



How a billion screens can
turn India into a media
and entertainment
powerhouse

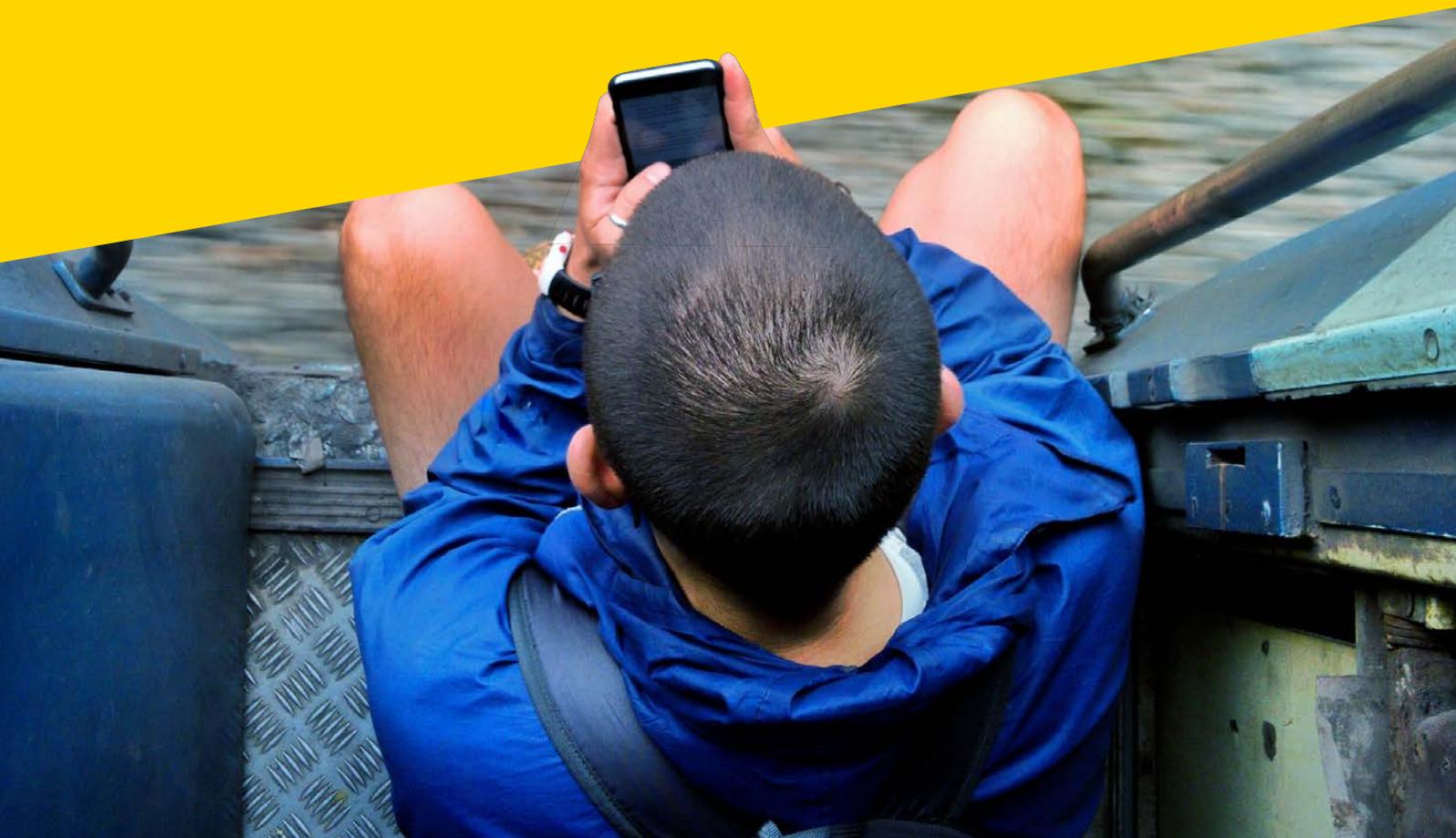


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International expansion is critical for global media and entertainment (M&E) companies seeking to build scale, tap new audiences and enhance competitive positioning. Those looking to seize the upside of growth should set their sights on India. With more than a billion consumers and a favorable macro backdrop, India offers a massive opportunity across almost every type of media.

John Harrison, EY Global Media & Entertainment Leader

The M&E market has enormous room for growth in several areas



With a population of more than a 1.3 billion people, India represents a massive market for media and entertainment (M&E) companies, with very positive growth fundamentals across virtually every type of media.

