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Indian Media and Entertainment Industry Report 2016

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We would like to thank all those who have contributed and shared their valuable domain insights in helping us put this report together.

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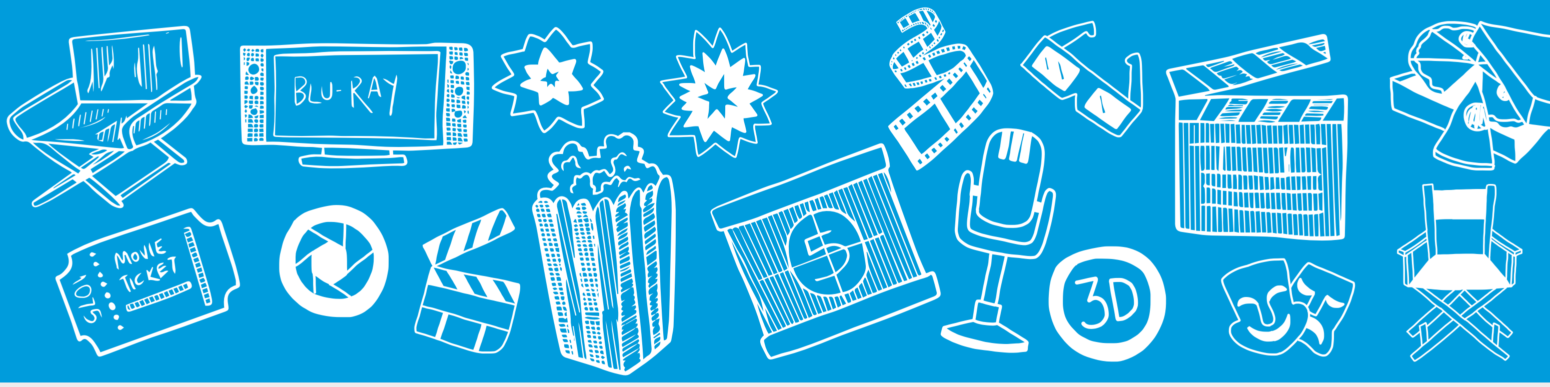

Foreword

The year 2015 was a seminal year in many ways for the Media and Entertainment (M&E) industry. A year that sparked excitement and renewed hope but at the same time a year in which reality came to roost.

This was a year in which the global economy saw a big drop in commodity prices, with crude oil dropping from a high of near USD100 in October 2014 to below USD30 in January 2016[1]. While this volatility rocked many economies around the world, it was a blessing for India. Lower commodity prices, lower inflation and lower borrowing costs are likely to drive consumerism in the country – benefitting the media industry. The Indian economy continued to outperform its large peers with FY 2015-16 growth estimated to be 7.3 per cent by the International Monetary Fund (IMF), accelerating to 7.5 per cent in FY 2016-17[2].

For the M&E industry, the year was a mixed bag. Coming off the heady days of 2014, when election spending and renewed hope drove a significant level of media spend, 2015 was a year of settling in, rolling up one's sleeves and getting down to task. This was one of those years in which the small town and rural economy did not grow as much as anticipated, depressing media spends for some players – especially in Hindi and other regional prints.

A healthy advertising environment, with close to 15 per cent growth[3] – propelled several parts of the industry to unprecedented growth. However, some parts of the industry – like film and print – continue to see challenges.

Television, again performed very well, led by the General Entertainment Channels (GEC). The year 2015 saw several new channel launches and the industry's adoption of a brand new ratings system – Broadcast Audience Research Council (BARC). Digitisation of cable continued with its implementation challenges but it was encouraging that progress is being made, with Phase III substantially complete. Addressability still remains a key a challenge even after digitissation but the industry is hopeful that those challenges too, will get addressed in time.

The cable industry too, awoke to the potential of broadband and the year saw several companies restructure and raise funds from private equity or through listings.

It was a year where radio performed exceptionally well. Phase III finally saw the light of day, although some regulatory challenges remain. Radio remains the only mass medium that has restrictions of carrying news and current affairs – a fact that Industry hopes shall will change soon. Overall, radio in India remains an industry with a very bright future, with double digit growth rates forecast – at least for the next five years.

Some sectors did face challenges though. In film, Hindi Bollywood was flat while Hollywood and regional performed well. Hollywood's output of franchise films and expansion beyond DCI compliant screens helped it achieve unprecedented success while regional films continued their successful run. Baahubali - a bi-lingual film, created box-office history and set a new standard for filmmakers in India. Despite these successes, long- term growth for the film industry will remain challenging. Again, it's a story of underlying infrastructure driving sector performance. As long as India remains under screened, the pace of growth of the film industry will shall be muted.

Print too, continued to face some headwinds, especially with critical categories like real estate and education limiting ad spends. The boom in e-commerce spending, which continued in 2015, did not translate into revenue for regional publications and this created some challenges for some in a historically strong segment. Again, technology disruption is likely to come to this industry, albeit slowly, as social media and mobile applications (apps) expand their language offerings. This year, the Indian print sector saw cover prices being raised across several publications – still remaining among the lowest in the world – but at the same time, overcoming its historical aversion to increases. This helped sustain some growth in revenue overall.

1. http://www.nasdaq.com/markets/crude-oil.aspx accessed on 19/3/2016
2. IMF cuts India's growth forecast for FY16 to 7.3%, Business Standard, 7 October 2015
2. http://www.business-standard.com/article/economy-policy/imf-cuts-india-s-growth-forecast-for-fy16-to-7-3-115100601223_1.html
3. Based on KPMG in Analysis – see introduction chapter

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In 2015, we finally began on a journey that is expected to change the M&E industry in India. A host of changes – many of them already transforming the industry in other countries – are gaining traction in India. In addition to broadband, payment technologies and platforms, increased capacity of mobile phones and tablets, disruptive pricing by new entrants and large scale use of analytics are all coming together. This new wave of change is likely to fundamentally alter the way content is created, distributed, consumed and monetised in India.

While India continued to become a telecom superpower in terms of the number of users and connections with over a billion connections, it is still in its infancy as far as digital infrastructure goes. In many ways, 2015 was a year in which the promise of the M&E industry began to unfold. The much anticipated wide roll-out of 4G services began in 2015 and promises to gather pace in 2016. The increased availability of broadband is critical to fulfilling the hopes of many, including a host of startups and consumers.

The year 2015 did see a host of new services being launched and expanding, including OTT (Over The Top), Hindi and regional feeds on social media as well as significant original programming. There is a lot of excitement and activity in the digital space and many business models being experimented with. As seen before in many industries and parts of the M&E industry as well, India may develop its own unique business models rather than adopt global ones.

For M&E, 2015 was the dawn of a new age. Change will come over the next few years – sometimes quickly and at times slowly, but disruption is no longer in question.

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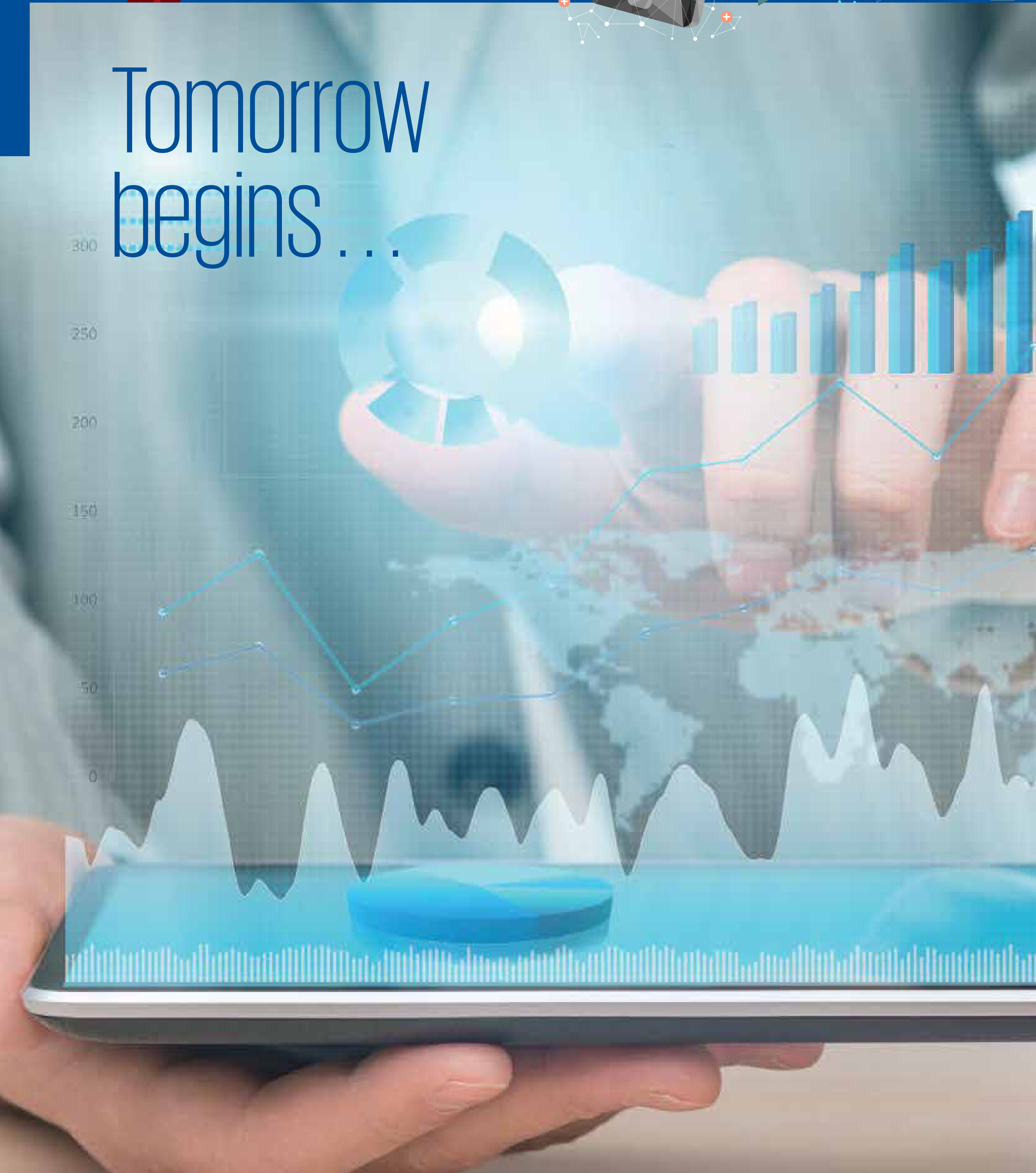
Tomorrow begins . . .



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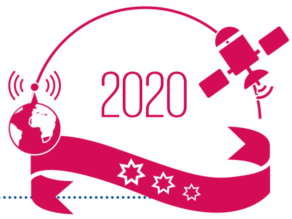
Media content creation, access and consumption have gone through enormous changes in this second decade of the twenty-first century, globally as well as in India. We expect the shifts to be more dramatic over the next five years, through the end of 2020.

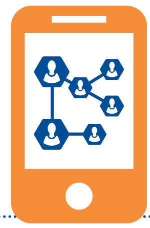


Driving these changes are a collusion of factors such as

- Technology and internet access especially fast mobile data and broadband,
- Gadgets, especially smartphones and streaming media devices, and
- The app ecosystem

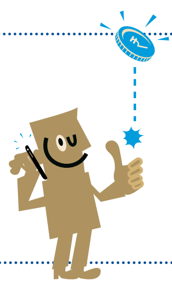
While most of the changes and the technologies are global, many factors, challenges and drivers are local, especially in markets such as India.

The mobile phone has just taken two decades to reach a billion connections covering well over 500 million unique subscribers[01].



India is now characterised by extremely high mobile penetration, and very high mobile use for voice as well as data. Mobile internet users have crossed 200 million users or over 60 per cent of the total internet user base.

Equally, it's a price-sensitive market with among the lowest telecom tariffs and per-capita usage in the world, translating into an ARPU (average revenue per user) of INR125 per month.[02]



Through this chapter, we have outlined some of the key trends that are already shaping the consumption of media which are a prelude of things to come.

01. GSMA Mobile Economy India Report 2015
02. TRAI

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A decade of mobility: Mobile media consumption today

This has been a decade of explosive mobile internet growth in India, in the second of two decades of voice telephony.

01

20 years of mobile, but serious data use only in past 5 years

02

Close to a billion 'mobile subscribers', over 500 million unique users[02]

03

180 million smartphones now, to reach 690 million by 2020[02]. But low price points key to adoption

04

Non-smart 'feature-phones' too support data, basic apps but will get phased out

05

Most media consumed by mobile users via shares on social media and chat apps. But memory and data light models critical for success

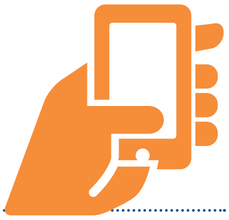
06

Indian needs have unique challenges, opportunities: e.g. video on memory card, downloads rather than just streaming

Mobile will continue to be the primary medium of internet access

This has been a decade of explosive mobile internet growth in India, in the second of two decades of voice telephony.

Mobile telephony is 20 years old in India, compared with over 130 years of the wire-line telephone and it is estimated that there are already around 944 million mobile connections in India[02]. However, the unique mobile users are estimated at over 500 million after factoring in duplication on account of dual SIMs, internet dongles and M2M SIMs inside electricity meters, pollution and weather sensors etc[02]



The number of unique users is important because not only does it give us the real untapped market for telecom, but, more importantly here, because it gives us the current addressable market for mobile data or internet access. At a penetration level of approximately 38 per cent of the Indian population, the mobile user base has enough headroom to grow[03].

Of the total internet base of 331 million subscribers, it is estimated that there are over 200 million mobile internet users[02]. From the viewpoint of media, globally, the most interesting figure would usually be the number of broadband subscribers, where we are including wireline broadband alongwith 3G and 4G users. This user base is estimated to be over 140 million in India[03].

02. GSMA Mobile Economy India Report 2015 GSMA Mobile Economy India Report 2015
03. http://telecom.economictimes.indiatimes.com/news/3g-4g/4g-connections-in-india-to-reach-100-million-by-2020-ericsson/46457794

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But in markets such as India, marked by low data speeds, the narrowband or 2G users are important for media too. Especially if you see the apps responsible for the bulk of India's mobile internet use ie WhatsApp and Facebook. For the latter, the popular variants in India are Facebook Lite, a smaller, lighter version that uses far less data, and Facebook for Every Phone, which works on feature phones using the Java language.

Today's over 500 million unique users are likely to touch around 1.3 billion actual, human users by 2020, over 90 per cent of India's total population at that point[04]. With nearly half of them with an always-on cellular mobile data connection, it is expected that the dominance of mobile as the primary medium for data access will only continue to increase.

Smartphones: The handsets get smart and connected, but 'Light' apps will still rule

India's mobile market, with over 500 million active subscribers, has been dominated by low-end phones, usually called feature-phones to distinguish them from smartphones. But the dividing line is fuzzy[04].

There's much price overlap between feature-phones in the INR2000 to INR5000 and low-end smartphones, which are typically INR3,000 upward.

It is estimated that in 2015 there are about 180 million smartphones in India[05], predominantly Android-based. Typically, a smartphone lets the user add and remove apps, supports 3G (and increasingly, 4G) and WiFi, has a camera, and other features.

However pace of smartphone penetration is growing and it is expected that by 2020, all mobile handsets being sold in India will be 4G-ready smartphones[04].

However, a vast majority of Indians use low-cost feature-phones, mostly costing between INR1,000 and INR3,000. These too, mostly have cameras, dual-SIM slots and microSD memory cards, support data and rudimentary email, and have a few apps—at least WhatsApp and Facebook, and a few games. They often have FM radio built in, a highly valued feature on entry-level phones.

The success of apps and services in India depend significantly on their ability to run on feature-phones. Even with the shift to (mostly cheap Android) smartphones, successful apps and services will need the ability to run very 'light'—using little memory and very little cellular data. This 'run light and small' are the big reason for Facebook and WhatsApp's success in India.

