Media and Entertainment – Television segment

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Overview

The Indian Media and Entertainment (M&E) industry is a sunrise sector for the Indian economy and is expected to grow on the back of increase in device penetration, consumer demand for fresh content, lower data tariffs and portability preferences, etc.

Top three segments namely, TV, print and films, account for ~75% of the total revenue generation, with TV segment dominating the pie with a ~45% revenue share of USD 10.19bn, followed by print with USD 4.68bn and films with USD 2.4bn.

TV is the biggest segment in this industry in terms of revenue generation. In 2017, TV industry size was Rs.660 bn, comprising Rs 393 bn subscription and Rs.267 bn advertisement revenue.

Our view going ahead

We estimate the TV industry in India to grow between 15-18% in the coming year to Rs.760 -780 bn, with the share of advertising revenue going up to 45%, from 41% currently, and subscription share lowering to 55%, from 59% currently.

Chart 1: Segments of the M&E industry *(in no particular order)*

Television	- Biggest revenue generating segment (45%) in 2017 - All India TV penetration at 64% - Digitisation to improve revenues for the segment
Print	- 2nd largest revenue generating segment (21%) in 2017 - Growth led by increase in literacy rate in India - Very affordable and high penetration in the country
Cinema	- India being an under penetrated market with ~8 screens per mn population - Revenue determined by no. of movie releases, price per ticket and no. of thetre shows
Digital media	- Experiencing advrtisement growth in recent years - Growth led by low cost smart phones and reduced data tariffs - Expecting increased penetration and fast growth
Animation & VFX	- Caters to TV, film and digital segments for content creation - Visual Effects (VFX) improves visual quality of content and adds special effects
Live events	- Involves exhibitions, concerts, etc. -Small and unorganised segment currently - Lack of skilled manpower - a major drawback
Online gaming	- Growth driven by increased device penetration and low data charges - Drawbacks: hijacking player account, privacy breach, etc.
Out Of Home (OOH) media	- Majorly comprises of billboards, transit advertising, etc. - Upcoming elections, government campaigns, etc. will add to the revenues
Radio	- Free source of entertainment in the country - Implementation of phase 3 to provide advertisers with a much deeper reach
Music	- Despite high level of consumption, this segment accounts for only ~1% of the industry - Leading music apps being Gaana, Saavn, Wynk, etc.

Source: Industry, CARE Ratings

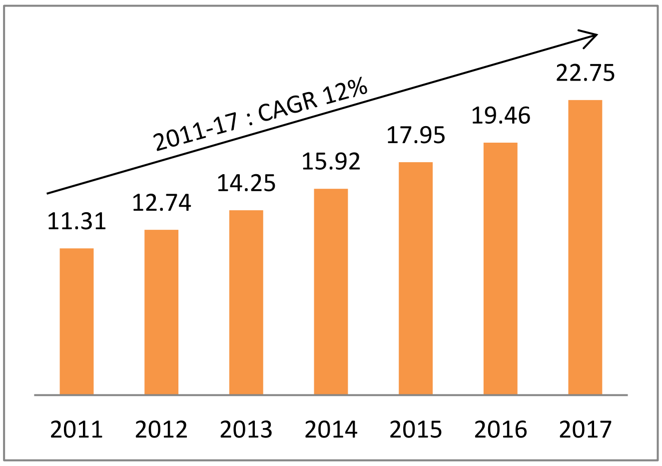
Media and Entertainment (M&E) Industry: India

India continues to be one of the fastest growing M&E markets globally owing to increase in device penetration, increasing digitization, lower data tariffs and demand for fresh content. India's current low per capita spending of ~USD 50/ year, shows an opportunity for immense growth in the coming years.

As of 2017, the industry provides employment to 3.5-4 million people, including both direct and indirect employment. Indian M&E industry grew at a CAGR of ~12% from 2011-17; from USD 11.31 bn in 2011 and doubling to USD 22.75 bn in 2017.