India's M&E market is strategically interesting to global players seeking to monetize content and capture growth upside, either as a participant via licensing or other commercial arrangements, or as an outright owner through an in-bound acquisition or organic investment approach.

Advertising, the lifeline of India's M&E industry, remains among the lowest in terms of spend as a percentage of GDP, signaling upside potential. In addition to a myriad of digital outlets, India has more than 850 TV channels and over 17,000 newspapers, making it one of the most diverse and vibrant media markets globally. The country is also at an inflection point in wireless broadband connectivity and infrastructure that, combined with its GDP growth and young demographics, offer new opportunities.

While there are positive growth trends in nearly all M&E subsectors, these are some areas that are seeing the strongest interest from global players:

Television

India has the second largest pay-TV market in the world in terms of subscribers after China, with 197 million TV households growing at 7.5% y-o-y.¹ Pay-TV penetration in India has more than doubled from 32% in 2001 to 66% in 2018 (by comparison, in 2018 pay-TV penetration was 78% in the US and over 90% in China).

While the size of the Indian pay-TV market in terms of revenue is smaller than its peers, the runway for growth provides exciting opportunities for global players. Regional pay-TV markets offer attractive fundamentals, as they outpace the national market in terms of advertising. We expect global broadcasters to expand their presence in these markets by acquiring or partnering with local broadcasters.

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The overall media and entertainment landscape has evolved beautifully, empowering the consumer by many folds. While television on one hand continues to rule and grow, OTT on the other hand has remarkably enhanced the content consumption and creation ecosystem. It is an era of co-opetition, wherein the convergence has blurred the lines between media and technology companies. With our industry's rich potential and talent, I am most certain that this positive time will only generate brilliant content offerings and equally powerful and state-of-the-art consumption platforms.

Punit Goenka, MD & CEO, ZEEL

¹ "Television viewership in India up by 12% since 2016: Barc study", Livemint, 26 July 2018, via Factiva.

Filmed entertainment

The rise in digital video consumption is powering growth for major international film studios, many of which have already established domestic divisions or are collaborating with local studios. Non-theatrical releases are becoming more commonplace with Indian filmmakers increasingly open to making movies for exclusive digital release.

At the same time, Hollywood movies are also seeing strong growth at the Indian box office - collections for the top 10 Hollywood films in India reached over INR7.5b in 2018 from INR4.8b in 2017.²

Digital media

India has the world's second highest number of internet users after China, with around 570 million internet subscribers,³ growing at a rate of 13%

annually.⁴ The impressive scale of the market and a liberal foreign investment environment are attributes that appeal to global streaming platforms looking to capitalize on the country's fast-growing digital consumption.

The increased availability of competitively priced 4G services enables companies to reach a broader set of Indian consumers in diverse regional markets and smaller towns. Localization and differentiated content are crucial to engaging the attention of these audiences.

As such, there has been a strong focus by global streaming platforms in the last year to invest in local content and originals as they look to gain scale.⁵ This is a favorable backdrop for content creators, who are seeing both global and local streaming services invest in greater volumes of content with larger budgets.

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Data and trends can help define content strategy and investment for today. But to build loyal communities for the future, we need to be cued into the cultural conversation.

Chanpreet Arora, CEO, Vice India

Digital India: data to unlock new opportunities

Online population to grow exponentially



Online population to rise over 60% out of which 135m fixed internet users by 2022

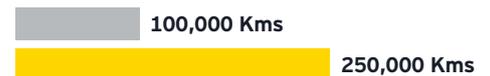
4G will be dominant technology

% of mobile broadband users



5G roll outs expected by 2022 – in tune with the global launches

Government will lay the foundation for fiber



Step toward providing fixed broadband access to 50% households by 2022

Accelerating network speeds

Average fixed broadband speed



89% of fixed broadband connections will be faster than 10Mbps by 2022, up from 28% today

Mobile to outpace all networked devices

Number of networked devices



Smartphones will account for 38% (*29m) of all networked devices by 2022

Indians to consume a lot of video content

Consumer internet video traffic (Exabyte/mnth)



888 minutes (167,931 years) of video content will cross the internet each month by 2022

2017 2022

2019: Sources: EY analysis, eMarketer, Nokia MBT Index 2019; Cisco VNI Index 2019; World Bank Doing Business 2019 report

² "How 'Avengers: Infinity War' Powered a Record Year for Hollywood in India," Hollywood Reporter, 12 March 2019, via Factiva.

³ TRAI.

⁴ 2017-18 growth rate as per TRAI.

⁵ "It rained OTTs in India in 2018," Animation express, 7 January 2019, via Factiva.