04. GSMA Mobile Economy India Report 2015
05. AC Nielsen estimates

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Those trying to sell media services to phone users have a challenge. On one hand, audio and video consumption is high while on the other hand a large portion of mobile users will be low ARPU users, sitting in the lower half of the socio-economic pyramid.

As usual, Indian *jugaad* has found its own solutions to this challenge.

Street kids spend some of their earnings 'renting' out video on smartphone memory cards: video that is often almost always pirated. Old DVD shops have evolved into selling or swapping memory cards.

The 'missed call' is a uniquely Indian application for subscription or support for a cause, and missed-call servers were used to originally gather support for the IAC (India Against Corruption) movement.

An NGO called Digital Green creates hyper-local learning video content for farmers, and makes it available online via smartphone with 3G connections. But for those with 2G smartphones, there are audio-only versions which are accessed via a voice call and IVRS—or even more cheaply, via a callback after a missed call.

Another NGO called CGNet Swara lets tribals in Chattisgarh and elsewhere become citizen journalists, reporting on their experiences and listening to others, in their own language: but in the absence of community radio licenses, it uses a dial-in server. Tribals call using their mobile phones.

Cheap or free WiFi hotspots will be another answer, even they do not provide always-on data connectivity. In offices, retail zones, railway and metro stations, and other public WiFi zones, some smartphone users will download video and other content shared over social apps onto their phones. Such WiFi zones are also planned for villages where fiber from the national fiber-optic network (NOFN) will terminate, such as CSCs (citizen service centres) which can use WiFi.

All this means that India will operate differently from global models with streaming and downloads coexisting and media companies will need to adopt their business models to be able to access the different types of consumers.

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India's killer apps are messenger and social apps—not 'Media Apps'

01

WhatsApp, Facebook dominate Indian smartphones; crucial, underleveraged channel for media

02

Hundreds of branded media/ entertainment apps in India, very few in Top 100 (Android, India)

03

Media companies need strategy for tapping mainstream apps like WhatsApp, Facebook, Instagram, Snapchat

04

Next-gen platforms such as Instagram, Vine, Snapchat big among youth, mostly ignored by media houses

05

Messaging, chat apps transition to full ecosystems, led by China's WeChat

What drives mobile-phone users to mobile data for the first time?

For many low-income prepaid mobile users who spend less than INR100 a month on recharging their mobile subscriptions (TRAI reports ARPU at INR120), their first experience of mobile data isn't email or web browsing, but WhatsApp to connect to friends and family, or to a peer group.

For students, that first app is more likely to be Facebook, and many start by using it over free WiFi in their institute or university. College students make up a low-ARPU group that's actually using data-heavy apps—on campus WiFi.

44 per cent of Internet users in India use WhatsApp every day, 53 per cent use Facebook.[06]

'Facebook' includes its variants or derivatives: 'Facebook for Every Phone', a version that runs on feature-phones, created for India and similar markets; Facebook Lite, a small (less than 1 MB), light-on-data Android version for markets with slow mobile data; Messenger, the instant-messaging app that integrates with Facebook's chat.

What are India's top apps?

1 WhatsApp	2 UC Browser	3 Hotstar
4 Facebook	5 SHAREit	6 Messenger
7 Cricbuzz	22 Wynk	30 Gaana
75 Twitter		

Source: App Annie Store Stats (https://www.appannie.com/apps/google-play/top-chart/india/overall/?date=2016-03-22) Rank by Google Play downloads on a single day in March 2016).

For many media organisations, Twitter has high value, beyond the numbers, for audience engagement rather than audience acquisition or traffic. The numbers may be small compared with their primary audience, but it's a high-engagement group that lets media firms do interesting things, such as create content through user engagement, live feedback and spot surveys.

06. AC Nielsen estimates

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How about branded media apps?

Some of the more popular media apps are Times of India, NDTV, Hindustan Times, BBC, but the only news app in the Top 100 is DailyHunt.[07]

However, the media apps space is cluttered, with hundreds of media apps in India. Most major media houses have their own apps and do their best to drive users there. Many have multiple apps (NDTV has six) further fragmenting their user base. Some force online visitors (who click a link to a story) to download the app. This is counter-productive, as they may lose readers, and it hasn't helped bring any mainstream news-media app anywhere near the Top 100.

A far better strategy could be to maintain an optimal, consistent user experience across both mobile app and mobile web, such as the BBC has done very effectively, and more recently Indian news organisations such as the Times of India. Adding compelling additional features such as alerts, customisability or interactivity (e.g. NDTV adds TV audience engagement, live streaming, etc, in its app) is a good way to bring in users, but it's a long haul.

However, given the dominant usage of social apps, it is critical that media organisations place an equal emphasis on using social apps to engage with consumers rather than putting disproportionate effort into driving users to their own apps.

Organisations not yet ready for emerging platforms

Globally, youth have moved on in their choice of platforms with Instagram, Snapchat and Vine gaining popularity. India is behind this particular curve, largely due to the cost of mobile data as these apps are data heavy. However, as data speeds improve and data costs reduce, we expect that similar platforms will gain prominence in the next few years. This is a challenge for media companies and brands as they have limited presence on these emerging platforms.

07. AppAnnie India rankings

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Community to ecosystem: Social media's next wave

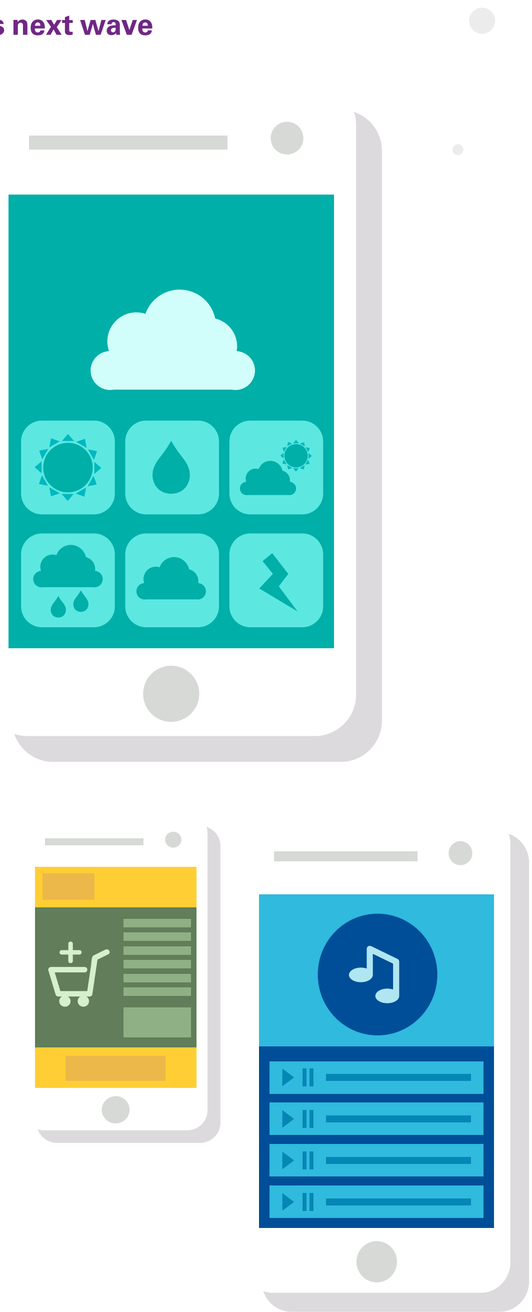
The sharing of media in a WhatsApp group is a powerful driver of media consumption, as well as of mobile data traffic for telcos. Interestingly, while an average user maybe hesitant to download and forward large videos from and to individual friends, he is far more amenable to sharing them with groups—especially as WhatsApp makes it easier to share media with minimal bandwidth consumption, in one shot, to 50 or 100 people in a group.

The most fascinating thing about these online platforms is that they are transitioning into complete communities or even ecosystems. This is particularly true for chat apps such as WhatsApp and WeChat where users can perform a variety of daily tasks within the app ecosystem.

For example, in WhatsApp business is transacted, product images are sent, estate brokers send videos of apartments, politicians and police ask citizens to WhatsApp pictures of garbage or traffic violations, customer service and support is offered via WhatsApp-only numbers, bank details are shared and payment receipts sent over the app.

WeChat on the other hand is looking to develop a full blown ecosystem around it with integrated payment systems, taxi service apps, shopping apps, news and entertainment apps etc.

We believe this ecosystem model is a powerful view of the shape of things to come.



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Breaking the access frontier for M&E

Wireless access is the last frontier to be crossed

Entertainment, multimedia, big drivers, but bump into access cost

Higher demand for video and audio in lower-spend user groups

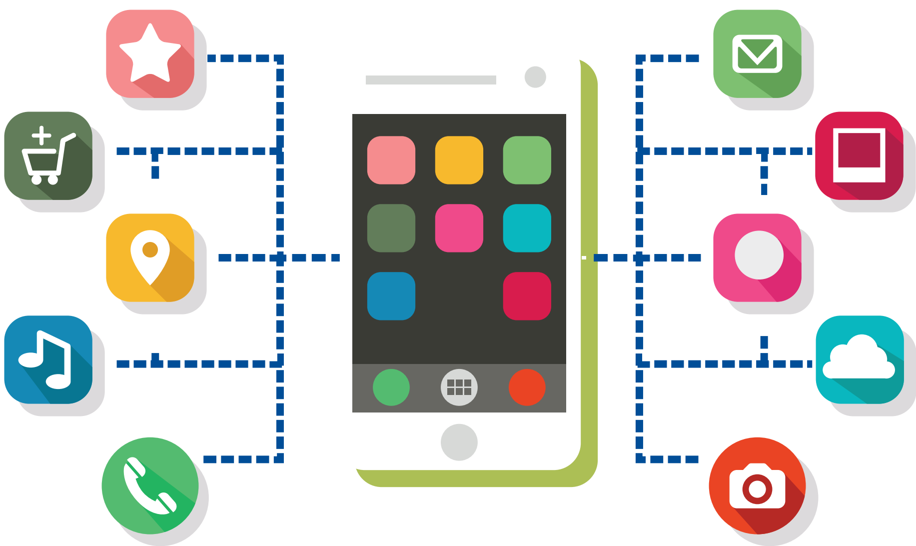
Free WiFi, aggressive promotional 4G bundles likely disruptive for telecom as well as media

Mobile data is expensive, so most users in India get by on cheap and small packs for WhatsApp or Facebook. But when they need to click a YouTube link, they need either WiFi, broadband or a lot more 3G or 4G mobile data than most of them are willing to pay for.

The problem gets worse as you expand the internet base down the socio-economic pyramid. The lower the ARPU of a user segment, the lower the literacy and thus the lower the chances of their being interested in text messaging or browsing. They would want to use multimedia, especially video, if they could access it.

Providing free or cheap access to the digitally-underserved is a key challenge. Various models for free or cheap access are being evaluated including:

- Zero rating platforms such as Airtel or Free Basics (on Reliance) which would give access free of data charges to specific services. This has been currently ruled out by TRAI on the grounds of violating net neutrality.
- Free data usage as part of voice plans, or
- Apps that allow sponsors to top up data for using their app; that top-up can be used for any other service (example: Gigato).



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There are two big disruptive possibilities, though, which could potentially resolve the access issue.

Broadband rollout and Public WiFi as part of the government's Digital India campaign primarily on the back of NOFN.

- Fiber-based broadband could indeed power government offices, schools, hospitals and citizen service centres directly. But for most individuals, in towns or villages, mobile phones will be their access device and they will look to access the internet through cellular data and WiFi.
- Google's project to install WiFi at 100 railway stations by end-2016 (starting with Mumbai earlier this year) in conjunction with Railtel as ISP has got significant potential. Google projects up to 10 million users accessing that WiFi, by year end, and using it for a range of apps including streaming video. The possibilities for media and content partnerships are immense.[08]

4G rollout

- Another key game changer is likely to be 4G rollout accompanied by aggressive promotional pricing of 4G packs, with Reliance Jio likely to lead the way with its launch this year. Jio is working on building up content from its media interests such as Network 18, and others. While no details of plans are available at this stage, it is generally expected to follow an aggressive data pricing plan aimed at capturing market share
- A widespread 4G rollout with most telcos looking to build audio and video libraries for potential users will result in disruption not just to telecom but to media, opening up a huge, new channel though would be difficult to counter with just quick content tie-ups.

Once quality digital infrastructure at cheap data costs reaches the masses, it's clear that the overwhelming majority of media consumed by mobile users would be video and audio in the next few years, a fact that is already true for parts of the world. Whether that would be streaming media or, as today, would continue to be predominantly download oriented would depend on the access options and models that emerge.

On the back of this access, entertainment apps will grow significantly and will be a big driver for bandwidth use, for operators, across wireless and wireline. Across both, the challenge will be access models and cost, and the opportunities for media and content immense.

06. http://articles.economictimes.indiatimes.com/2016-01-22/news/69989536_1_indian-railways-railway-stations-internet-services

Conclusion

- Media and entertainment firms will face enormous challenges and disruptions, as well as opportunities, from technology in the half-decade ahead.
- Nimbler tech-driven firms, from search to social media, who control the traffic, own the social platforms drawing the next generation of users, and buy out the tech that will disrupt media, are too often a step ahead. Large media firms tend to change more slowly.
- Many traditional media firms don't get tech, which moves so fast that by the time they've figured out the web, it's changed; by the time they've built an app, it's obsolete.
- One answer is to have in senior management someone who will drive the technology direction of the media group: a CTO, or chief technology officer, role that is common in tech firms, and rare in media (even if the designation may exist in some firms). Alternatively, the chief editor, business head or publisher would need to be tech savvy enough, which has been unusual in the past, though we see that changing.
- The role of the CTO or the Tech savvy business leader needs to be to look at future platform directions, technologies to use, emerging opportunities. For example, he would look at virtual reality and say 'We should be doing this'. Or at geo-location, which so many digital firms use, and ask 'How can we improve our products, or customisation, or revenue, with geo-location?'
- A strategic focus on technology directions will be crucial for media and entertainment firms to survive and thrive in the connected, social, digital age.