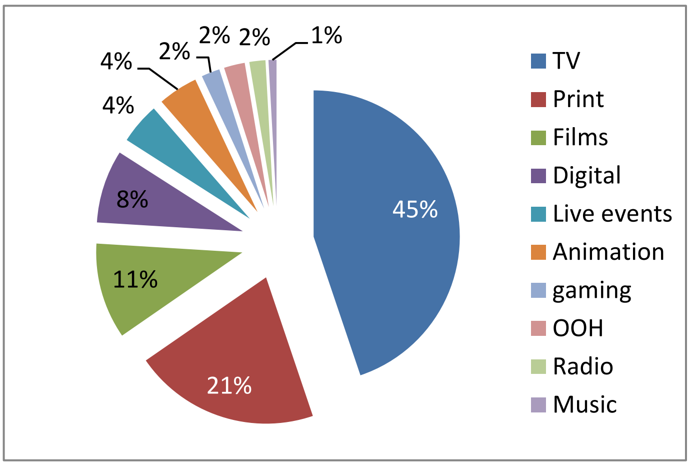
Top three segments namely, TV, print and films, account for ~75% of the total revenue generation, with TV segment dominating the pie with a ~45% revenue share of USD 10.19bn, followed by print with USD 4.68bn and films with USD 2.4bn, followed by other segments.

Chart 2: India M&E industry market size (USD bn)



Source: IBEF

Chart3: Size of industry segments in 2017 (value terms)

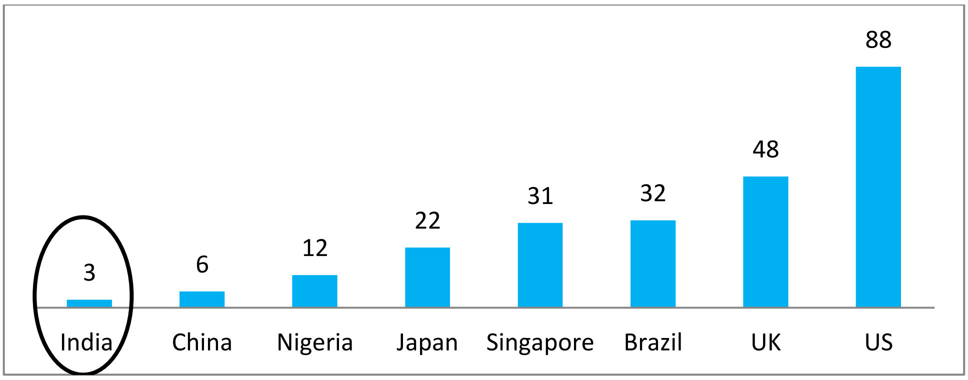


Source: IBEF

India: Television segment

TV is the biggest segment (45% share) in the Indian M&E industry in terms of revenue generation. Technology innovations, rising disposable income, government initiatives to push digitization, etc. will act as catalysts for continuing this growth. With a wide reach of ~75%, TV segment in India signifies scope for tremendous growth and expansion. Low ARPU of ~USD 3 per month makes TV one of the most affordable and preferable medium of entertainment in India.

Chart 4: ARPU of TV segment (USD/month)



Source: Zee entertainment investor PPT June 2018

Pay- TV value chain

The pay- TV value chain consists of content production, broadcasting and distribution, wherein the content production segment creates content for the broadcasters, who in turn broadcasts the same on their channels through various distributors. While the content production segment is unregulated, the broadcasting and distribution segments are regulated by the Ministry of Information & Broadcasting (MIB) and the Telecom Regulatory Authority of India (TRAI).

The content production segment is quite fragmented with low entry barriers. It lacks bargaining power with the broadcasters, as they prefer working with larger players. Artists, set developers and directors are the major individuals involved in content production segment.

The broadcasting segment is capital intensive, with high competition amongst the players. TV broadcasters in India are present across multiple genres, to suit requirements of TV viewers. Leading broadcasters have the power to attract top advertisers and command ad rates.

Distribution platforms in India are broadly of four types- cable TV, the Direct-to-Home (DTH), Internet Protocol Television (IPTV) and Head-end in the Sky (HITS) services. The cable TV services value chain comprises 4 main supply side entities i.e. broadcaster, Multi System Operator (MSO), Local Cable Operator (LCO) and the end consumer. There are around 6,000 MSOs and 60,000 LCOs present in the Indian market today. Digitization has resulted in tremendous growth in the number of TV channels, which are now more than 800.

All India TV Viewership

India has a TV penetration of 64% currently, with 181mn TV households. The average daily time spent by individuals on watching TV is about 220 minutes. This provides an opportunity of ample space, for good content on TV for its viewers.