Online gaming

India is in the top five markets in the world based on the number of users for online and mobile gaming, which is now being recognized as mainstream entertainment in India. Smartphones have emerged as the primary device preferred for online gaming, with more than 90%⁶ of millennials preferring smartphones over gaming PCs and other devices in India.

Unlike console gaming, smartphones have brought affordable gaming to users without the burden of owning expensive hardware and game titles. Eighty-nine percent of all game revenues in India were generated on mobile games.⁷

With more affordable smartphones, internet connectivity and localized language games, rural India will likely lead the growth of the gaming industry in the next few years.

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Online gaming is proliferating in India like never before due to friction-less payment methods, rise of digital payment users, growing local developer ecosystem and localized games

**Nitesh Damani, Director,
Sugal & Damani**

⁶ "India among top 5 markets for mobile gaming," The Economic Times, 14 Aug 2018, via Factiva.

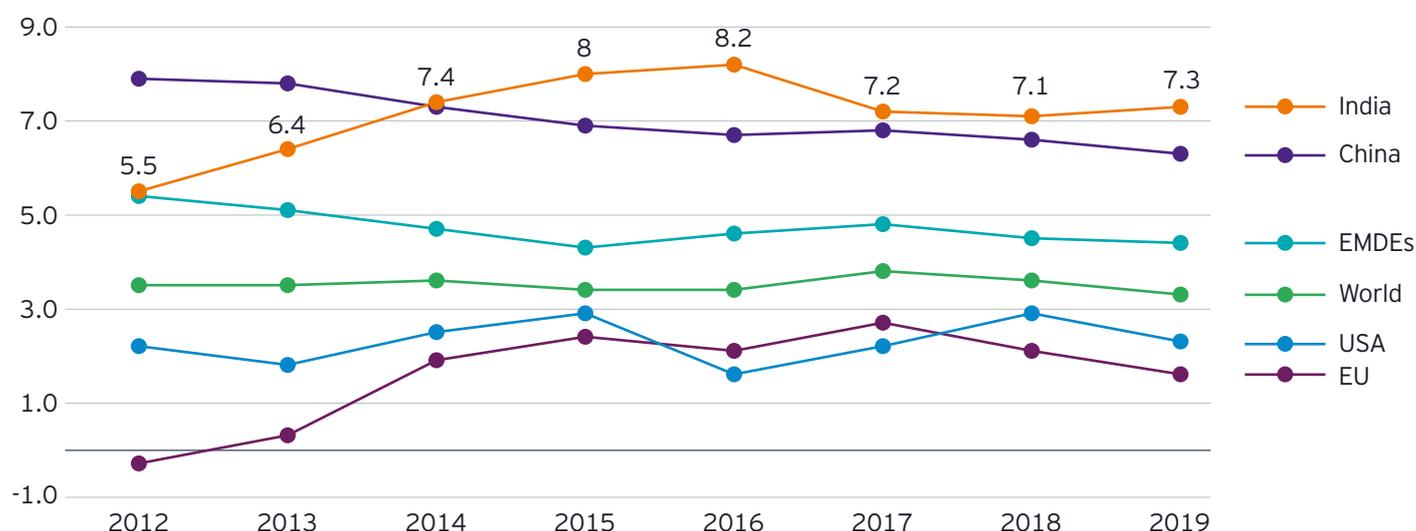
⁷ "India among top 5 markets for mobile gaming," The Economic Times, 14 Aug 2018, via Factiva.

A growing economy combined with a positive M&A environment make India an attractive destination for M&E investment – but there are risks

Economically, over the last five years, India has been the growth leader among major economies, including emerging markets and developing economies. It surpassed China in terms of real GDP growth in 2014 and has remained higher since.

Per capita nominal GDP grew 10.6% in 2018, and according to the latest International Monetary Fund World Economic Outlook, India is projected to become the fifth largest economy in 2019 and the third largest on the basis of purchasing power parity (PPP).

Real GDP growth: cross-country comparison



Source: IMF World Economic Outlook April 2019

Expected GDP in 2019

Country	GDP 2019 (billions of US\$)			
	Nominal	Rank	PPP	Rank
United States	21,482	1	21,482	2
China	14,172	2	27,449	1
Japan	5,221	3	5,807	4
Germany	4,117	4	4,555	5
India	2,958	5	11,413	3
France	2,845	6	3,081	10
United Kingdom	2,810	7	3,145	9

Source: IMF

India's M&E sector is ripe for consolidation

The M&E sector witnessed an interesting mix of deal activity in 2018 both on the traditional as well as the new media front. It's a sector ripe for consolidation. Digital media, multiplex, radio and TV distribution segments will pursue acquisitions to expand and complement their existing businesses. This is a trend likely to continue as large and small players alike look to strengthen their positions in this fast-growing sector.