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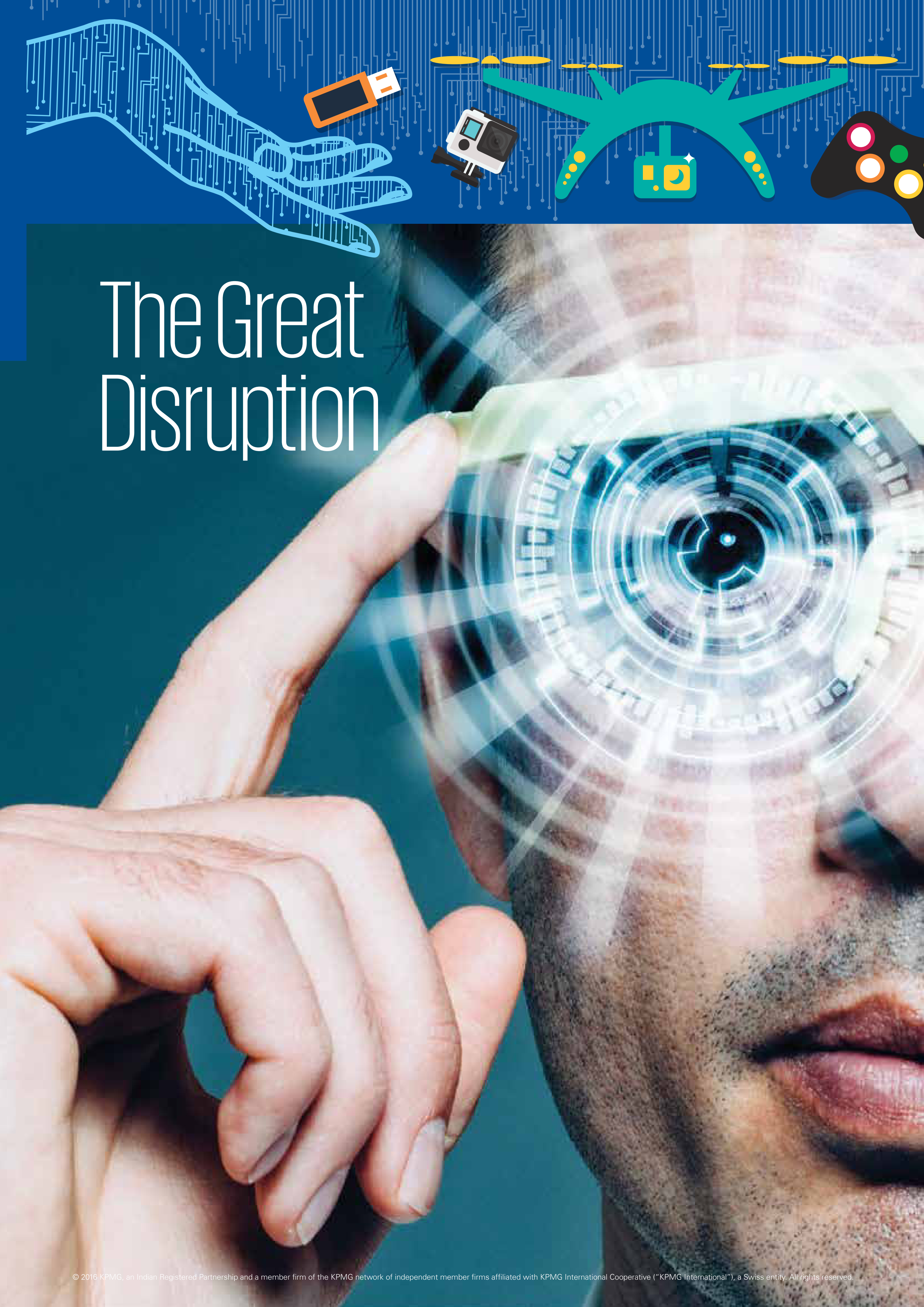
The Great Disruption



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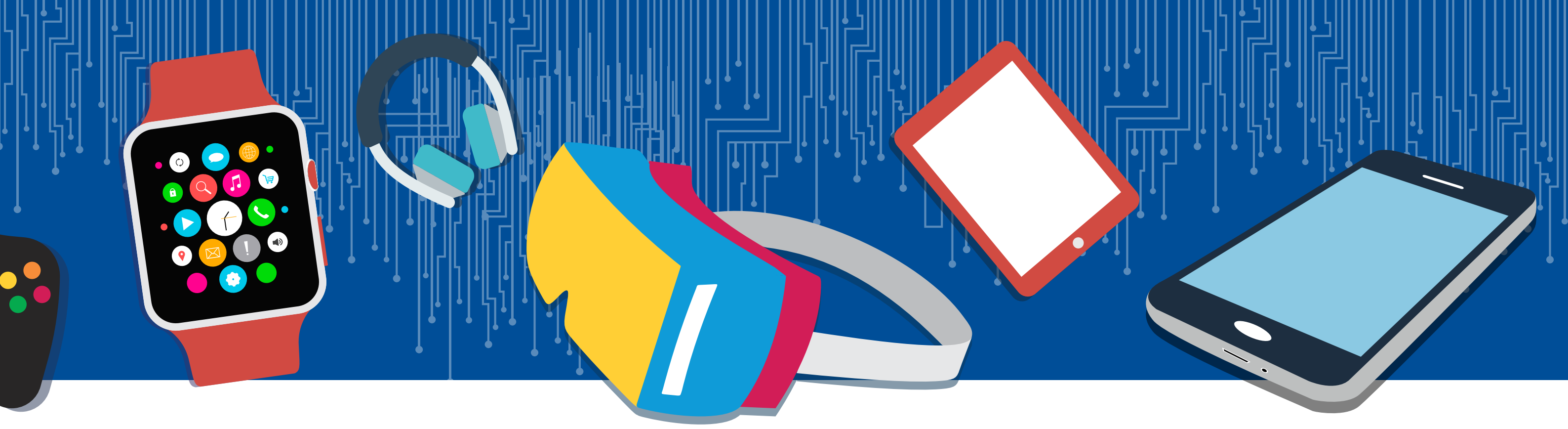

Technology disruption

We are going through a phase of rapid and sustained technological innovation which will permanently change the way people will access and consume content. The theme of this year's FICCI conference 'Change or Perish - The Year of the Digital' aptly captures the pitfalls that M&E organisations face. Changing user habits will disrupt existing business models as content providers and brands will need to match consumer expectations. While this will pose multiple challenges, we believe that there are significant opportunities for M&E companies to leverage the new digital ecosystem.

Through this chapter, we have set out some of the emerging technological changes that will likely impact the M&E sector.

In India, several challenges continue to exist around physical infrastructure, digital access, content availability, user behaviour, monetisation etc which are currently inhibiting the development of a sustainable digital ecosystem. However, we believe, continuing technological advances coupled with government and private initiatives can resolve these challenges.

Some key innovations impacting the M&E sector

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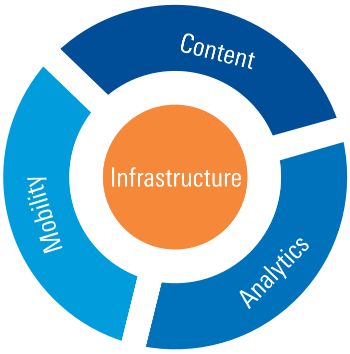
We believe digital disruption can be evaluated in four primary dimensions – Content, digital infrastructure, mobility and consumer analytics.



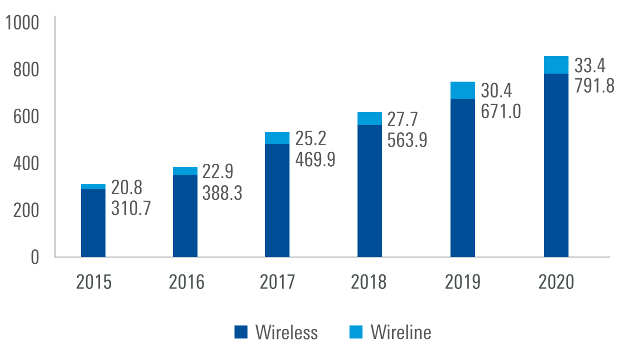
Infrastructure

Quality internet access continues to be a challenge for majority of the consumers with approximately 80 per cent of the population still accessing the internet on 2G connections[1]. Further, the average internet speed in India is around 2.5 Mbps as compared 20.5 Mbps in South Korea, 3.7 Mbps in China and 12.6 Mbps in USA[2]. However, a combination of government and private initiatives is expected to resolve this constraint in the medium term and enable digital access and consumption to become truly mass in India.

Rollout of 4G will be a key enabler in providing mass quality internet access

The number of wireless internet users in India are likely to cross 790 million by 2020[3] with more than 60 per cent of users accessing the internet through their mobile phones[4]. It is expected that over the next couple of years, 3G and 4G subscribers would constitute over 40 per cent of the wireless internet subscriber base[5].

Internet users (million)



Source: KPMG in India analysis and discussions

Major 4G rollouts[6]	
Reliance Jio	29 states, 18,000 cities, optical fiber network of 250,000 route kilometers
Idea Cellular	Five south Indian states and plans to launch in 12 circles and over 700 cities[7]
Vodafone	Five circles of Kerala, Karnataka, Mumbai, Delhi, NCR and Kolkata[8]
Tikona Digital	Planned rollout in 5 circles and 30 cities
Airtel	15 major cities and is expected to expand further[9]

4G Devices

Based on the IDC 2015 report there were over 9.3 million 4G smartphones shipped in Q3 2015, which is a growth of 21 per cent compared to last year[9]. Samsung has emerged as the biggest 4G smartphone player in India with a 62 per cent share[8]. The growth in 4G devices is a key enabler for growth in data access.

01. Crisil Telecom Services Analysis PPT 2016
02. AKAMAI State of Internet Report Q3 2015
03. KPMG Analysis
04. IAMAI Internet in India Report, 2015
05. Crisil Telecom Services Analysis PPT 2016
06. http://www.medianama.com/2016/01/223-reliance-jio-march-launch/
07. http://www.ideacellular.com/4g/why-4g/know-4g
08. http://indianexpress.com/article/technology/tech-news-technology/vodafone-4g-mumbai-sim-how-to-activate/
http://gadgets.ndtv.com/mobiles/news/samsung-says-leads-indian-smartphone-market-with-46-per cent-share-802675
09. http://www.airtel.in/personal/internet/4g/check-coverage

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Evolution and acceptance of online payment models is likely to strengthen the monetisation potential

Traditionally, besides telcos, online payment models were restricted to credit cards, debit cards and net banking. Over the past two years multiple other models are evolving and gaining widespread acceptance such as

- Mobile wallets including offline recharge and withdrawals. For example Paytm, Mobikwik, Payumoney etc.
- Banking applications are evolving to integrate wallets, social media integration, sms based payments, offline to online models etc. Key players include ICICI Bank, HDFC Bank, Kotak Mahindra Bank etc.
- Telcos are restablishing their presence through increasing integration with apps for payments and also are looking to push their own wallets.
- Cash on delivery (CoD) was a key game changer in driving acceptability of ecommerce transactions and content apps are evaluating CoD options.
- Government initiatives around making banking widespread through small banks and payment banks is also expected to widen the banked population.

Government initiatives can supplement internet penetration and digital adoption

'Digital India' Initiative

The initiative's goal is to have broadband in 2.5 lakh villages, four lakh public internet access points and Wi-Fi in 2.5 lakh schools and public Wi-Fi for citizens by 2019[10]. The estimated cost for the 'Digital India' initiative is at INR1130 billion and is going to attract potential investments of INR4500 billion[11]. The government has also budgeted INR5 billion for the National Rural Internet & Technology Mission, INR70 billion has been set aside for Smart Cities which is expected to create the infrastructure to provide content to the end user[12].

Progress in IPv6 Implementation[13]

Implementation of Internet Protocol Version 6 (IPv6) will address - scalability need of the internet, interoperability and mobility, security and will provide the infrastructure for the next round of innovation, which the current protocol IPv4 is not able to support. To fast track this implementation, the government circulated a proforma named 'IPv6 Adoption Milestone' and Department of Telecommunication (DoT) is facilitating this implementation by conducting country wide workshops.

Structure for Machine to Machine communications (M2M)[14]

DoT has formed two committees – 'Policy & Regulatory Committee' and 'Industry Level Consulting Committee' for addressing the policies and regulation for machine to machine communications, respectively. M2M communication rollout is critical for spread of IoT in India.

10. http://deity.gov.in/sites/upload_files/dit/files/DigitalPer cent20India.pdf
11. http://www.ibnlive.com/news/india/digital-india-will-ensure-jobs-for-18-lakh-people-says-pm-modi-1014360.html
12. http://digitalindia.gov.in/
13. DoT Annual Report 2015
14. DoT Annual Report 2015

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The impact of the government's 'Digital India' and 'Smart City' initiatives on increasing the penetration of internet to tier II and III cities

The government's Digital India and Smart City initiatives are set to exponentially increase the internet penetration in tier II and tier III cities, revolutionising businesses and our way of life.

India's estimated internet current user-base of more than 300 million (as of December 2015)[15], enabled through comparatively inexpensive internet access and extensive mobile connectivity. One of the critical issues for such limited coverage is the poor broadband coverage in the tier II and III cities.

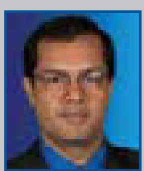
Thus the government's leading initiatives are expected to help extend connectivity to the broadband have-nots. One of the pillars of Digital India is to create broadband highways. This covers urban broadband, rural broadband and National Information Infrastructure (NII). It envisions to provide urban connectivity through virtual network operators which could be leveraged for service delivery and communication infrastructure in new urban developments and buildings. This is expected to be extended to tier II and tier III cities. This can clearly be a game changer for enabling digital broadband connectivity in these neglected cities.

The connectivity would be linked to the National Information Infrastructure (NII). NII would integrate the network and cloud infrastructure in the country to provide high speed connectivity and cloud platform to various government departments up to the panchayat level. These infrastructure components include networks such as State Wide Area Network (SWAN), National Knowledge Network (NKN), National Optical Fibre Network (NOFN), Government User Network (GUN) and the MeghRaj Cloud. NII aims at integrating all ICT infrastructure components such as SWANs, NKN, NOFN, GUN and GI Cloud. It will have a provision for horizontal connectivity to 100, 50, 20 and 5 government offices/ service outlets at state, district, block and panchayat levels respectively.

However, rolling out of 'Digital India' is facing its own challenges, especially in crafting a last mile model. It is not economically feasible to provide fiber connectivity in all places. Thus alternatives such as satellite and High Throughput Satellite (HTS) as well as alternate technologies such as WhiteSpace on free spectrum needs to be adopted to increase the broadband penetration. Mobile telephony network is obviously a good mechanism for providing the last mile broadband, however, the mobile telephony network would also require the backhaul connectivity to be able to provide the required connectivity.

'Digital India' has to be rolled out in lock-step with the Smart Cities Mission. The mission envisions city administration to use concavity to provide better city services that encompass safety, security, sustainability, ease of living, ease of doing business and resilience. Each of these components require significant spread of connectivity. Even Sewage Treatment Plants (STP), which are considered to be low-tech, are being envisioned to be Smart STP's, with analytics and sensors built in. Schools are being envisioned to be smart schools, with large amount of e-content for schools being developed. Similarly healthcare is envisioned to get smarter with centralised health records. All these initiatives require significant and omnipresent connectivity.

The city and government usage of broadband can also help create a larger market for broadband, thus enabling sustainable business models to support broadband in tier II and tier III cities. These initiatives of the government are set to completely transform how we run cities, how we do business in cities, how people interact with each other, how social setups transform, leading to complete revolutionising of our way of life in these cities. It could also open up hitherto non-existent businesses, riding on top of technologies such as 3-D printing, drones, virtual reality etc. We are indeed quickly moving into a bold new world in the tier II and III cities in India.



Jaijit Bhattacharya

Partner IGS - Innovation
KPMG in India

15. KPMG India Analysis 2016

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Analytics

Consumers are constantly giving signals to content players on what they like, what they will/will not pay for, who they like to see and what they like to do with the device when they have time. All of this generates significant levels of data which companies are starting to analyse, derive collective insights and use to improve the quality of engagement with consumers.

However, while user behaviour generates data, a concern for the creativity driven M&E industry could be whether going forward, data could determine content and creativity.

Driving actionable insights from analysis to predictive to the next best action

Analytics Platform	Function
Audience analytics[16]	Analyse and visualise multi-platform measurements to best understand how the content is being viewed on various channels. This can help brands to better target and engage with consumers.
Operations analytics[17]	Generate insight on operations like managing human capital resources, sales operations etc for making productivity decisions.
Event driven analytics	The next action is trigerred by an event. For example, triggering a buying decision when a maintenance contract period expires or suggesting relevant information based on download, key strokes, etc.
Predictive analytics[18]	Extract patterns out of complex, big and varied data to forecast future behaviour. For example Flipkart/ Amazon recommend products based on purchase history and search preferences.
Campaign analytics	To measure effectiveness of brand campaigns.

Impact on the M&E industry's business model

- **Targeting and consumer insights:** Audience interest and consumer consumption trends such as viewing customer history, searches, reviews can be created through data analytic platforms. This data in turn can be used to target specific customers with offers or promos.
- **Time based content optimisation:** Using insights from big data, companies in media and entertainment can understand when customers are more likely to view a specific genre of content and on what device can marketing campaigns be more effective.
- **Location based optimisation:** Using the current location of consumers, relevant and personalised messaging can be pushed.
- **Customer journey:** By using big data to understand why consumers subscribe and unsubscribe to different types of content, media and entertainment companies can develop effective strategies to engage with consumers.
- **Discovery engine:** Based on data insights, new trends can be discovered and combined with monetisation techniques which can inturn give rise to new forms of business.

Mobility

Given a primarily mobile driven internet base, India has always been a mobile first ecosystem. The ongoing 4G rollout will outweigh the growth in wireline connections and Wi-fi access. Data costs may reduce on the back of highly competitive telco market and government initiatives.

