

TRAI's tariff order on TV channel pricing

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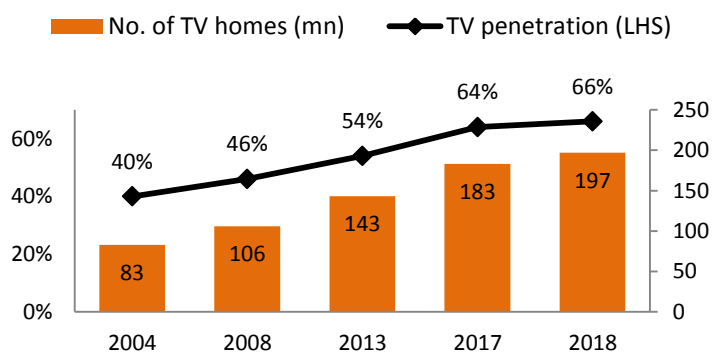
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In a country with 1.3 bn population, about 66% of the total 298 mn households have a TV connection, which brings an opportunity size of another 100 mn more homes in the country. As seen in chart 1, TV households in the country grew ~7.5% Y-o-Y in 2018. The factors that have contributed to this growth include growing middle class, rural electrification, growth of nuclear families, increase in distribution reach, etc.

Chart 1: TV penetration in India



Source: BARC India

According to Broadcast Audience Research Council (BARC) India, the number of channels offered to an Indian TV viewer today is more than 800.

TRAI's new framework

According to Telecom Regulatory Authority of India (TRAI), 1st Feb, 2019 onwards Television (TV) viewers can pick and choose the channels they wish to watch and pay for only those selected, rather than the earlier system of paying for a bundle of channels that were being pushed to viewers at a fixed rate.

This framework could bring a revolutionary change in the Indian TV industry, valued at ~USD 10 bn in FY18. This new tariff order is created with a focus of bringing in transparency and empowering the audience, who were earlier offered packs by DTH and cable TV operators without much choice of selection.

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Pricing

According to TRAI, TV channels can now be offered either in packs or on a-la-carte basis and every Standard Definition (SD) and High Definition (HD) channel is capped at Rs.19. TV viewers can view individual channel prices on the electronic program guide of their set top boxes.

The bill charged to TV viewers includes a summation of two components: network capacity fee and price of pay TV channels and thereafter an addition of 18% GST.

Table 1: Calculation of total bill

	Network capacity fee
Add:	total price of pay TV channels
	Total
Add:	GST @18%
	Total bill

Source: TRAI

Network capacity fees

Network Capacity Fee (NCF) is the amount charged to a subscriber by distributor for receiving TV channel signals. NCF for the initial 100 SD channels is capped at Rs.130/month. However the distributor is allowed to offer at a discounted price. Out of these 100 channels, 25 are mandatory Free To Air (FTA) Doordarshan channels. For channels beyond 100, NCF will be charged at Rs. 20 for every 25 additional channels. This ensures that distribution platforms get remunerated for last mile delivery of content.

For example,

If a TV viewer picks and chooses 75 FTA channels, the total bill would sum to Rs. 153/month (i.e. Rs.130 network capacity fees + 18% GST). Here the total number of channels is exactly 100 (25 mandatory FTA channels + 75 chosen FTA channels) and hence no need arises to pay for any additional network capacity fee.

However, if he decides to take an additional FTA channel, total number of channels sums to 101 (i.e. 25 mandatory FTA channels + 76 chosen FTA channels). This leads to an addition of Rs.20 to network capacity fee, which makes the total bill Rs. 177/month (inclusive of tax).

The viewer also has a choice to add SD/HD pay channels to his list. The calculations for the bill in this case remain the same, except for the addition of price of chosen SD/HD pay channels.

However for the purpose of calculation of network capacity fee in case of pay SD/HD channels, it is important to note that every SD channel is counted as 1 channel, whereas every HD channel is counted as 2 channels. To understand better, we take a scenario where a viewer chooses 3 SD channels and 2 HD channels. In this case, the total number channels sum to 7.