Tapping the immense opportunities in tier-II and tier-III markets has only just begun, and increasing amounts of regional and vernacular content will add incremental growth in this space.

Investors need to balance the opportunities with the risks

India offers global M&E investors enormous opportunities for growth. However, there also are several persistent challenges to consider before making the leap.

Increasing use of digital media has accelerated video consumption, but it also has increased the piracy threat. In fact, growing piracy is likely to restrict full monetization of content as well as large-scale acceptance of SVoD in India.

Indian market is highly price-sensitive and is driven majorly by advertising revenues. Several sectors such as print, digital, television and radio derive major share of their revenues from advertising.

Meanwhile, while India's ease of doing business 2019 ranking improved 23 spots to reach No. 77, its position worsened on "paying taxes" and "resolving insolvency."

There are many ways to play in this fast growing market

India is one of the most diverse and vibrant media markets in the world. For M&E companies looking to expand geographically, India represents a compelling destination.

Television, the largest segment, is posting nearly 9% yearly growth on the back of a strong performance by regional brands, multiple sporting events and impact properties. Filmed entertainment, meanwhile, crossed INR100 billion (US\$1.5 billion) in domestic theatrical revenues in 2018, supported in part by expansion in Indian film exports, particularly to China, and increasing values for digital rights.

With its massive base of internet users, India's digital media market is attractive to global streaming platforms looking to capitalize on the country's fast-growing digital consumption. This is especially true as competitively priced 4G services become more widely available. At the same time, online gaming continues its upward growth trajectory, across both real money and casual gaming.

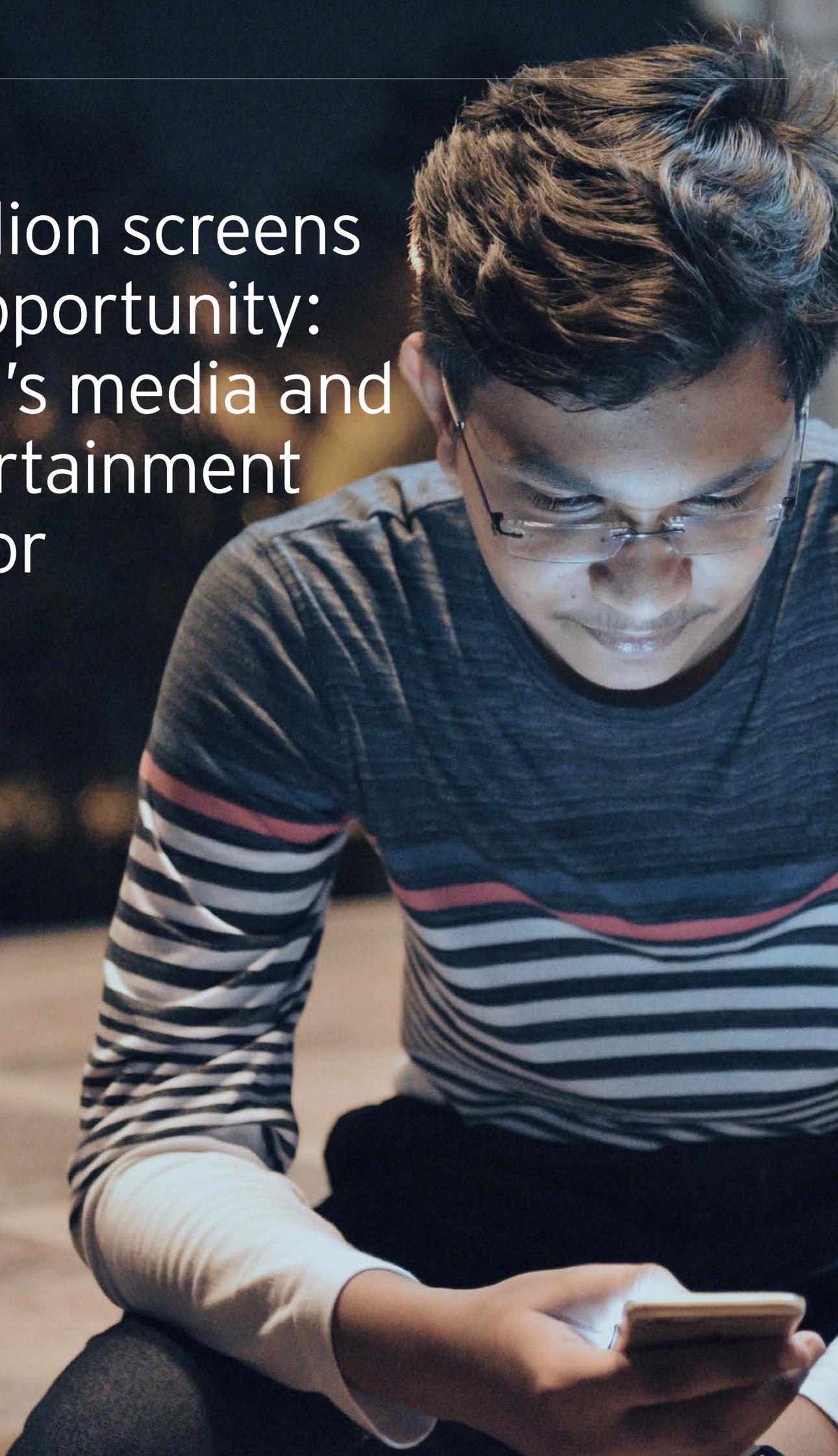
With a billion screens of opportunity, India is a prime destination for M&E companies looking to expand into a fast-growing market – as long as they are comfortable assuming the inherent risks that such opportunities bring with them.