Further, smartphone availability and affordability has been growing as the average selling price of mobile phones has decreased from INR 30,000 in 2011 to less than INR15,000 in 2015[19]. Introduction of smart phones that are less than INR5000 and the availability of refurbished smart phones would further increase the smartphone penetration.

The number of smartphone users is likely to cross from an estimate of 180 million in 2015 to 690 million by 2020[20] and will be a key enabler driving data consumption.

This continuing growth in mobile phone and internet base will likely result in consumer behaviour habituated to consuming content on the mobile device. As a result, business models would need to evolve to focus on engaging and monetising users via their mobile phones.

16. http://www.ibm.com/analytics/us/en/industry/media-and-entertainment/audience-insight.html
17. http://asmarterplanet.com/blog/2011/06/smarter_media_trends.html
18. http://www.ibmbigdatahub.com/podcast/where-magic-happens-predictive-analytics-media-and-entertainment
19. GSMA Mobile Economy India 2015 report
20. GSMA Mobile Economy Report 2015

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Mobile subscriber growth[21]

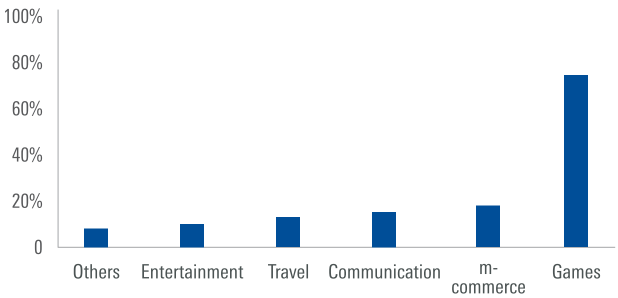
With over 500 million unique mobile subscribers in India, this market is already the second largest in the world. This also means that currently around 36 per cent of the Indian population has a mobile connection, indicating significant headroom for growth[22].

In addition, mobile internet connections are expected to cross 500 million in India by 2020, representing 40 per cent of the total mobile connections[23]. It is also expected that 3G and 4G connections will also grow and comprise around 40 per cent of the mobile internet user base over the next couple of years.

Mobile Apps

Asia Pacific witnessed a 104 per cent year on year growth in app installs and India stood fifth in terms of percentage of application downloads at 6 per cent compared to 15 per cent in China[24]. Mobile app shopping contributed 19 per cent of all app downloads in India behind gaming at 25 per cent, which clearly indicates the rise of m-commerce in India[25]. Below is the global category wise break up of mobile app.

Apps install category Q2-2015



Source: InMobi: The State of Mobile App Downloads 2015

Mobility can fuel the disruption caused by IoT

Smart phone mobile devices can be the key technology to enable the concept of IoT by connecting devices.

India is the third biggest market in IoT in Asia Pacific and is expected to grow at a CAGR of 40 per cent for the period of 2014-20[26].

As per a survey done, the top areas where IoT is used in media and entertainment is - production and distribution operations to track product flow (33.3 per cent), the use of digital sensors in products (12.5 per cent), tracking devices in business locations (8.3 per cent) and customer wearables (4.2 per cent)[27]. For example, smartphones connected to the IoT ecosystem will be able to both generate news through data and deliver news relevant to individuals based on previous consumption and preferences[28].

21. GSMA Mobile Economy India 2015 report
22. GSMA Mobile Economy India 2015 report
23. http://articles.economictimes.indiatimes.com/2015-02-03/news/58751662_1_networking-index-mobile-users-population, 2015 numbers are extra polated
24. GSMA Mobile report India 2015
25. InMobi – The State of Mobile Downloads, 2015
26. http://economictimes.indiatimes.com/tech/software/india-is-the-fastest-growing-mobile-app-market-yahoo/articleshow/47875388.cms
27. GSMA Mobile Economy India 2015 report
28. http://sites.tcs.com/internet-of-things/industries/media-and-entertainment/

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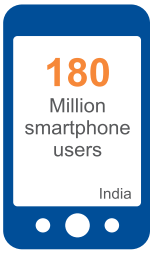
Unlocking the potential of smartphones as a truly disruptive force

Consumers today are savvy, empowered and knowledgeable, resulting in a native adoption of technology-enabled conveniences. This trend translates into them embracing smartphones at a dizzying pace in India. According to Nielsen, there are over 180 million have connected smartphones. To my mind, this makes that little device one of the most potent forces of disruption in modern history.

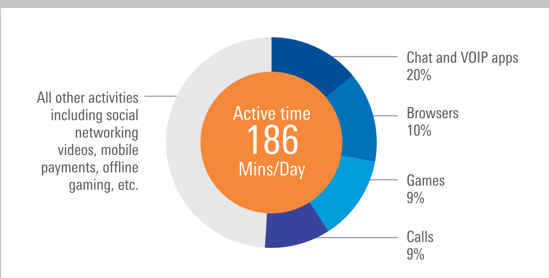
In a future which will likely be driven by the Internet of Things and the cloud, it is safe to predict that the smartphone will continue to play a central role in consumers' professional and personal lives. On cue, marketers will need to focus all their attention on gaining access to the consumer via their smartphones. There are several trends that lead to this hypothesis.



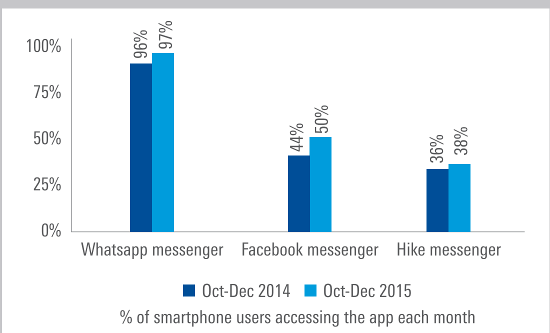
Source: Nielsen estimates

Not just voice: Today, traditional voice calling accounts for a mere 9 per cent of the total time spent on smartphones as users begin replacing 'phone calls' as we knew them, with Voice over Internet Protocol (VoIP) and other internet-based communication methods, including chat.

How consumers spend time on their devices

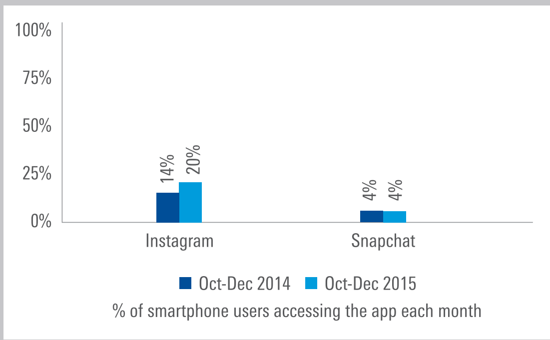


Source: Nielsen Mobile Panel, India



Source: Nielsen Mobile Panel, India

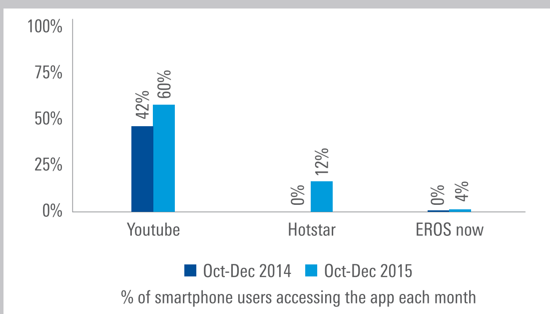
Smile for the camera: Consumers are not only smiling for the camera, but also giving it a big thumbs-up. Social networking apps like Instagram and Snapchat, which focus on taking and sharing photographs, are rapidly gaining favour, particularly among the youth and metro city dwellers. Their growing popularity leads us to believe that the rest of India may well follow.



Source: Nielsen Mobile Panel, India

Entertainment on the go: As smartphones become more versatile, they are beginning to edge portable music players like the iPod off the shelves. Music and video streaming are extremely popular with numbers showing YouTube to be the most popular destination. Users also prefer consuming live event telecasts or even pre-programmed content on demand on their mobile devices. Statistically, the consumption of video content online has risen from 49 – 66 per cent over the last year. In fact, even small town users are showing a propensity to consume video on their smartphones, though with higher engagement on native media players, indicating offline video consumption.

What are consumers watching?



Source: Nielsen Mobile Panel, India

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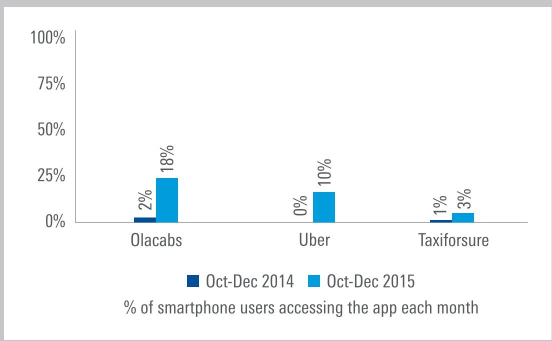
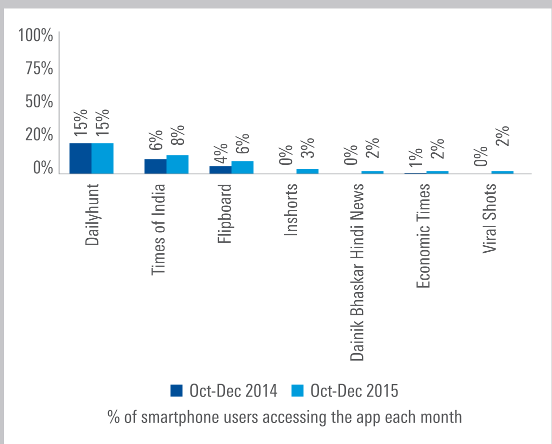
Dial C for convenience: Most activities, be it work or play, which would have earlier required an unwieldy desktop or laptop, can now be effectively carried out in the palm of your hand. Not only does this make life a whole lot more convenient for the on-the-go consumer, but it also gives access to those who find it easier to own a smartphone than a computer. According to Nielsen Mobile panel, 99 per cent of consumers access browsers and chat / VoIP on their smartphones. Other popular engagements include email, social networking, shopping, browsing the news, gaming and lately, taxi booking and mobile payments.

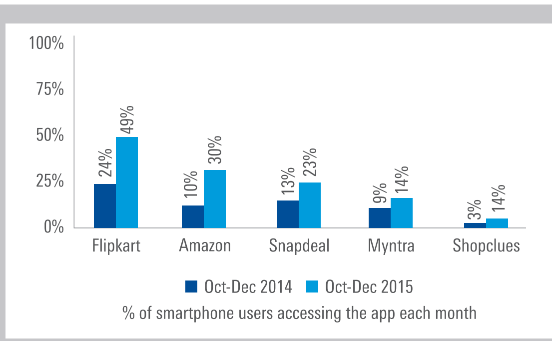


Source: Nielsen Mobile Panel, India



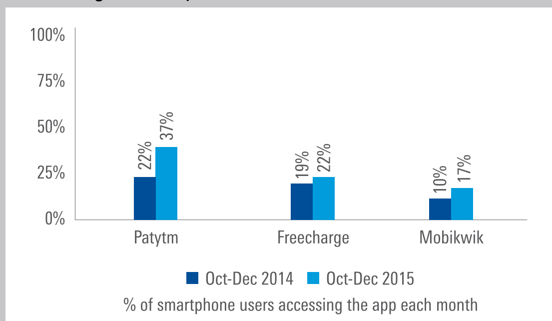
Source: Nielsen Mobile Panel, India

From window to screen shopping: Shopping on the smartphone has seen a meteoric rise from 39 per cent in Q4 2014 to 69 per cent in Q4 2015. The charge is led by giants like Flipkart, Amazon and Snapdeal. Such is the extent of the success of shopping apps that Myntra had chosen to do away with their website altogether and sell only through their app.



Source: Nielsen Mobile Panel, India

Smartphone as the mobile wallet: Finally, the surest sign of a maturing smartphone market is the willingness of consumers to transact on their mobile devices. A growth in mobile payment apps from 43 – 59 per cent over the last year according to Nielsen figures, and banking apps from 18 - 31 per cent over the same period suggests a growing comfort with transacting on smartphones.



Source: Nielsen Mobile Panel, India

These trends will get amplified as every device in the world gets 'smart', much like the mid-2000s, when almost every mobile acquired a camera. The lesson in these trends for us all, is that the consumer is changing her habits at a much faster pace than the businesses that serve them. This will lead to a change in the pecking order, unless today's businesses transform themselves to stay ahead.

While manufacturers, app developers and marketers continue to add functionality and robustness to devices and apps, the real differentiator may well be effective and unique positioning. Moreover, as smartphones revolutionise and transform how we engage in our everyday lives, what assumes utmost significance, is the need to measure this space – where, when and how people are using their devices. That's what will open new areas of opportunity and more importantly, innovation.

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Managing Director
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Content consumption

Proliferation of smartphones, significant advances in consumption devices and technology such as wearables, VR/ AR etc supplemented by growing digital content supply and distribution is changing consumer behaviour in favour of digital content consumption. While currently monetisation remains a challenge, once digital content is widely available, we expect content economics to achieve equilibrium and monetisation models to evolve and become more favourable.

Devices and technology

Developments in hardware and devices will continue to drive trends in content consumption.

Smartphone & Tablets

Smartphones and tablets have continued to become more popular in India. Smartphones are expected to cross 180 million in 2015 to 690 million by 2020 and will continue to drive mobile consumption[29].

Wearables

The smart wearables market in India during the first quarter of 2015 was 0.08 million units with smart watches contributing to 40 per cent of shipments and smart bands contributing to 60 per cent[30]. According to IDC Report, wearables grew 173 per cent this year. Nearly 72 million wearable devices shipped globally this year, up from just 26 million units in 2014[31].

Virtual Reality and Augmented Reality devices

With upcoming upgrades and new devices like Oculus Rift, HTC Vive, Sony PlayStation VR, Razer OSCR, Fove VR movie studios, game publishers, sports are using virtual reality technology for various applications in gaming and entertainment. The worldwide virtual reality gaming market is expected to reach USD5.1 billion by the end of 2016 and with an installed base of 55.8 million users[32].

AR technology has been introduced via early platforms and apps such as Google Glass, Magic Leap and Microsoft's Holo Lens. It is estimated that the AR related global revenues can touch upwards of USD120 billion by as early as 2020[33].

Storytelling would need to change to leverage on the advantages of these technologies For example, glance optimised content for wearables such as smart watches, immersive and reactive content for VR/AR devices like a news story or a video.

High resolution content is expected to drive future consumption

The content resolution for films is going through a development where higher resolutions such as 4K, 8K and immersive content like 4DX, VR, AR and CGI (computer generated imaging) are technically actualising. Technology is making it possible for delivering a differentiated experience to the end users where they can consume content which is closest to real experiences.

The use of digital assistants can impact how content is consumed

The digital person assistants like Siri, Google Now and Cortina earlier perceived as novelties are slowly gaining prominence. Based on a global survey for regular users of personal assistants 40 per cent say they use Siri most often, 25 per cent Google Now and 24 per cent utilised Microsoft's Cortana[34].

Capturing the Indian accent is still a challenge for these digital personal assistants and the next phase can be to incorporate regional languages.

Consuming content

Consumption on Video on Demand (VoD) Platforms

Digital VoD platforms are increasingly becoming popular and subscription video on demand (SVOD) is gaining traction with multiple domestic and international players expanding in this space. With the increase in penetration of smart phones and data speeds, this form of consumption is expected to increase.

Second screen content consumption

According to a global survey by Nielsen[35]

- 67 per cent users switch to another channel when commercial advertising comes on.
- 48 per cent engage with social media and 58 per cent browse the Internet while watching live TV shows; 49 per cent watch video programmes more if they have social tie-in.