Chart 5: All India TV viewership from 2010-17

	2010	2017
Total households (in mn)	232	284
Total TV households (in mn)	141	181
TV penetration	61%	64%

Source: DishTV investor PPT July 2011, DishTV investor PPT June 2018

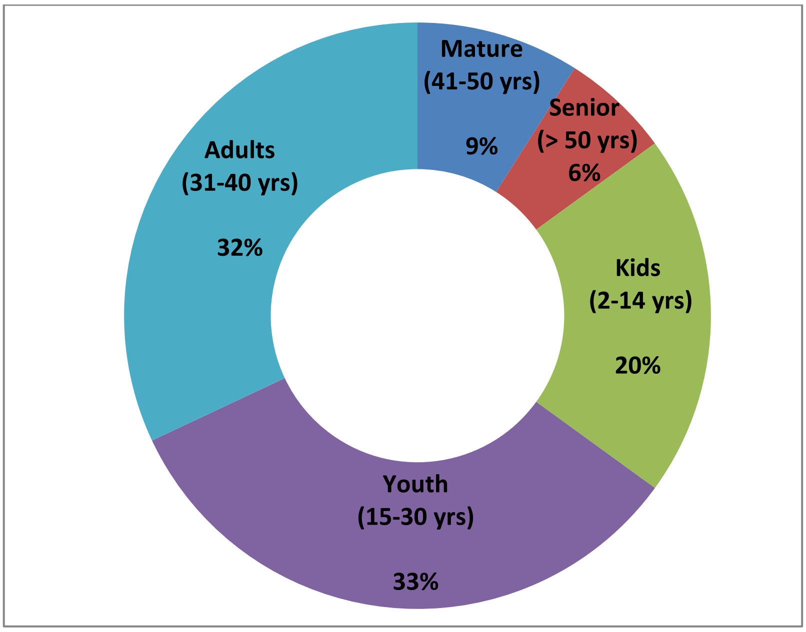
Chart 6: Avg. time spent and tune –ins on TV

Avg. daily time spent on TV (HH:MM:SS)	03:44:28
TV universe size	780mn individuals
Weekly tune-ins on TV	92.7% (723mn individuals)
Daily tune-ins on TV	71.5% (557mn individuals)

Source: BARC India; week 40-52 2017

In 2017, viewership was observed to be highest among the Indian youth, between 15-30 years of age bracket. Their preferred choice of channels remains General Entertainment Channels (GEC), music, movies and sports, etc.

Chart 7: Share of TV viewership universe across age groups - Viewership highest among youth of 15-30 years

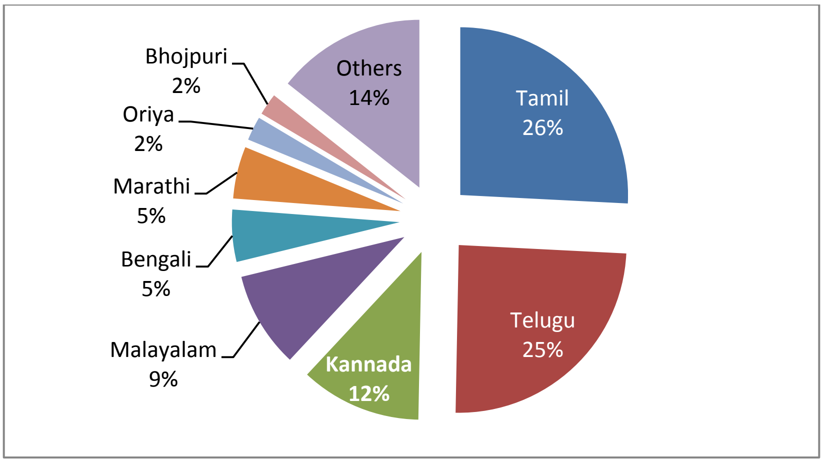


Source: DishTV investor PPT June 2018

Regional entertainment: leading the growth for TV segment

Increase in regional content has led to the growth in viewership of regional genre. Gujarati language has seen the highest increase in viewership of 146% in 2017, followed by Assamese and Marathi, whereas Hindi language has shown a growth in viewership of only 27%. Therefore, regional channels have overtaken the growth of Hindi channels. In India, Tamil language has the highest viewership of 26%, followed by Telugu and Kannada languages.