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India is a country thirsting for escapism and knowledge. With a billion screens to serve, the opportunity both to create content for the world and support global content creators with our talent, production, animation and VFX capabilities is enormous.

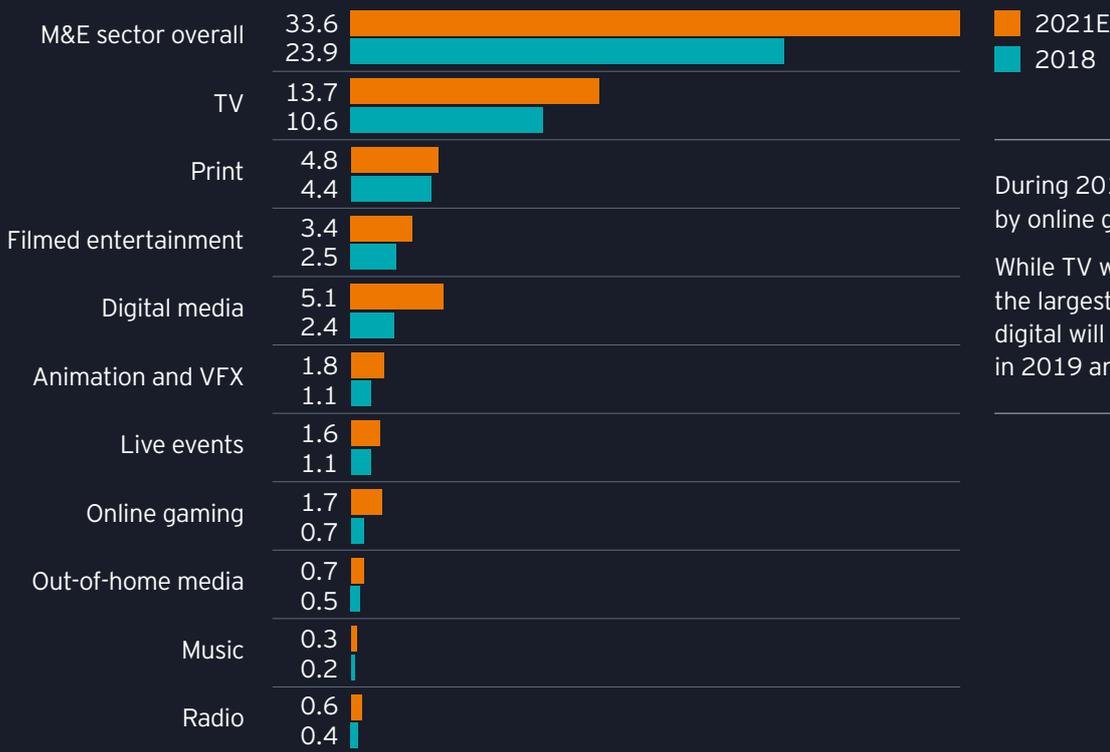
Ashish Pherwani,
EY India Media & Entertainment
Sector Leader

A billion screens of opportunity: India's media and entertainment sector



Indian M&E sector reached US\$23.9 billion, a growth of 13.4% over 2017. With its current trajectory, it is expected to grow to US\$33.6 billion by 2021.