29. GSMA Mobile India Report 2015
30. http://articles.economictimes.indiatimes.com/2015-05-05/news/61833631_1_timex-group-india-smart-watches-fitness-bands
31. http://www.hindustantimes.com/tech/was-2015-really-the-year-of-the-wearable/story-Ry8BksFfApOTtsSavkFYhJ.html
32. https://www.superdataresearch.com/blog/virtual-reality-market-brief/
33. http://www.digi-capital.com/news/2015/04/augmentedvirtual-reality-to-hit-150-billion-disrupting-mobile-by-2020/#.VsBgnph5LIU
34. https://aytm.com/blog/daily-survey-results/voice-assistant-survey/
35. http://popsop.com/2015/04/how-global-consumption-of-video-content-has-evolved-the-nielsen-global-digital-landscape-survey-2015/

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Consuming content across multiple channels at the same time is a trend gaining traction. For example, while watching a cricket match one would want to see the latest statistics of players or games. The user opens up his/her tab or mobile app and gets that information while watching TV. Now, with the new version of Apple TV launched, MLB.tv lets you see game schedules, statistics, and latest standings while you are watching live sports. This development of apps for smart TVs may also slowly impact the way this second screen phenomena shapes up.

Increase in mobile video based consumption[36]

It is estimated that mobile video will grow at a CAGR of 62 per cent between 2015 and 2020. Mobile video represented more than half of global data traffic beginning 2012 indicating the growth has already kick started and is here to stay with 4G development and Government of India's Digital India push[37].

Mobile gaming content consumption

On an average Indians spend 186 minutes per day on their devices of which 30 minutes were spent playing mobile games[38]. With an increase in smart phone penetration in India, free to play available games through mobile carriers and app stores and game apps developed in vernacular language is likely to drive the next phase of growth for this industry.

Regional content for India's rural

88 per cent Indians are non-English speakers and local language users are growing at a faster rate than the addition of new internet users in India[39]. In rural India there are 81 million users of which 46 million users use the internet in local languages and this user base has grown 47 per cent year on year[40]. 78 per cent Indians prefer watching video content in local languages of which Hindi accounts for 40 per cent, Tamil at 8 per cent, Telugu at 6 per cent, Bengali and Marathi at 4 per cent each[41]. Google is in talks with the government and news media producers in India to set up the 'Indian Languages Internet Alliance' so that regional users can adopt the internet faster[42].

Increasing smartphone penetration and growing internet access will result insignificant growth in demand for regional content.

Short duration content consumption on mobile

It is estimated that 56 per cent of Indians showed preferences for video downloads[43] with 85 per cent viewers consuming short form video content (under 10 minutes) on smartphones as against 71 per cent on laptops[44]. This trend is going to be important for marketers to be able to reach these customers through smart and concise messaging.

Conclusion

It took the radio 38 years to reach a user base of 50 million. In 2015, the trailer for Star Wars 7 took a mere 24 hours to crack a viewership of more than 100 million[45]. This exemplifies the role that technology has played over the years to change the landscape of the media and entertainment (M&E) sector around the world. India is no exception, as nearly all the M&E sub-sectors in the country have witnessed the penetration of technology with different degrees.

The impact of technology innovations can over the next few years, result in changes to consumption habits and patterns of viewers. Current business models may not be able to service the consumers in this changed environment and may need to evolve. While this can pose multiple challenges to M&E companies, we believe that there are significant opportunities to tap into. However, it is critical that companies look to integrate these opportunities into their business models early, to ensure that they don't miss out on the potential of a digital ecosystem.

36. CISCO VNI Report 2016
37. http://www.businesswire.com/news/home/20160221005092/en/Citrix-Improves-Economics-Managing-Mobile-Traffic
38. Nielsen survey
39. Jagran New Media Investor Presentation Jan 2016
40. IAMAI 2015 report
41. http://www.medianama.com/2015/08/223-rural-internet-users-local-content-to-drive-growth-in-user-base-iamai/
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44. http://www.medianama.com/2016/01/223-video-content-statistics-vuclip/
45. http://www.dailymail.co.uk/tvshowbiz/article-3286684/Star-Wars-Force-Awakens-trailer-racks-112-million-online-views-ONE-day.html

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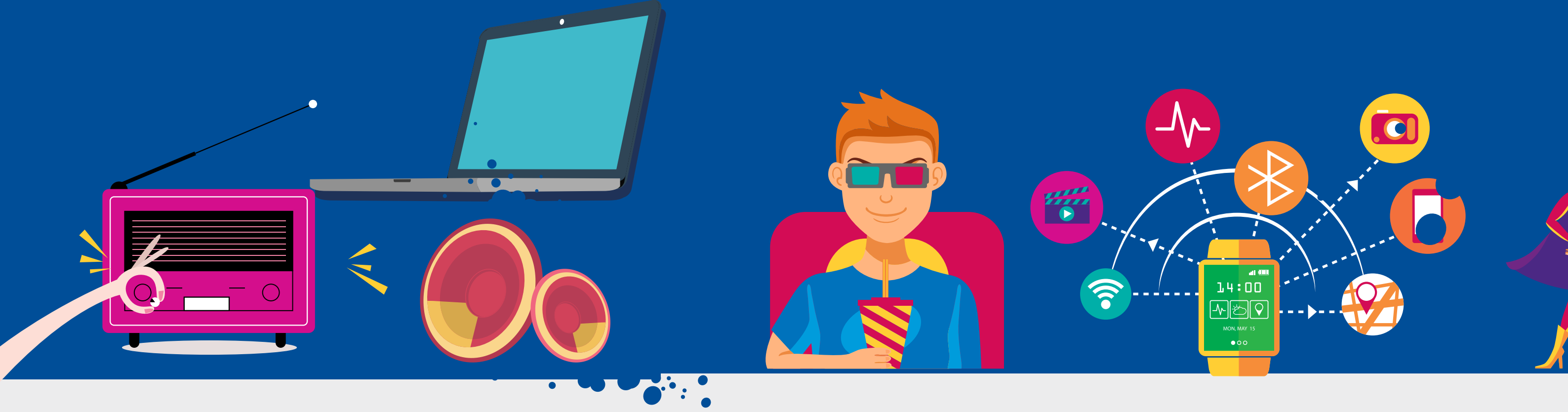

Introduction

Our report this year, is on the back of a number of macroeconomic upheavals globally and headwinds to economic reform in India.

The pace of global GDP growth declined to 2.4 per cent in 2015 from 2.6 per cent in 2014[1] driven by a collusion of multiple factors such as volatility and rebalancing in the Chinese economy, drop in oil and other commodity prices, slowdown in emerging economies and slow pickup in major developed economies

The Indian economy also saw a fair share of turbulence during this period. Factors such as a weak monsoon, rising NPAs, gridlocked parliament meant that investment sentiment remained subdued.

Inspite of these factors, the Indian economy remained resilient and grew at 7.3 per cent over 2014[1] and outgrew most major economies on the back of strong domestic demand coupled with drop in crude and commodity prices. This resilience is also reflected in the performance of the M&E sector which grew by 12.8 per cent from INR1026 billion in 2014 to INR1157 billion in 2015, while overall advertising grew by 14.7 per cent from INR414 billion in 2014 to INR475 billion in 2015[2].

1. Global Economic Prospects, A World Bank Group Flagship Report, January 2016
2. KPMG in India analysis

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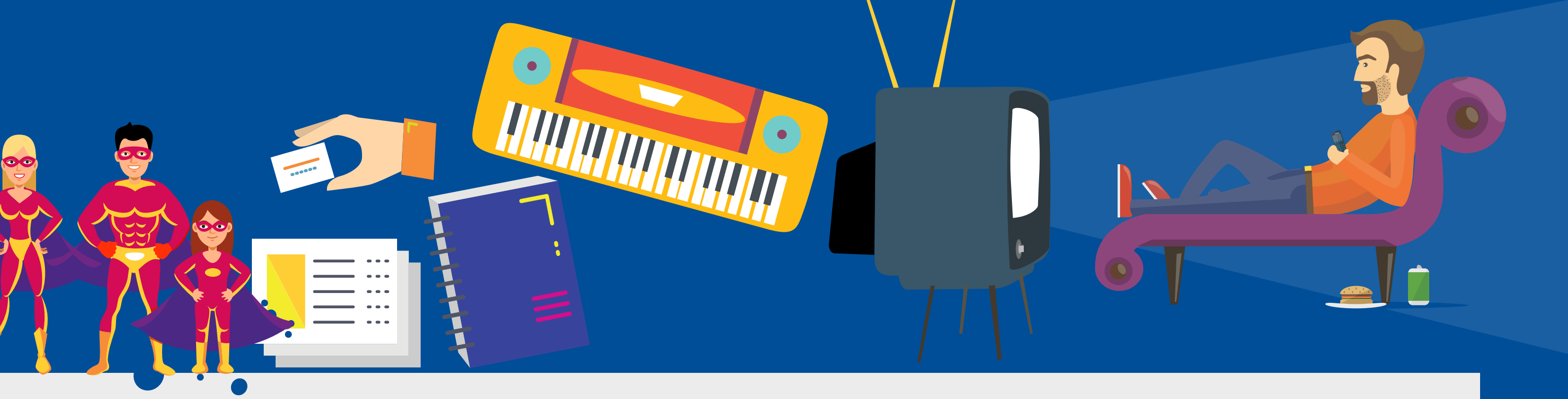

The Indian media and entertainment industry: Size

Overall industry size (INR billion) (For calendar years)	2010	2011	2012	2013	2014	2015	Growth in 2015 over 2014
TV	297.0	329.0	370.1	417.2	474.9	542.2	14.2%
Print	192.9	208.8	224.1	243.1	263.4	283.4	7.6%
Films	83.3	92.9	112.4	125.3	126.4	138.2	9.3%
Radio	10.0	11.5	12.7	14.6	17.2	19.8	15.3%
Music	8.6	9.0	10.6	9.6	9.8	10.8	10.2%
OOH	16.5	17.8	18.2	19.3	22.0	24.4	10.9%
Animation and VFX	23.7	31.0	35.3	39.7	44.9	51.1	13.8%
Gaming	10.0	13.0	15.3	19.2	23.5	26.5	12.8%
Digital Advertising	10.0	15.4	21.7	30.1	43.5	60.1	38.2%
Total	**652**	**728**	**821**	**918**	**1,026**	**1,157**	**12.8%**

Source: KPMG in India analysis, 2016

Advertising revenues: Size

Overall industry size (INR billion) (For calendar years)	2010	2011	2012	2013	2014	2015	Growth in 2015 over 2014
TV	103.0	116.0	124.8	135.9	154.9	181.3	17.0%
Print	126.0	139.4	149.6	162.6	176.4	189.3	7.3%
Radio	10.0	11.5	12.7	14.6	17.2	19.8	15.3%
OOH	16.5	17.8	18.2	19.3	22.0	24.4	10.9%
Digital Advertising	10.0	15.4	21.7	30.1	43.5	60.1	38.2%
Total	**266**	**300**	**327**	**363**	**414**	**475**	**14.7%**

Source: KPMG in India analysis, 2016

- Television registered a 14.2 per cent growth led by strong growth in advertising at 17 per cent on the back of increased Ecommerce spends and renewed spending by other sectors such as Auto, Telecom, Mobile handsets, etc. Subscription revenue growth at 12.8 per cent was slower due to delays in Phase 3 digitisation and further delays in availing the on ground benefits of Phase 1 and 2 digitisation.
- Print saw a slower growth at 7.6 per cent, coming off an election year though increased cover prices partially contributed to growth.
- Films grew at 9.3 per cent but the underlying fundamentals were mixed with Hollywood and Regional releases contributing to growth while Bollywood had a flat year.
- Digital Advertising continued its strong run with a 38.2 per cent growth over 2014 as a growing internet user base and usage was supplemented by increased spend allocation by marketeers. Increasing share of mobile and video advertising is a prelude of things to come.

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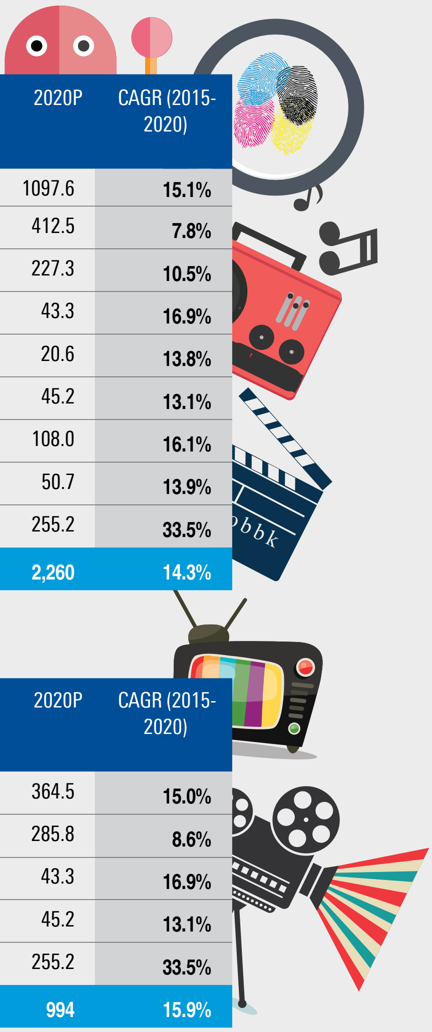
The Indian media and entertainment industry: Projections

Overall industry size (INR billion) (For calendar years)	2016P	2017P	2018P	2019P	2020P	CAGR (2015-2020)
TV	617.0	709.6	823.3	956.8	1097.6	**15.1%**
Print	305.2	329.6	355.9	383.6	412.5	**7.8%**
Films	158.7	174.1	190.0	207.8	227.3	**10.5%**
Radio	23.4	28.4	32.7	37.8	43.3	**16.9%**
Music	12.1	14.0	16.1	18.4	20.6	**13.8%**
OOH	28.3	31.6	35.4	40.0	45.2	**13.1%**
Animation and VFX	58.3	67.1	78.1	91.3	108.0	**16.1%**
Gaming	30.8	34.4	39.0	45.4	50.7	**13.9%**
Digital Advertising	81.1	113.6	153.3	199.3	255.2	**33.5%**
Total	**1,315**	**1,502**	**1,724**	**1,980**	**2,260**	**14.3%**

Source: KPMG in India analysis, 2016



Advertising revenues: Projections

Overall industry size (INR billion) (For calendar years)	2016P	2017P	2018P	2019P	2020P	CAGR (2015-2020)
TV	210.3	241.8	275.7	319.8	364.5	**15.0%**
Print	204.0	221.7	241.6	263.3	285.8	**8.6%**
Radio	23.4	28.4	32.7	37.8	43.3	**16.9%**
OOH	28.3	31.6	35.4	40.0	45.2	**13.1%**
Digital Advertising	81.1	113.6	153.3	199.3	255.2	**33.5%**
Total	**547**	**637**	**739**	**860**	**994**	**15.9%**

Source: KPMG in India analysis, 2016

The Indian M&E industry is expected to grow at a CAGR of 14.3 per cent to INR2260 billion by 2020 with advertising revenues expected to grow to INR994 billion at a CAGR of 15.9 per cent.

- Television is expected to grow at a CAGR of 15.1 per cent as advertising revenues will continue to show robust growth though delays in digitisation would mean that subscription growth would be slower than anticipated earlier.
- Print growth, expected at 7.8 per cent CAGR continues to be driven by growing regional markets with rural demand expected to be strong on the back of multiple government initiatives supplemented by headroom for circulation growth.
- Films are expected to grow at 10.5 per cent CAGR though largely on the back of growing acceptance of Regional and Hollywood content. Lack of screen density is a key constraint to sustained growth especially for Bollywood content.
- Radio at CAGR of 16.9 per cent is expected to show the strongest growth among the traditional sectors due to conversion to a reach medium in the long term supplemented by increased ad inventory.
- Digital advertising will continue to grow at a high CAGR of 33.5 per cent with a shift towards mobile and video advertising on the back of increase in mobile users and improved digital infrastructure. By 2020 it is expected that digital advertising will be INR255 billion and contribute to 25.7 per cent of total advertising revenues.

