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FDI cap on broadcast distribution raised to 74%

CCEA has approved the FDI limit in the broadcast carriage services providers, including DTH, HITS and cable TV uniform at 74%. In our view, the step will not only facilitate compulsory digitization but also brings merits in the form of a) greater investments into quality infrastructure for the broadcasting carriage services and b) consolidation in much fragmented cable industry earlier than anticipated. Clearly, this is positive for all the big distribution players in both DTH and cable TV space. Amongst our coverage universe, our top picks in the broadcast distribution space are Dish TV and Hathway Cable. But other cable players like Den Networks, Wire & Wireless (Siticable) and Hinduja Ventures will also benefit.

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- **FDI cap raised to 74% (49% earlier) for broadcast distribution players:** The CCEA has liberalized the policy on foreign investment, for companies operating in the broadcasting distribution space, raising the FDI limits to 74% (49% under automatic route; beyond under govt. route) for DTH, HITS, Mobile TV and Cable TV players (MSOs operating at National/state/District level and undertaking network upgradation for addressability and digitization). For Cable Networks not undertaking up-gradation of networks towards digitalization and also Local Cable Operators (LCOs), the existing limit of 49% foreign investment, under the automatic route would continue.

- **FDI limit remain same for News/ FM radio at 26%:** For up-linking of 'News & Current Affairs' TV channels / FM Radio, the existing limit of 26 % foreign investment, under the Government route, would continue and for up-linking of Non-'News & Current Affairs' TV Channels / Down-linking of TV Channels, the existing policy of 100% foreign investment, through the Government route

- **Proposal brings broadcast distribution players in line with telecom sector:** The proposal brings foreign investment policy (methodology of calculation of direct investment) for the broadcasting sector on par with that of the telecom sector as per the TRAI recommendations of 2010, because of the convergence of technologies involved in these two sectors. This would help bring in greater investments into quality infrastructure for the broadcasting carriage services.

- **Big boost for digitization:** The new policy clearly incentivizes Cable players to undertake investment in upgrading infrastructure towards digitization by leaving the cap unchanged at 49% for networks not undertaking the required steps. We think this step is a big positive for digitization as it helps firms raise capital from foreign firms for the massive investments required for overhaul of infrastructure (estimated at $20bn). However, due to cross holding restrictions the move may not help some of the big foreign players who are looking at increasing their presence.

  Consolidation in broadcast distribution space inevitable: We believe that with fresh capital being available from the foreign players, consolidation process in the MSO space is likely at a faster pace than expected earlier with major MSOs like Hathway **(BUY)**, Den Networks **(Not rated)** and WWIL **(Not Rated)** as focal points.

Fig 1 - FDI limits on various sub sectors in broadcasting space

	Existing	New	% under Automatic route
DTH players	49%	74%	49%
MSOs at National/ State/District level working towards Digitization	49%	74%	49%
MSOs at National/ State/District level **not** working towards Digitization	49%	49%	49%
Other MSOs	49%	49%	49%
LCOs	49%	49%	49%
HITS	74%	74%	49%
Mobile TV	No Policy	74%	49%
Teleport	49%	74%	49%
Up-linking of 'News & Current Affairs' TV channels	26%	26%	-
Up-linking of Non-'News & Current Affairs' TV Channels	100%	100%	-
Down-linking of TV Channels	100%	100%	-
FM Radio	26%	26%	-

Source: PIB, TRAI, RCML Research

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