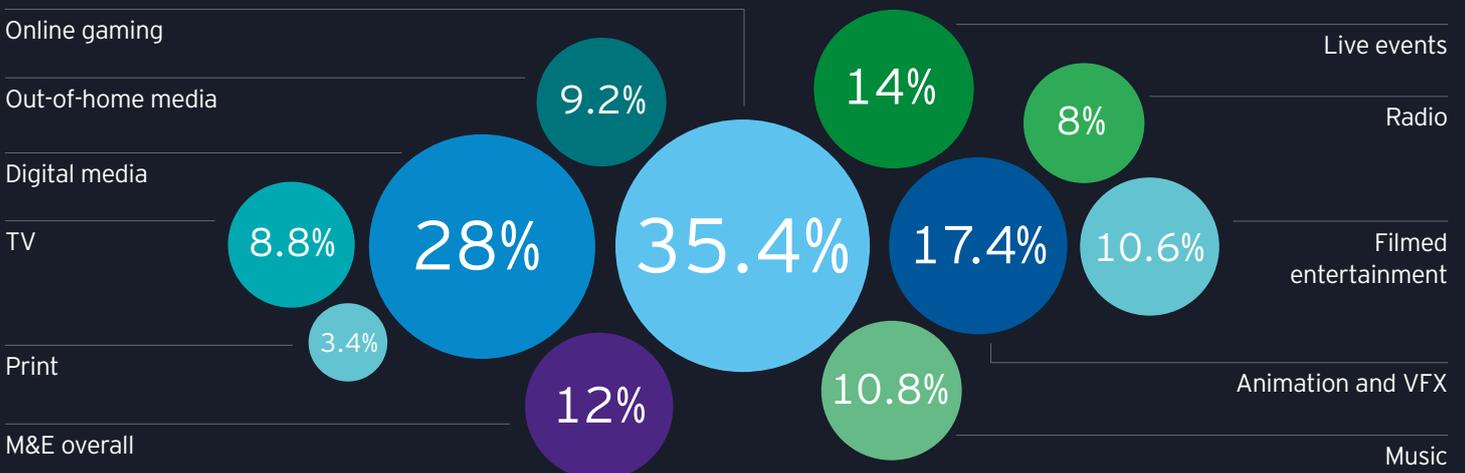
M&E subsector revenue (in US\$ billion)



During 2018-2021, growth will be driven by online gaming and digital media.

While TV will retain its pole position as the largest segment in terms of revenue, digital will overtake filmed entertainment in 2019 and print by 2021.

M&E subsector CAGR (2018-2021E) in %



Television subsector

Key metrics



of Indian households own televisions



of television connections were digital

Households	TV households	TV penetration
286m 298m	183m 197m	64% 66%
BI 2016 BI 2018*		

3:46:21

total average time spent on TV per day

77%

of time spent was on escapism (GEC and film channels)

885 number of private satellite channels,

45% of which classified as news channels

Television segment grew 12% in 2018

	2017	2018	2019E	2021E
Ad	3.8	4.4	4.8	5.8
Distribution	5.6	6.2	6.9	7.9
Total	9.4	10.6	11.7	13.7

US\$ billion (gross of taxes)

* All data has been provided by BARC and is based on their research. It has not been validated by EY and presented in summary form for representation purposes only. BI refers to BARC's Broadcast India survey.

Future outlook

- ▶ 2019 promises further growth due to elections and ICC world cup.
- ▶ Television broadcasters will focus on creating customer databases experimenting more with combined selling of impact properties across TV + OTT platforms.
- ▶ The measure for the industry will become as impressions, with the CPM rate being a function of the quality of the audience and closeness to purchase points.
- ▶ Indian broadcasters will continue to expand their global footprint. International revenues could reach 15% of the topline by 2021.

Impact of regulatory changes

While its implementation could take up to six months, the impact of the TRAI Tariff Order can have implications on total viewership, free TV uptake, channel MRP rates and ad revenues:

- ▶ OTT platforms are sure to benefit due to increased parity between television and OTT content choice and costs.
- ▶ Since large broadcasters have removed their content from FreeDish*, its attractiveness may be impacted.

*DD Free Dish is an Indian free-to-air digital direct-broadcast satellite television service, owned and operated by public service broadcaster Doordarshan.