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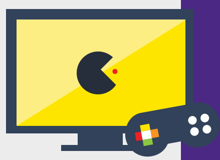
Underlying themes and growth drivers



The digitisation process continues to face delays

- Phase 3 digitisation failed to meet its deadline with around 76 per cent of boxes seeded by December 2015. While the government has not officially extended the timelines, the process has slowed down due to multiple court cases challenging the process. Further, benefits of Phase 1 and 2, particularly on ARPU have failed to materialise due to a number of on ground challenges across the distribution value chain. This resulted in a slowdown in subscription revenue growth in 2015. Our expectations over the next five years have also been toned down to reflect this delay.
- During 2015, the various stakeholders played out a waiting game, by entering into long term fixed fee deals for content and carriage primarily from a perspective of ensuring visibility of revenues and costs thus leaving the MSOs free to focus on completing seeding of set top boxes for Phase 3 and 4. We expect that once the seeding is complete, the various stakeholders will be back on the table to negotiate roll out of other aspects of digitisation such as addressability, gross billing, per subscriber billing, roll out of packaging etc.

Rollout of BARC was a landmark event

- The implementation of the viewership measurement system by BARC, was a major theme in 2015. While inclusion of rural markets and increase in sample size led to a reshuffle in the rankings of channels, particularly highlighting the viewership of free-to-air channels, there was no immediate impact on advertising (ad) budget allocations among channels or genres. Going forward, sustained trends in ratings could lead to advertisers re-thinking their ad spend mix and broadcasters their content strategy.

Growing prominence of ecommerce advertising

- The ecommerce segment continued to aggressively chase market share by continuing to spend on customer acquisition. A slowdown in investment sentiment meant that while there was a reduction in spend by the smaller ecommerce companies, the growing spends by large players such as Amazon, Flipkart, Snapdeal, Paytm, Olx and Quikr more than offset this reduction.
- Ecommerce ad spends initially focused on digital platforms, but over the last couple of years, there has been significant increase in ad spends across Television, Print and Radio. However, most of these spends have been largely concentrated on national networks and have not percolated down to regional markets. It is expected that ecommerce will continue to be an active advertiser across platforms with spends being concentrated among the large ecommerce players and increasing focus on regional markets.

Regional continues to drive Print growth

- Print witnessed a marginal slowdown in 2015 coming off an election year with both Hindi and Vernacular markets surprisingly growing at a slower pace, though increased spends by Ecommerce, Telecom and Mobile handsets did help in partially arresting the slowdown.

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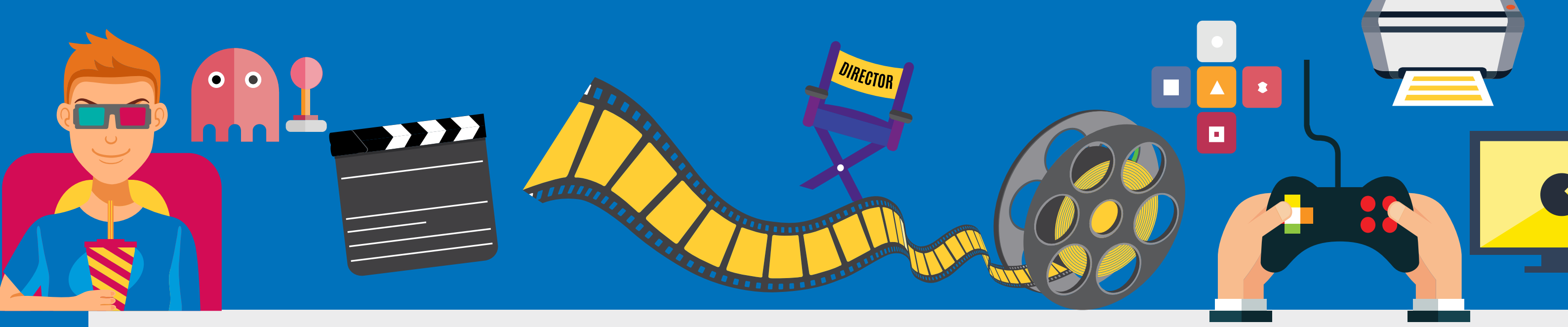

- However, as English and National markets saturate, the Regional story continues to dominate strategies of Print players and will continue to be the key growth driver. As companies are increasing their focus on tier-II and tier-III cities, and rural areas, hyperlocalisation is emerging as an effective theme among print players and advertisers.
- Government initiatives designed to increase rural incomes will also increase long term spending power and contribute to the advertising potential of these markets. Further, in 2015, while most companies in Hindi and Vernacular markets increased cover prices, there continues to be sufficient headroom for continued growth in cover prices.

Emerging shift in films in favor of Hollywood and Regional content

- Coming off a poor year in 2014, the Films segment grew by 9.3 per cent during 2015 hiding a key theme which could be a portent for the future. The growth was primarily driven by strong performance by Hollywood and Regional content which offset another weak year for Bollywood.
- Bollywood, particularly, is constrained by slow pace of screen growth and inconsistent quality and has been facing increasing competition from Hollywood and Regional content. Enhanced distribution reach, tent pole franchise movies, supported by allowing content to play in non DCI compliant screens has opened up a substantial portion of Indian audiences for Hollywood content. Regional content on the other hand has seen growing budgets, increased distribution and marketing spend allowing wider audiences to access the content.

Radio is becoming a 'Reach' platform

- Radio continued its strong run with a 15.3 per cent growth in 2015. Following the new stations licensed in Phase 3 and consolidation in the industry, Radio is transforming from a 'coverage' media to a 'reach' platform. Major radio stations have been operating at high ad inventory utilisation levels and this coupled with the growing advertiser interest has enabled increase in ad rates. Release of additional inventory from launch of new stations will stabilise rates but result in continued advertisement inventory pick up.
- The first batch of Phase 3 auctions raises some concerns given that while major cities witnessed a bidding frenzy, a number of smaller cities were not picked up in the auction amid fears of high reserve prices and weak market potential. This raises concerns on not only the economics of the new channels but also could potentially dilute the interest levels on the second batch of the Phase 3 auctions. The government has not yet announced the dates for these auctions.

OTT – building for the future

- While there is a significant level of interest in building out OTT platforms, viability in the short term remains a concern given bandwidth constraints, high cost of customer acquisition, dependence on advertisement led models and high cost of data access.
- However, all of this is set to change, starting with expansion of the digital infrastructure with 4G rollout, government's Digital India campaign and multiple private initiatives around broadband and public wifi. The 4G market is expected to be highly competitive and will likely result in lowering of data costs. Coupled with increased penetration of smartphones, we expect that consumers will become used to viewing content beyond the Television screen, paving the way for digital dedicated content and innovative monetisation models.

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Sports is looking beyond cricket for growth

- Cricket continues to be the primary driver of viewership, with marquee properties such as IPL and World Cup, witnessing growth in both ad rates and sponsorships. However, the last couple of years has seen the launch of various sporting leagues across varied sports such as Kabaddi, Football, Tennis etc. Kabaddi in particular has seen strong audience and brand response prompting the league owners to make the tournament a bi-annual affair to leverage on its popularity.
- As ownership of cricket as a platform becomes more expensive, we expect brands in India to start investing into other sports. However, building out non cricket sporting leagues will require long term vision and investing strategy to first drive sustained viewer interest before they become attractive to brands

In conclusion, the underlying fundamentals of the M&E industry have not changed with continuing robust domestic demand and strong advertiser interest. There are also a number of systemic matters that need to be addressed and resolved such as completion of cable digitisation, increasing access to content for film audiences, Phase III auctions for Radio etc, which could have a significant positive impact on the long term growth potential of the M&E sector.

While we remain bullish on the growth of the sector, it should also be noted that we are on the cusp of a technological revolution which could dramatically change consumption patterns in the long run. Though this will present significant challenges to existing business models, there are also significant opportunities which could far outweigh the risks. However, to leverage these opportunities, the M&E industry needs to invest for the future and be willing to look dispassionately at the changes that will be required in both mindset and approach.

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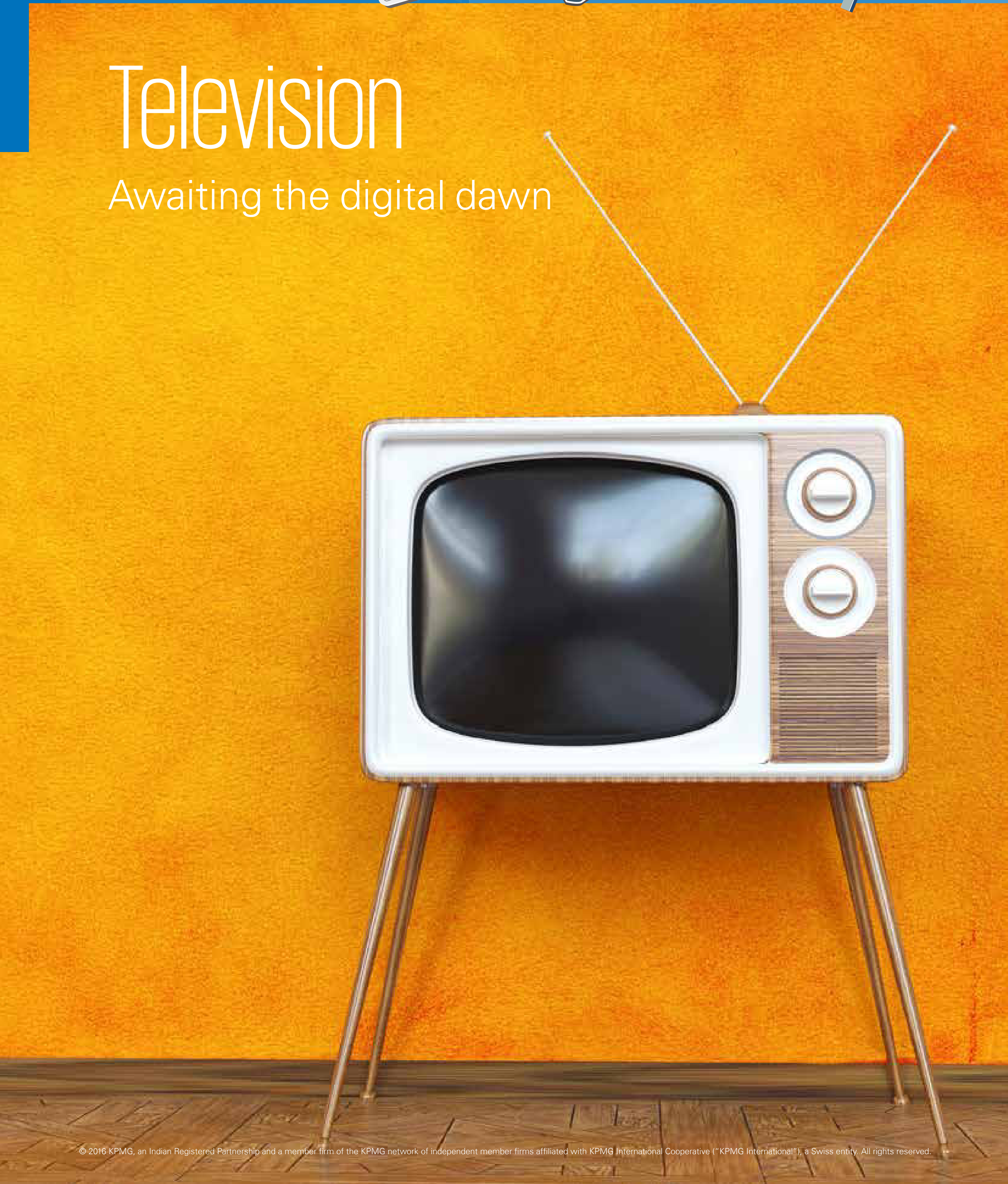
Television

Awaiting the digital dawn



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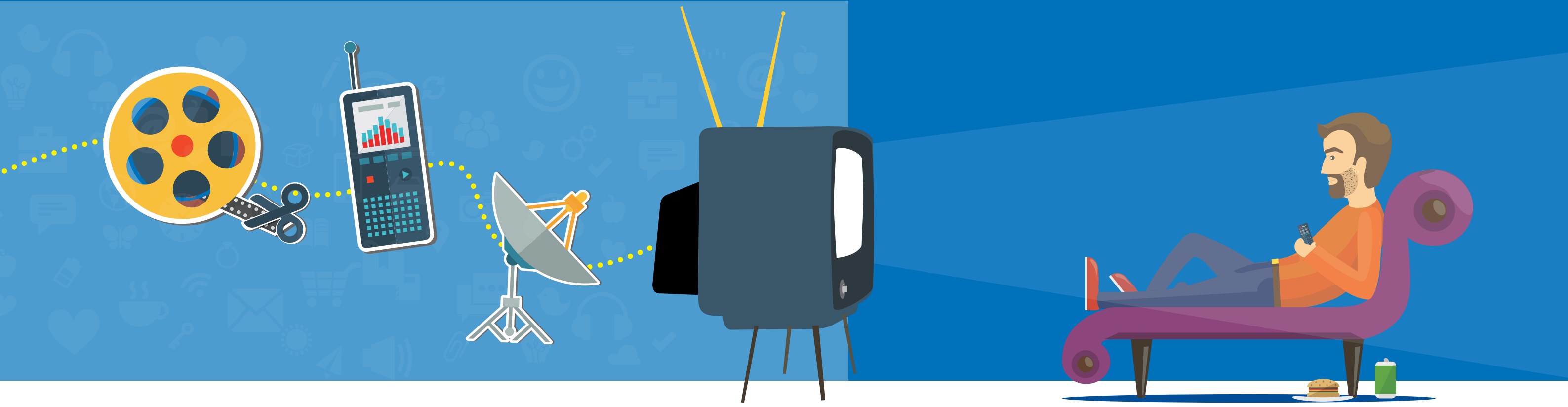

Introduction

The TV industry continued its good run in 2015, with advertising revenues growing faster than expected. On the distribution side, however 2015 proved to be a mixed bag for the TV industry, with subscription revenues growing slower than expected as monetisation remains a challenge.

TV advertising was buoyed by surging ad spends from e-commerce companies and strong performance of sports properties such as Indian Premier League (IPL) and International Cricket Council (ICC) Cricket World Cup. The launch of the viewership measurement system by Broadcast Audience Research Council (BARC) India was a landmark event in 2015,[1] but the phased rollout meant that advertisers and broadcasters were waiting for stability in the ratings before starting to depend completely on the measurement data from BARC India. The inclusion of rural markets and increase in the sample size led to a reshuffle in the rankings of channels, however there was no immediate impact on ad budget allocations among channels or genres. Going forward, sustained change in ratings trends could lead to advertisers re-thinking their ad spend mix and broadcasters their content strategy.

On the subscription side, disputes among the stakeholders in the TV distribution value chain continued. Post the ruling from The Telecom Disputes Settlement and Appellate Tribunal's (TDSAT) that Reference Interconnect Offer (RIO) has to be the starting point for all content deals between broadcasters and distribution platforms commencing April 1 2016, the Telecom Regulatory Authority of India (TRAI) has initiated a consultation process to decide on issues related to pricing of channels between broadcasters, distributors and subscribers.[2] It remains to be seen what impact this consultation process is likely to have on subscription arrangements in the industry. Apart from the regulatory impact, key things to watch for in 2016 include the Multi System Operators' (MSOs) ability to drive the subscription of tiered channel packages in Phase I & II cities, completion of set-top-box (STB) rollout in Phase III areas and STB seeding in Phase IV areas.

Over-the-top (OTT) platforms and growing content consumption on digital platforms continues to be a big theme that is likely to drive dynamics of this industry over the next decade. Many TV broadcasters are viewing OTT services as an opportunity to provide their content on an additional platform rather than as a threat to their existing business. So far at least, this has proven true with advertisers using online video advertising to complement and reinforce their brand communication rather than shifting ad revenues from TV to digital.

"2015 has been another pivotal year for the Indian television industry. For the first time our measurement systems offered a glimpse of our rural consumers' viewership preferences. On the advertising front, the industry has witnessed strong growth aided by new entrants and a stable economic environment. In fact, I expect the buoyancy in the ad-market to continue in 2016, driven by growth in regional genres, FTA channels and HD offerings. On the distribution side, hopefully our partners will learn from the lessons of the earlier phases of digitisation and ensure smoother monetisation of our offerings in Phase III & Phase IV. Our sector might even receive an added fillip in 2016 from externalities such as favourable monsoons (La Nina effect), softening interest rates and the trickle-down effects of a pro-agriculture 2016 Budget."