Comparison of billing before and after the TRAI's tariff order

Below are 2 scenarios which compare the total bill amount that a subscriber pays before and after the TRAI's tariff order:

Scenario 1: Before the TRAI's tariff order came into effect, a subscriber situated in the urban area would be billed at about Rs. 400-500 for on an offering of about 800 SD channels.

Scenario 2: Billing under new tariff order:

TV viewer chooses SD packs (shown in table 2) with popular channels, which includes a mix of various genres including General Entertainment Channels (GEC), lifestyle, movies, music, kids, news, sports, etc.

Table 2: SD channel packs and prices under TRAI's tariff order

S.no.	Broadcaster	Pack name	No. of channels per pack	Price per pack (Rs./month)
1	Star India Pvt Ltd	Hindi Premium	19	79
2	TV 18 Broadcast Ltd	Hindi Family	24	35
3	Zee Entertainment Enterprises	Zee family pack Hindi SD	24	45
4	Disney Broadcasting India Ltd	Universal bouquet	7	10
5	Discovery Communications India	SD bouquet 1 basic infotainment pack	8	8
6	Sony Pictures Networks India Pvt Ltd	Happy India Platinum 69	17	69
7	TV Today Network Ltd	TVTN News bouquet	3	1
Total price of all chosen packs				247
Add: Network capacity fee				170
Total				417
Add: GST @ 18%				75
Total bill				492

Note: For information on channels included in above mentioned packs, refer to TRAI website

From table 2, the total bill sums to Rs.492/month on an offering of 127 SD channels. (Calculations in table 2 do not include any discounts offered by distributors)

On comparison of scenario 1 and 2, it can be concluded that at a similar price, greater number of channels were being offered to a subscriber before the tariff order, compared with what is being offered today (after the implementation of tariff order).

Revenue sharing model

Earlier, the revenue would be shared between distributor and broadcaster based on mutual agreement between the two parties, while in the new framework, the revenue sharing will be as follows:

- Network capacity fee will be shared between Local Cable Operators (LCOs) and Distribution Platform Operators (DPOs) in the ratio of 45:55.
- Revenue from pay-TV channels will be shared between broadcaster and distributors in the ratio of 80:20. The distributor's revenue of 20%, will further be shared between LCOs and DPOs in the ratio of 45:55.

Concluding remarks:

Expected impact on TV channel subscribers, distributors and broadcasters are as follows:

1. TV channel subscribers:

- The new tariff order is framed to favour TV viewers. Whether the benefit accrues is yet to be seen in coming months. Monthly bill may for a subscriber or may not rise, depending on an individual's preference of channels and price of selected channels. The total bill amount can be reduced if a subscriber selectively chooses only the channels which he views on a regular basis.

2. Distributors:

- Content cost will now be a pass through for distributors and be borne by broadcasters, which was earlier to be shared between broadcaster and distributor in a mutually decided ratio. This could lead to an improvement in margins of distributors in the coming months.
- Distributors, who are already facing pressure in recent period due to increasing penetration of OTT players, may start offering heavy discounts in coming months so as to combat competition and sustain in the market. This can benefit the TV channel subscribers whose bill amount could get reduced.
- Consolidation could be witnessed in the MSO and LCO space in the coming months.

3. Broadcasters:

- The top broadcasters with quality content could see themselves benefiting from the tariff order, as they possess loyal audience which brings along pricing power.
- The unpopular channels will have to increasingly focus on creating attractive content, so as to propel viewers to choose their channel, as now "content" is going to be the king and is essentially what will drive channel selection by TV viewers.
- Some unpopular channels with low ratings, which were earlier offered in a bundle with other popular channels, will now be at a disadvantage. If they are unable to generate enough subscription and advertising revenue, they could go off air.

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