Chart 8: Viewership in regional channels in 2016

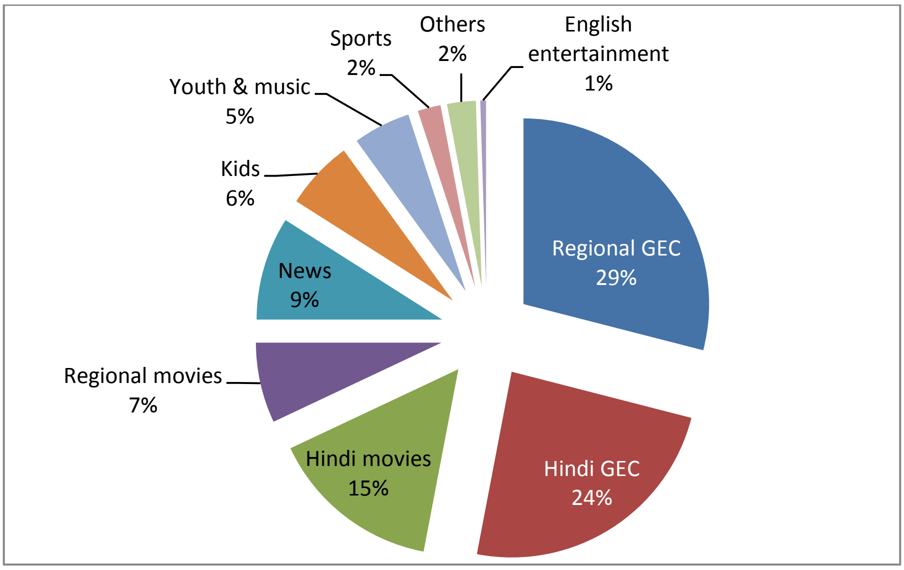


Source: IBEF

Viewership by genre

Regional GECs have offered the maximum viewership in India, followed by Hindi GEC, Hindi movies, regional movies and others.

Chart 9: All India viewership share by genre (FY17)

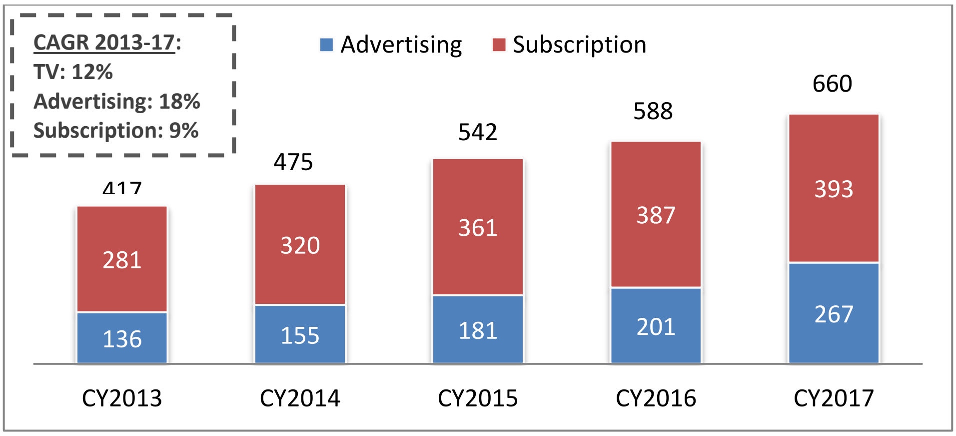


Source: ZEE entertainment annual report FY17

Revenue composition

Out of the total TV segment revenue of Rs.660 bn in 2017, advertising contributed Rs.267 bn (41%) and subscription revenue stood at Rs.393 bn (59%). From 2013-17, the overall TV segment registered a of ~12%, wherein advertising segment grew at a CAGR of ~18% and subscription revenue grew at a CAGR of ~9%. In H1 2017, advertising revenue saw a temporary fall, because of demonetisation and GST. However, in H2 2017, advertising gradually returned the industry to normalcy.

Chart 10: Indian TV industry revenue (Rs. Bn)



Source: Zee entertainment annual report FY17, investor PPT June 2018

Current events such as the FIFA World Cup 2018 could result in a total pay-off of Rs.2 bn, from multiple brands for on-air advertising and sponsorship, for broadcasters like Sony Pictures Sports Network (SPSN). Adidas, Coca-Cola, Hyundai, etc. are global commercial partners of the event.

