distribution platforms would be key growth factors.

We believe that media companies would continue to consolidate across verticals so as to tap opportunities across the sector. Our preferred picks in the sector are UTV Software, Balaji Telefilms, PVR and Jagran Prakashan.

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Absolute Returns
	BUY	SELL	
Mid-caps**	> 25%	< 10%	

**Market cap over US$ 1bn **Market cap less than US$ 1bn*

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Disclaimer

Analyst's holding in the stocks mentioned in the report: NIL.