Filmed entertainment

Key metrics

10 films released in China in 2018
largest international market for Indian content (by value)

Number of film releases

1,807 | 1,776

2017 | 2018*

Global revenues generated

\$439m | \$491m

2017 | 2018*

Number of screens

9,530 | 9,601

2017 | 2018*

US\$500m

net box office collection for Hindi theatricals – highest in 2018

13 Hindi films made it to the coveted

INR1 billion (US\$14m) club – the highest ever

Film segment grew 12% in 2018

	2017	2018	2019E	2021E
Domestic theatricals	1.4	1.5	1.6	1.9
Overseas theatricals	0.4	0.4	0.5	0.6
Broadcast rights	0.3	0.3	0.3	0.4
Digital/OTT rights	0.1	0.2	0.2	0.3
In-cinema advertising	0.1	0.1	0.1	0.2
Home video	0.0	0.0	0.0	0.0
Total	2.2	2.5	2.8	3.4

US\$ billion (gross of taxes)

* Film releases and screen count data is provided by UFO Moviez and is based on their research. Global revenues data is based on comScore research. It has not been validated by EY, and presented in summary form for representation purposes only.

Future outlook

- ▶ Global OTT platforms will help to take Indian content – dubbed and/or subtitled – to a wider international audience.
- ▶ Until there is consolidation into OTT space, content production houses will continue to benefit from the dual tail winds of increased demand and higher rates.
- ▶ There is a need for low-end multiplex chains to cater to growing middle classes.
- ▶ Film tourism could generate revenues of up to US\$3b, though it needs policy change and investment.

Impediments to growth of cinema infrastructure

- ▶ Poor infrastructure in tier-II and III markets.
- ▶ Need for a “single window clearance” for opening of multiplexes.
- ▶ Local body taxes hampered growth in some states, as this kind of tax structure amounts to double taxation, which defeats the basic purpose of GST to have a uniform taxation system.

Digital media

Key metrics

Subscriber growth driven by rural

Mobile subscribers	Internet subscribers	Broadband subscribers
1,167 1,172	446 570	363 512
	2017 2018*	

340m smartphone users in 2018

36% penetration

Indians spent

30% of their phone time on entertainment

325m online video viewers and
150m audio streaming users in 2018

Catch-up TV contributed **70%-90%** of the total content viewed on the online platforms of large broadcasters

Digital media grew 42% in 2018

	2017	2018	2019E	2021E
Ad	1.6	2.2	2.9	4.3
Subscription	0.1	0.2	0.3	0.8
Total	1.7	2.4	3.2	5.1

US\$ billion (gross of taxes)

*The Indian Telecom Services Performance Indicators July - September 2018 released on 8 January 2019. Press release by TRAI No. 05/2019, EY analysis.

Future outlook

- ▶ Digital will overtake film in 2019 and print by 2021 to reach US\$5.1b in 2021.
- ▶ Telcos will become the new MSOs – While 60% of total consumption today is through telco bundles, it is estimated to grow to over 75% by 2021 and cater to over 375 million subscribers.
- ▶ While watch time could grow 3 to 3.5x over the next five years, resulting in a massive inventory growth, advertising revenues will grow only around 2x. CPMs will correspondingly fall during the period for non-premium inventory.
- ▶ 30m-35m paying OTT video subscribers and 6-7 million paying audio subscribers by 2021.
- ▶ Digital segment will benefit from the growing popularity of e-sports, AR/VR technologies, online gaming and fantasy sports, all of which are “Generation Z” products.
- ▶ However, consolidation will be needed for platform profitability as still such time contest costs will remain high as each platform produces or acquires content to meet its needs.

Online gaming

Key metrics

India is one of the top

5 markets for mobile gaming globally

More than

250 game development companies operate in India

5_b

game apps downloaded in 2018

5_h

per month on average total time spent on gaming

8% - 12% of gamers paid to play real money games

80% and **95%**

of revenues were driven by advertisement and subscription for casual games and real money games respectively

Online gaming segment grew 59% in 2018

	2017	2018	2019E	2021E
Revenue	0.4	0.7	1.0	1.7

Indian online gaming subscriber base grew from 183 million in 2017 to 278 million in 2018.

Revenue in US\$ billion (gross of taxes)

Future outlook

- ▶ Fantasy sports can cross 100 million players within two years.
- ▶ Multiplayer gaming will continue to grow significantly, following the uptake of PUBG in 2018, subject to the quality of the IP created.
- ▶ While the Chinese market is showing signs of saturation and regulator control, India will become the next key market for gaming companies and investors.
- ▶ AR and VR gaming in India has the potential to drive growth of physical gaming zones in malls and common areas, but will remain a niche market product for now.
- ▶ India can become the AR/VR and casual game development factory of the world, if talent is nurtured and infrastructure is built.
- ▶ 2019 will see the creation of large national gaming brands.