Cable TV - Digitisation

Ministry of Information and Broadcasting (I&B) decided a complete transition of cable TV network, by digitising it from analog, in 4 phases; therefore no cable subscriber could now watch TV programmes without a Set Top Box (STB). As per the Cable Television Networks (Regulations) Act 1995, no MSO can provide cable TV network services with Digital Addressable Systems (DAS), without a valid registration from the Ministry of I&B. Every registered MSO is required to transmit all TV channels only in digital and encrypted format and the STBs supplied must be Bureau of Indian Standards compliant.

Table 1: Phases of digitisation

Phase 1	Delhi, Mumbai, Kolkata, Chennai (Chennai not yet completed)	Originally slated for 30th June 2012, modified to 31st Oct 2012
Phase 2	38 cities (with population> 1mn) The switch over is complete in 37 cities	31st March 2013
Phase 3	All other urban areas (Municipal corporations/ municipalities)	Originally slated for 30th Sept 2014, modified to 31st Dec 2015 (On disposal of court cases, time upto 31st Jan 2017 was allowed)
Phase 4	Rest of India	Originally slated for 31st Dec 2014, modified to 31st Dec 2016 (On disposal of court cases, further modified to March 2017)

Source: Ministry of Information and Broadcasting annual report FY18

Advantages of digitisation:

The signals of cable operators are encrypted and received through STB after due authorization from the service provider, enabling identification and maintenance of data base for each subscriber, to bring transparency and prevent piracy.

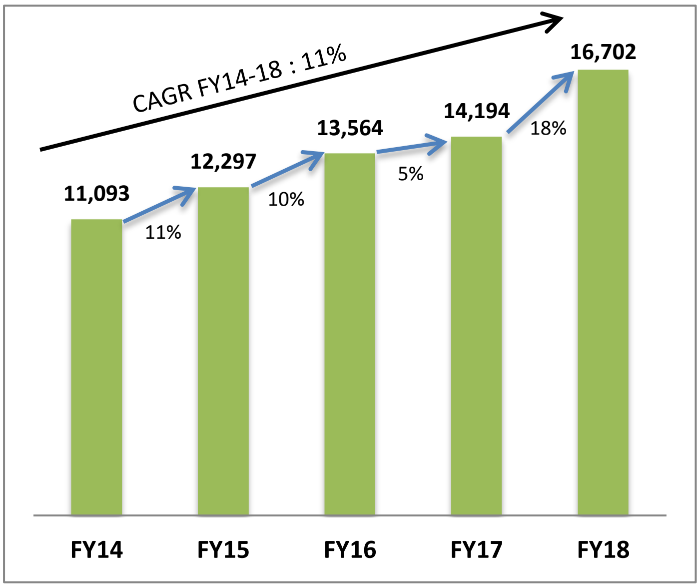
- **To consumer**: Consumers are empowered to exercise a-la-carte selection to allow individual channel selection and pay only for the channels they wish to watch depending on their budget, a feature not available on the analog cable.
  Large number of high quality/ high definition digital television channels giving consumers a better viewing experience.
- **To broadcasters:** The increased capacity would enable broadcasters to offer niche channels and HD TV channels. Increased subscription revenue would allow broadcasters to move away from TRP centric content.
- **To cable operators:** Digitisation enables the cable operator to provide Triple Play which is carriage of voice; video and data i.e TV, Telephony, internet and IT enabled services. Bundling broadband with digital channels is a promising proposition and a significant differentiator from DTH. This would enable them to compete effectively with DTH services and increase ARPU.
- **To government**: Analogue services have lack of transparency as subscriber base is not accurately maintained, which leads to under reporting of subscription revenue and the consequent concealment of tax revenues. With digitisation, government’s tax collection would match the actual market size and bring down losses caused by evasion of taxes, etc.

Financials: TV broadcasting & software production

Net sales for a sample of 19 companies are shown in chart 11. A CAGR of 11% was reported from FY14-18. In FY17, net sales grew at 5%, lowest between FY14-18, but reported a quick recovery of 18% growth in net sales in FY18.