Sudhanshu Vats
Group Chief Executive Officer
Viacom18 Media Private Limited

01. A milestone year for media, The Mint, 31 December 2015
02. RIO to form starting point for negotiations between broadcasters and platforms: TDSAT, Television Post, http://www.televisionpost.com/trai-tdsat/rio-to-form-the-starting-point-for-negotiations-between-broadcasters-and-platforms-tdsat/accessed on 19 March 2016

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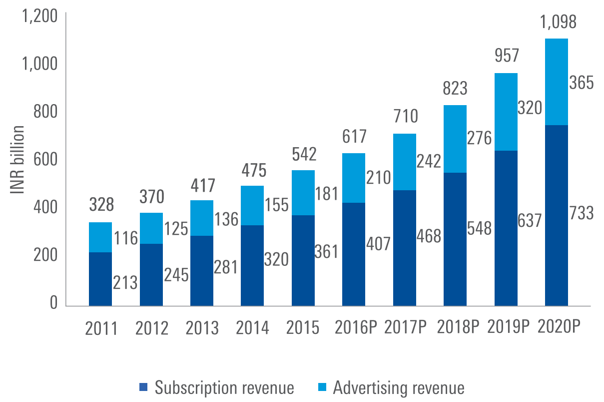
Size of the TV industry

The television industry in India is estimated at INR542 billion in 2015, and is expected to grow at a CAGR of 15 per cent to reach INR1,098 billion in 2020. Subscription revenue is estimated to grow at a CAGR of 15 per cent on account of the increased monetisation while advertising revenue growth is also estimated to remain strong, growing at a CAGR of 15 per cent.[3]

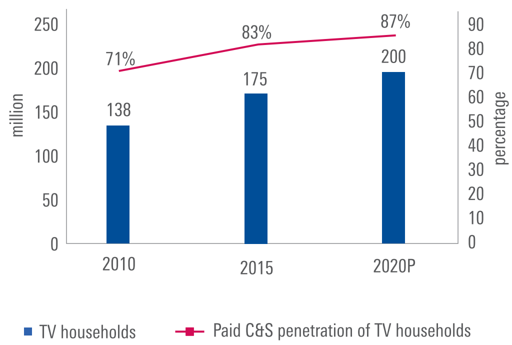
TV Industry size



Source: KPMG in India's analysis 2016 based on data collected from industry discussions
Note: Figures are rounded to nearest integers and may not add up exactly to column totals. Our new estimates reflect further delay in completion of digitisation and higher subscribers for DD FreeDish, reflecting its performance in Phase III areas in 2015

The number of TV households in India increased to 175 million in 2015, implying a TV penetration of 62 per cent. The number of Cable & Satellite (C&S) subscribers is estimated to have reached 160 million. Excluding DD FreeDish, the number of paid C&S subscribers is estimated at 145 million in 2015, implying a paid C&S penetration of 83 per cent. TV households are expected to increase to 200 million by 2020, with paid C&S subscriber base expected to grow to 174 million by 2020, representing 87 per cent of TV households.

TV households and paid C&S penetration of TV households



Source: KPMG in India's analysis 2016 based on data collected from industry discussions
Note: Paid C&S refers to C&S subscribers excluding DD FreeDish subscribers; Our new estimates reflect further delay in completion of digitisation and higher subscribers for DD FreeDish, reflecting its performance in Phase III areas in 2015

Distribution

With 175 million TV households, India is the world's second largest television market after China.[4] At the end of 2015, the digitisation of C&S households (in terms of STBs rolled out) stood at 60 per cent including DD FreeDish subscribers.[5] However, challenges in improving addressability and increasing monetisation continue to trouble the industry. In 2015 as well, there was no significant impact of digitisation on sharing of subscription revenues among stakeholders or carriage fees. Subscription revenues for the TV industry is estimated to have grown at 13 per cent in 2015 to reach INR361 billion.

In 2015, during the first half, MSOs continued to focus on improving their operating models in Phase I & II cities, while changing focus in the latter half of the year to rolling out STBs in Phase III areas.[6] MSOs are continuing to build internal processes to reflect the change in business model from B2B to B2C service providers but different players have had varying degrees of success in achieving this

"The delay in the completion of the 3rd Phase of Digitisation, is only pertaining to few states across the nation. Based on our previous experience from the roll out of Phase 1 and 2, we had expected a few hurdles in the time of the completion and hence we are factoring the initial benefits of Phase 3, only in the FY17. Having said that, considering the progress on the roll out expected in the following financial year, we are certain on the growth front. The deals which will be proposed in FY17, will certainly be based on the Phase 3 markets. The key expectation from digitisation, is of-course to bring in the crystalised level of transparency in the market, leading to an optimised revenue generation/distribution to all stakeholders in the value chain."

Punit Goenka

Managing Director and Chief Executive Officer

ZEE Entertainment Enterprises Limited and Chairman, BARC India

03. Based on industry discussions
04. Economic Survey: Digitisation of cable TV system led to increase in tax collection, DNA India, 26 February 2016
05. Based on industry discussions
06. Based on industry discussions

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Continuing delays in rollout of packaging and challenges in collection along with deadlines getting pushed back has resulted in several industry participants lowering their expectations from the digitisation process. The distribution industry appears to be split about the role of the regulator going forward. While many industry participants believe that de-regulation and price forbearance are the need of the hour, there are several who now believe that stronger regulations are imperative to drive the industry towards better pricing and revenue sharing models. Going forward, the implementation of TDSAT's order that all content deals between broadcasters and distributors have to be non-discriminatory in nature[7] and based on RIO is likely to significantly impact the distribution economics.

Meanwhile, competition in TV distribution could intensify with the entry of Reliance Jio into the cable TV business. The launch has been delayed multiple times, but the company has been tying up with hundreds of LCOs to get access to the last mile. The company has plans to provide a bundled package which provides TV channels, video streaming services (Jio Play), broadband, landline phone along with additional services such as home surveillance.[8] MSOs and DTH operators are also likely to see an increase in competition from new-age service providers such as Lukup Media, which provides converged TV, internet access and video-on-demand services through a single connection and has launched services in select areas in Mumbai, Hyderabad, Pune and Bengaluru.[9]

7 DTH platforms and a cable operator or two in every geography, will ensure fair play with respect to commercials, both on the B2B & B2C fronts. Making too many rules could make it difficult for the platforms to deliver.

Harit Nagpal

Managing Director and Chief Executive Officer

Tata Sky Limited

We whole heartedly welcome the move of the regulator to bring in transparency and commercial parity. There is certain amount of exasperation from current eco-system as also seen by a recent landmark Supreme Court judgment. DTH industry has been overpaying as against other distribution technologies for far too long for serving the same content to same consumer.

Rohit Jain

Deputy Chief Executive Officer

Videocon D2H

Broadcaster, LCO and MSO value chain will be disrupted not just because of 4G coming but also on the basis of change in the behaviour of the consumers towards consuming media. The media consumption pattern of the consumer is changing and everyone in the value chain have to think through their model to survive the change.

Sujit Vaidya

Chief Financial Officer

Disney India

07. Television broadcasters mull approaching TDSAT to delay content order, The Economic Times, 10 March 2016

08. RIL muscles into cable TV in media and telecoms offensive, The Mint, 9 March 2016

09. Lukup Media launches dual-play services, Economic Times, 17 February 2016

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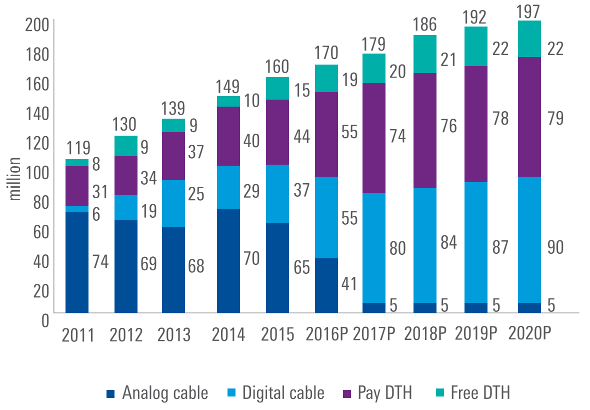
Status of digitisation[10] – December 2015

Phase	Regulatory date for shutdown	No. of C&S subs* (million)	Non-digitised subs (million)	Digitisation including DTH *
Phase I	Jun-12	13	1.2	100% excl Chennai
Phase II	Mar-13	25	1.2	>95%
Phase III	Dec-15	41	10	~75%
Phase IV	Dec-16	81	52	~35%
Total		**160**	**65**	**~60%**

Source: KPMG in India's analysis 2016 based on data collected from industry discussions
*Including DD FreeDish
Note: Our new estimates reflect further delay in completion of digitisation and higher subscribers for DD FreeDish, reflecting its performance in Phase III areas in 2015
Figures are rounded to nearest integers and may not add up exactly to column totals

In 2014, the Ministry of Information & Broadcasting (MIB) extended the deadlines for Phase III and IV of DAS implementation from the earlier combined deadline of December 2014 to December 2015 and December 2016, respectively. We continue to expect a delay of 12 months in the rollout of STBs in Phases III & IV each and expect the rollout in Phase IV to be largely complete by December 2017. The benefits of digitisation in these phases in terms of improved addressability and Average Revenue Per User (ARPU) are expected to take much longer. At the end of 2020, we expect Digital cable subscribers and DTH subscribers to be in the ratio of 53:47, with 90 million Digital cable subscribers and 79 million DTH subscribers by 2020.[11]

No. of subscribers



Source: KPMG in India's analysis 2016 based on data collected from industry discussions
Note:
(1) DTH figures are net of churn
(2) Free DTH is DD FreeDish
(3) Our new estimates reflect further delay in completion of digitisation and higher subscribers for DD FreeDish, reflecting its performance in Phase III areas in 2015
(4) Figures are rounded to the nearest integer and may not add up exactly to column totals

Pause in the progress of monetisation of Phase I and Phase II

While the rollout of Digital cable STBs in Phases I and II cities was largely completed by December 2013, in 2015 as well, the cable industry continued to face challenges in rolling out tiered channel packages and improvement in upstreaming of revenues from LCOs to MSOs. The large MSOs had initiated gross billing in Delhi and Kolkata in 2014. But many of them have shifted back to net billing. Net billing continues in Mumbai and Phase II cities. As part of net billing, MSOs pay service tax on the amount they are collecting from LCOs, while LCOs pay service tax on the remaining amount. One of the goals of digitisation was to improve tax collections from the cable industry[12], but this goal has not been achieved so far. This situation is unlikely to change any time soon, but the introduction of GST is expected to simplify the tax structure.

Even though channel packages have been rolled out in Phase I cities and some Phase II cities and billing is based on channel packages, MSOs continue to collect from LCO based on a fixed amount per subscriber and the collection is not linked to the channel package chosen by the subscriber. While the revenues collected by MSOs from LCOs has improved from the pre-digitisation stage, our research indicates that it has not met industry expectations. On an average, net realisations for the leading MSOs (post payment of service taxes) in Phase I stood at approximately INR90-100 and approximately INR70-80 in Phase II areas.[13] Unless the industry is able to ensure collection on the basis of channel packages from subscribers, subscription revenues are unlikely to increase significantly further.

10. Note on digitisation phases: In 2011, the government announced mandatory digitisation of TV distribution over 4 phases through its Digital Addressable System (DAS) policy: i) Phase I: 4 metropolitan cities: Delhi, Mumbai, Kolkata, Chennai; ii) 38 cities with a population of more than 1 million; iii) Phase III: All other urban areas (Municipal Corp./Municipalities); iv) Phase IV: Rest of India (Rural areas)
11. Based on industry discussions
12. Centre and states have gained from TV digitisation, viewers to get better viewing experience: Economic Survey, IndianTelevision, http://www.indiantelevision.com/cable-tv/das/centre-and-states-have-gained-from-tv-digitisation-viewers-to-get-better-viewing-experience-economic-survey-160307 accessed on 19 March 2016
13. Based on industry discussions

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Industry ARPUs can be increased using a combination of strategies such as ensuring implementation of proper and transparent systems to minimise leakages, implementation of channel packages and the subsequent upselling of these packages to consumers. ARPU will only increase as a result of collaborated efforts by MSOs and LCOs to make the consumer move to a higher level package. Also, premium channels such as HD channels can lead to an increase in ARPU.

Jagdish Kumar

Chief Executive Officer
Hathway Cable & Datacom Limited

Status in Phase III

The 31 December, 2015 deadline for Phase III areas, was not achieved as full seeding of STBs did not happen. This was similar to the situation seen in Phases I & II, where the STB seeding continued post the deadlines set by the MIB. While analogue cable TV signals were switched off for a while in some areas, in many of the areas they are back, as per industry discussions. In several states, MSOs and LMOs have challenged the MIB's deadline in the courts. High Courts in several states (Maharashtra, Andhra Pradesh, Telangana, Tamil Nadu, Orissa and Sikkim among others) have granted stays on MIB's deadline mostly due to the shortage of STBs.[14] Apart from this, certain cable operators in Karnataka and Kerala have also individually got interim reliefs from the respective high courts against coercive action by the government. The MIB has stated that it is not going to press for implementation of DAS in Phase III cities across the country till the pending cases are decided, since the stay on a central notification by the high court of any state is applicable across the country.[15] In February 2016, the MIB and the Indian Broadcasting Foundation (IBF) filed different petitions in the Supreme Court for transfer of all individual cases to the SC and no further continuation of the stay on DAS Phase III, respectively.[16]

As per the MIB, as of 30 Dec 2015, seeding of STBs was 76 per cent complete in Phase III areas, and excluding Tamil Nadu, the proportion was even higher at 86.25 per cent.[17] The MIB has also reported that seeding of STBs further increased to 90.44 per cent as on 15 February 2016.[18] As per TV Street Maps[19], of the 4,033 unique headends in DAS III towns monitored by the 'DAS III Town Monitoring Study', approximately 60 per cent continued to be analog headends in Jan 2016.[20] As per our estimates based on industry discussions, STB seeding in Phase III areas as of December 2015 was ~70 per cent complete, excluding DD FreeDish, with the number going up to ~75 per cent including DD FreeDish.[21]

For DAS Phase III and IV to be implemented successfully, the Government needs to bring in faster and perhaps more decentralised licensing processes, make it easier to receive financing for new Digital Platform Operators, provide tax benefits and improve indigenous availability of set top boxes at competitive prices.

Subhashish Mazumdar

Senior Vice President- Operations & Head Joint Ventures,
IndusInd Media & Communications Limited-Hinduja Group

According to Chrome Data Analytics & Media report on 'Cable Dark' areas, there is also a significant difference in the status of STB seeding in different states due to several factors: [22]

- Punjab, Kerala and Gujarat are leading states in terms of digitisation so far. Gujarat and Punjab are experiencing a more structured approach because they have leading players including Fastway, KCCL and GTPL.
- DAS III cities in Maharashtra lag compared to the top states because the state does not have one defined strong cable operator and at the same time operators have been facing a shortage of STBs.
- West Bengal, Orissa, Jharkhand and Madhya Pradesh still had a significant number of analog headends
- UP had the maximum number of cable dark towns followed by Bihar. A majority of the cities in UP and Bihar use DTH, and due to the lack of a dominant MSO, cable penetration is low in this state.
- Analog cable continues in Tamil Nadu (in all phases) due to the stand-off between state government-owned Arasu Cable and the MIB.
- DAS III towns of north-eastern states continued to have 100 per cent analog headends.