Regulatory changes

Industry is proactively forming self-regulatory bodies.

- ▶ Multiple gaming federations like the All India Gaming Federation (AIGF), The Rummy Federation (TRF) and the Indian Federation of Sports Gaming (IFSG) were formed with the goal to protect the interests of both operators and consumers in real money games.

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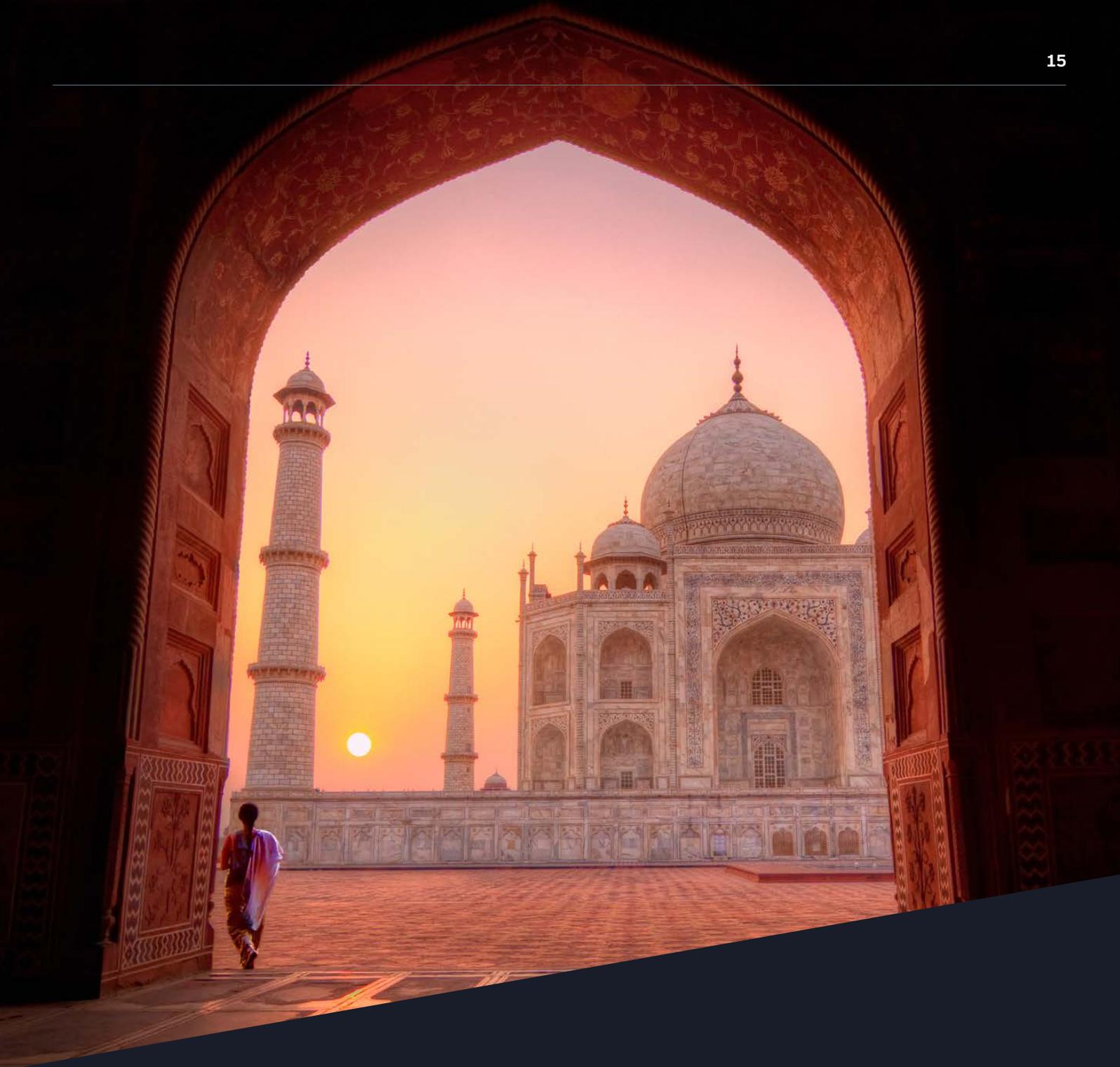
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India's M&E sector stands at the edge of a new era of growth. With a billion screens of opportunity, incumbents and new entrants alike are competing to capture the imaginations of their customers and transform the industry into a global M&E powerhouse.

John Harrison, EY Global Media & Entertainment Sector Leader



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