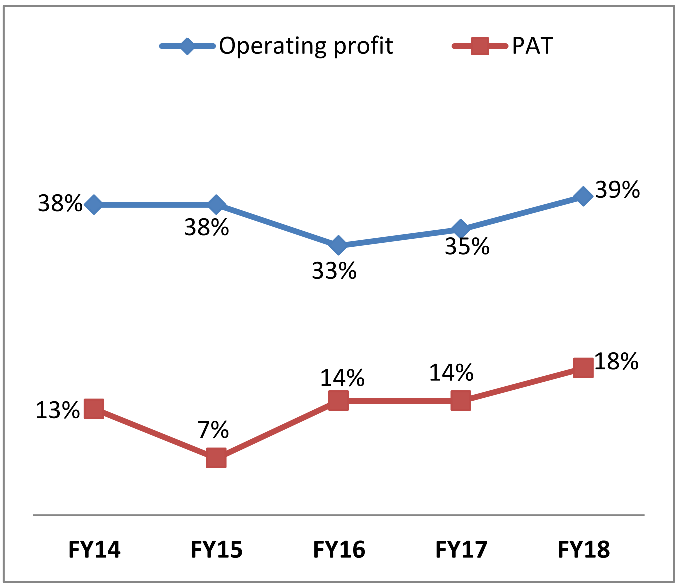
Operating profit and PAT margins for a sample of 19 companies is depicted in chart 12. PAT margin grew to 18% in FY18 from 13% in FY14, whereas operating profit margins grew marginally to 39% in FY18, from 38% in FY14.

Chart 11: Net sales for 19 Cos. (Rs. Crore)



Source: ACE Equity

Chart 12: Operating profit & PAT margins for 19 Cos.

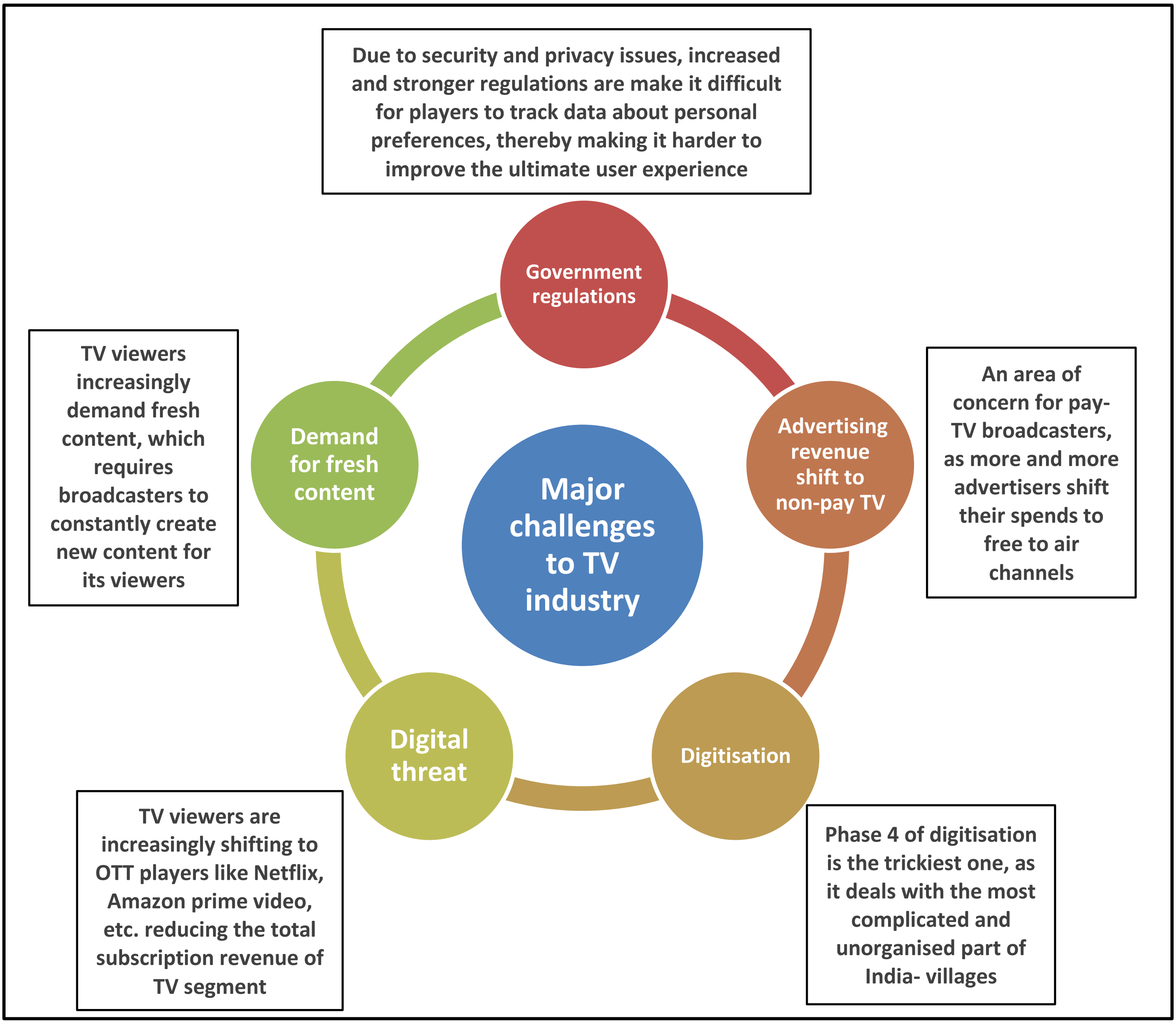


Source: ACE Equity

Challenges

The Indian economy is on a growth phase and the M&E industry reflects this. FY18 saw India recover from demonetisation, only to face the new challenges and opportunities with the implementation of GST.

Chart 13: Major challenges to Indian TV industry



Source: Industry, CARE Ratings

The entrance of a major telecom player in the TV industry could be a probable threat to the existing players in the TV segment in the long run. The app provided is very convenient for the viewers, by acting as a one-stop destination to view all the content.

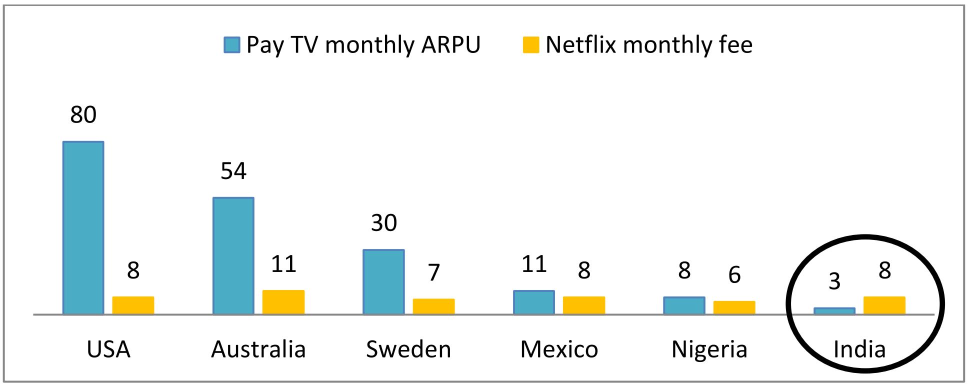
Outlook

- Unlike other nations, TV is still a primary source of entertainment in India. TV penetration is much higher, compared to other sources of entertainment like, internet. Even with internet's rapid growth currently, there is still a wide gap to fill.

  In USA, pay TV is as high as ~USD80/month, whereas Netflix, an OTT player is only 1/10th the cost, at ~USD8/month. In India, Netflix is priced at ~USD 8/month, compared to pay-tv at only ~USD 3/month, one of lowest globally. Thus, we see India to be an exception to the global OTT phenomenon, with higher cost of OTT vs Pay –TV.

  OTT services may not be able to compete with the variety offered by cable TV channels in India. Therefore, considering India's huge population and low internet penetration currently, we feel the shift of individuals from TV segment to internet will be marginal, and not have a substantial impact on revenues of TV segment, at least for the next 3 years, though will become a major threat in the longer run. Companies will have to focus on delivering high quality content at a lower cost, to sustain in the long run.

Chart 15: Cost of OTT vs Pay -TV per month (in USD)-
India as an exception



Source: DishTV investor PPT June2018

- As Indian economy is on the recovery path from the lasting effects of economic events such as demonetisation and GST, major sectors such as FMCG, auto, real estate, telecom, e-commerce, banking, etc. are expected to increase their advertising revenue in the TV segment, which will ultimately lead to the increase in revenue of overall TV industry. Events such as election season, cricket world cup in 2019, Olympics, etc. are the growth drivers for the advertising industry in the coming year. We expect the advertising revenue growth to be the growth driver for the Indian TV industry in FY19.

- We estimate the TV industry in India to grow between 15-18% in the coming year to Rs.760 -780 bn, with the share of advertising revenue going up to 45%, from 41% currently, and subscription share lowering to 55%, from 59% currently.