14. DAS Phase III stayed in 5 states including Maharashtra as Bombay HC issues restraining order, IndianTelevison, http://www.indiantelevision.com/cable-tv/das/das-phase-iii-stayed-in-5-states-including-maharashtra-as-bombay-hc-issues-restraining-order-160104 accessed on 15 February 2016
15. MIB will not press for DAS Phase III implementation till High Courts decide on the pending cases, TelevisionPost, http://www.televisionpost.com/cable/mib-will-not-press-for-das-phase-iii-implementation-till-high-courts-decide-on-the-pending-cases/accessed on 15 February 2016
16. IBF challenges DAS Phase III stay orders in SC; MIB files separate petition to club the cases, TelevisionPost, http://www.televisionpost.com/television/ibf-challenges-das-phase-iii-stay-orders-in-sc-mib-files-separate-petition-to-club-the-cases/accessed on 18 February 2016
17. DAS Phase III: Govt. insists 76% STB seeding; stakeholders claim huge shortage, IndianTelevison, http://www.indiantelevision.com/cable-tv/das/das-phase-iii-govt-insists-76-stb-seeding-stakeholders-claim-huge-shortage-160104 accessed on 15 February 2016
18. DAS III completed in 18 states and UTs, nearing completion in 7 other: Rathore, TelevisionPost, http://www.televisionpost.com/cable/das-iii-completed-in-18-states-and-uts-nearing-completion-in-7-other-rathore/accessed on 10 March 2016
19. TV Street Maps is the TV channel distribution monitoring arm of Gracenote, a global entertainment data and technology company
20. Data from 'DASIII Town Monitoring Study' conducted by TV Street Maps over the last two weeks of Jan 2016 covering 3,670 DAS III towns across 26 states (except Telangana, Andhra Pradesh & Tamil Nadu)
21. Based on industry discussions
22. Chrome DM report on 'Cable Dark' areas, IndianTelevision, http://www.indiantelevision.com/cable-tv/das/chrome-dm-report-on-cable-dark-areas-160302 accessed on 10 March 2016

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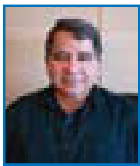
We expect Phase III and Phase IV to be implemented in the financial year 16-17. Even though Phase III has been delayed in some parts of the country, we hope that there would be resolution of the issues and that digitisation will be again on track. The DTH industry is ready to service these areas and the infrastructure is already established in many geographies. The customers should be availing the full benefit of digitisation in terms of improved quality of viewing and better service standards.

G Sambasivan
Chief Financial Officer
Tata Sky Limited

Given continuing challenges with the cable industry, DTH operators were expected to take the larger share of analog subscribers in Phases III areas than they did in Phase I and II. While DTH operators did take approximately ~40 per cent share of subscribers getting converted from analog cable in Phase III areas, higher than the 20 to 30 per cent observed in Phase I and II, it was lower than the industry expectations. This was attributed to higher price points for DTH and preference for local cable TV channels in Phase III areas. The DTH industry is expecting to continue to see significant traction in phase III and IV, given their ability to deploy quickly in difficult terrain and sparsely populated areas.



In a diverse country like India, platforms will need to develop customised strategies for different price points & geographies. While Phases I & II were relatively higher ARPU markets, subscriber number growth opportunity was limited. So the revenue increase opportunity came more from organic ARPU and the 25 per cent increase that happened as a result of digitisation. Phases III & IV present the Industry with a tremendous Digitisation penetration opportunity in terms of sheer numbers. While ARPU here is lower, content costs are also lower because the customers there watch lesser number of channels; hence there is an opportunity for content customisation to build a business model with very decent gross margins. Over a period of time, as these markets evolve, ARPUs will go up and so will margins. It has to happen. It happened in Phase I & II markets and it will happen here. As this business expands & penetrates further into the rural heartland; instead of being fixated on ARPU, we should start evaluation businesses based on Revenue, Revenue Growth, Incremental Revenue Share, Subscriber Growth, New Subscriber Acquisition Market Share. All these parameters assume significance when there is such a big push on such scale.

Arun Kapoor
Chief Executive Officer
Dish TV Limited

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Monetisation from TV digitisation – Broadcasters' perspective

There was extreme enthusiasm and excitement when the digitisation roll out started in 2012. The dialog between the broadcasters and MSOs had overtones of developing effective subscription fee models and bringing the carriage fee to negligible levels. Over the past 3 years, the excitement has faded away. MSOs dependence on carriage fee is still high especially for new channels who are facing high entry barriers. It is high time for course correction in cable industry as we stand at the doorstep of turning completely digital across India. There are enough learning experiences available within India and global markets to put the cable industry on the path of extracting fair value from the ground. The challenge is to get all stakeholders working together!

My belief has been that once digitisation had kick started, it will engulf various markets by process of osmosis, irrespective of any Government mandate. There is talk of digitisation across various sectors of various industries. Tuning in to digital is not only related to entertainment business but the way we live our lives today.

As a broadcaster, I would say that interim stay orders by various Honorable Courts has been a setback I am hopeful things will be back on course soon. The temporary delay may have a short term impact on monetisation on the stake holders but we will all cover up in the long term.

Broadcasters still don't have subscriber reports to provide an accurate figure on total STBs seeded in DAS III areas but market estimates put this number between 22 million to 25 million (between DTH and MSOs) out of a total potential of approximately 34 million – a very encouraging trend.

The most intriguing fact shall be to watch how DAS IV areas respond to explosion of channels and content when digitisation rolls out completely in such sectors. These markets will suddenly have plethora of channels to view with more regional mix as well – something the viewers in DAS IV areas were devoid off. A large part of the market place has been cable dark but now consolidation provides an opportunity for various delivery platforms to bring pay content to the fingertips of viewers in rural markets.

Rollout of channel packaging should be the prime focus of the industry. It has taken painstaking two to three years to get packaging completed in DAS 1 areas and markets like Kolkata have led by example that simple determination can prove most effective. Mumbai and Delhi have also completed the task and MSOs have to be congratulated on their efforts.

Yet again DAS II areas are still struggling with implementation of packaging on ground. It will require push from all quarters for the completion of packaging on ground. I believe the benefits of packaging need to be popularised by MSOs and LCOs amongst viewers. Heavy encouragement needs to be done at the subscriber level. The broadcasting industry has effectively spread the benefits of packaging by investing heavily on the air-time

In the analog regime the subscribers have become habitual of paying subscription fee after consumption of content and the industry was lax not to change the unhealthy practice. This has to change and DTH industry is worthy of praise to have put the pre-paid regime from the start. I would recommend cable industry to imbibe technology and a resolve so that the viewers to develop a habit of pre-paid models. This shall be a big boon in bringing healthy payment cycles across the chain.

Looking at the recent developments in various Courts today in the short term in the industry parity and transparency will be the centre-stage of every deal. I still believe that our industry is over-regulated and such principles should be left to the take holders to discuss. In any case the dispute settlement mechanism is robust in India and right to mutual negotiation and contracting should not be taken away. Inter connection should be left between parties to be negotiated.

Another evolution that I see in interconnection agreements is the grant of rights to platforms. We are going the Western way wherein traditional delivery platforms are bundling rights other than linear transmission as part of interconnect agreements to compete with emerging next generation networks

The current landscape of Regulations provide a framework for effective monetisation except the fact that the Regulations have to be implemented in full spirit till the last mile level. Implementation of packaging, billing, audits are sluggish which can be an effective tool for the entire value chain to get a fair share on investments. We should start building a road to de-regulate certain areas in distribution for creating a spirit of higher innovation and investments. There is enough competition in the marketplace and progressive de-regulation will build an ecosystem of better monetisation models.

Anuj Gandhi
Group Chief Executive Officer
Indiacast Media Distribution Private Limited

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Re-emergence of DD FreeDish

DD FreeDish, Prasar Bharati's free-to-air DTH service gained prominence during the year due to two reasons – i) Rollout of DAS in Phase III areas where there is high proportion of cable dark areas and consumers' affordability for paid DTH packages is low and ii) Inclusion of rural market data by BARC India in its TV viewership measurement which has led broadcasters and advertisers to realise that there is a large audience being catered to by DD FreeDish. While there are estimates of anywhere between 20-30 million DD FreeDish STBs being sold so far, there is no reliable data on the number of active DD FreeDish users, since DD does not have authorised dealers for STBs and once the STBs are purchased there is no tracking of their usage as the service is free.[23]

DD FreeDish on its part has taken several initiatives to fully tap this opportunity. The operator recently added 50 new channels on the new MPEG 4 technology after moving its transponders to GSAT-15 satellite.[24] Earlier, DD FreeDish was operating using only six transponders on INSAT-4B using the old MPEG-2 DVB S format. Hence, the operator was able to provide only 64 channels earlier, since each transponder could transmit only 12-20 channels, depending on the quality of the feed and other technical factors.[25] However, existing users cannot receive these channels using their existing STB as those would be based on MPEG-2 technology and the STB would need to be upgraded to MPEG-4.

The operator is looking to tap non-Hindi markets and plans to add regional channels as well on its platform by reserving special slots for regional channels in its auction of channel slots. Currently, many of DD FreeDish's users are located in Hindi speaking markets with hardly any regional content available.[26] To encourage regional channels to be part of the platform, in the most recent auctions conducted in February 2016, the operator had set a reserve price of INR20 million per slot for regional channels, while the reserve price for general channels remained the same at INR43 million.[27] However, there was not much interest generated from regional channels during the auctions.

DD FreeDish further plans to add transponders on GSAT-15 satellite to upgrade channel availability to 250.[28] The biggest demand for space on DD FreeDish could come from news channels. A large number of news channels are already FTA, and those which are paid, also do not generate significant subscription revenues. With continuing delay in better monetisation from subscription revenues, some news channels could choose to opt for the potential of higher advertising revenues by being available as FTA channels on DD FreeDish, rather than pinning hopes on higher subscription revenues by remaining paid.

While there is no denying the importance of FreeDish in the growth plans of Broadcasters, there is a completely separate, exclusive and more premium Pay TV business model, which will continue to be the prudent focus for the major broadcasters and is imperative for the industry to grow consistently at a higher rate so as to invest back in quality programming.

Narayan Ranjan

Chief Financial Officer

Viacom 18 Media Private Limited

DTH revenue growth remains healthy; Digital cable still struggling to raise consumer pricing

DTH operators continued to have a healthy revenue growth on the back of ARPU and subscriber additions. According to industry discussions, DTH operators have seen an ARPU increase of 10 per cent in 2015. The ARPU increase was driven by price hikes (there was a price increase of approximately 8-10 per cent by Videocon D2H, Tata Sky and Airtel in September 2015)[29] and increasing high-definition (HD) penetration. According to our discussion with industry participants, there are 6-7 million HD subscribers, accounting for approximately 15 per cent of all DTH subscribers. HD adoption continues to drive ARPU growth for DTH players with the average ARPU of a HD subscriber at approximately 1.5-2x the ARPU of a non-HD subscriber.[30] Going forward, adoption of 4K STBs is expected to pick up in India, though lack of 4K content can be a hindrance.[31]

23. The rural rating disruption, The Mint , 3 December 2015
24. Doordarshan Free Dish adds 50 new channels, total 113; DD encryption may hurt Dish TVs, Rtn. Asia, http://rtn.asia/t-t/17555/doordarshan-free-dish-50-new-channels-added-total-113-including-dd accessed on 10 March 2016
25. Freedish on way to carrying 112 channels as equipment for capacity upgrade is installed, says Rathore, TelevisionPost, http://www.televisionpost.com/dth/freedish-on-way-to-carrying-112-channels-as-equipment-for-capacity-upgrade-is-installed-says-rathore/accessed on 10 March 2016
26. Interview: CK Jain, Deputy Director, Doordarshan India (DD Freedish), shares that still over 250 million people in the country have no access to TVs and the target is to tap them with DD Freedish, TelecomTalk.info, http://telecomtalk.info/interview-ck-jain-deputy-director-doordarshan-india/146230/accessed on 19 March 2016
27. Doordarshan conducting 25th online e-auction on 18 January 2016, ddfreedish.net, http://www.ddfreedish.net/doordarshan-conducting-25th-online-e-auction-on-18-january-2016/accessed on 19 March 2016
28. DD Freedish set to beam up to 250 channels under 12th Plan, IndianTelevision, http://www.indiantelevision.com/dth/dth-operator/dd-freedish-set-to-beam-up-to-250-channels-under-12th-plan-151212 accessed on 16 February 2016
29. Following Tata Sky & Videocon, Airtel hikes DTH packs across India, TelecomTalk, http://telecomtalk.info/tata-sky-videocon-airtel-hikes-dth-packs-across-india/142910/accessed on 26 February 2016
30. Based on industry discussions
31. Videocon d2h expects demand for 4K STBs to pick up, Television Post, http://www.televisionpost.com/dth/videocon-d2h-expects-demand-for-4k-stbs-to-pick-up/accessed on 19 March 2016

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On the other hand, Digital cable operators continue to face issues in increasing consumer level subscription ARPUs, as they have not been successful in rolling out tiered channel packages and ensuring collection as per channel packages.[32] Higher collection per subscriber for the MSOs and hence broadcasters, is possible only after the end-customers start paying for what they watch, instead of paying for the base pack and receiving all channels. MSOs will also need to upsell packages with HD channels to enable subscribers to move to higher fee packs. However, MSOs have focused on rolling out SD STBs and inducing subscribers to upgrade to HD STBs may prove to be an additional hurdle for MSOs, given their lack on end-consumer marketing experience.

Though HD penetration is still small, it is growing very fast. HD is already playing a significant role in driving DTH ARPUs. Digital cable operators also need to focus on seeding of HD-enabled STB boxes to be able to grow consumer-level ARPUs.

Rajesh Kaul

President

MSM Media Distribution Private Limited

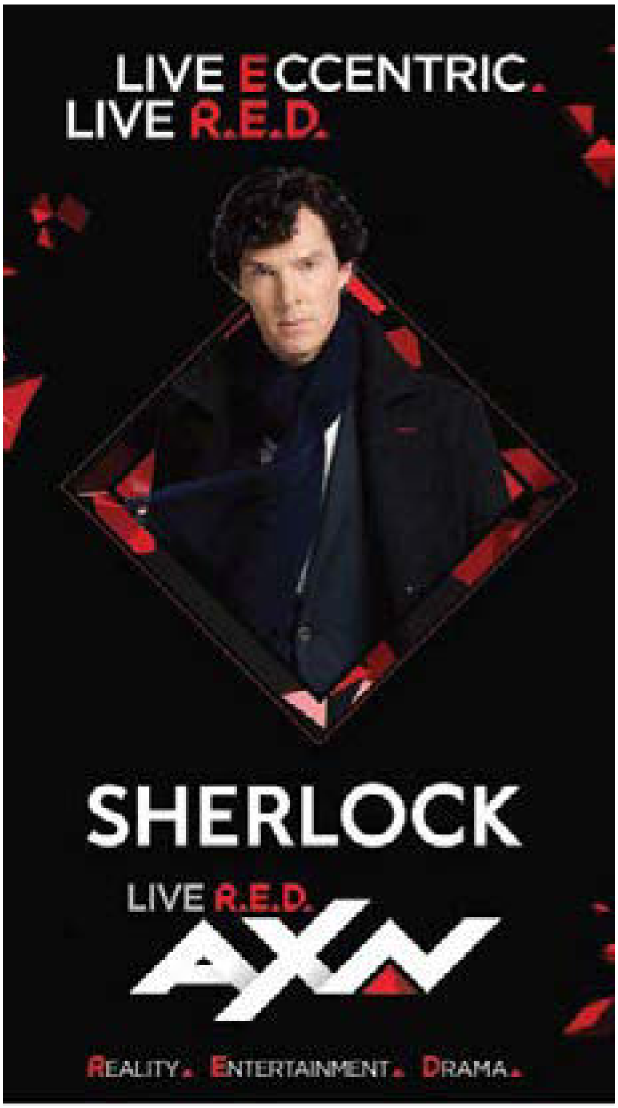
DTH industry is growing strength to strength in terms of operating profitability. Industry is still little far in terms of meeting its capital requirements and huge content bills. With growing subscriber base and more transparency in content deals through recent initiative by the regulator, the overall industry should look profitable hopefully in another 12-18 months' time.

Anil Khera

Chief Executive Officer

Videocon D2H

Additionally, broadband provides a great opportunity for MSOs to increase revenue collections per consumer by making some incremental investments in their existing infrastructure. Though many of the large MSOs have launched broadband services and gained some traction, they have not scaled up to any meaningful size yet. MSOs need to leverage the broadband opportunity to help ensure revenue growth and adequate returns on their existing investments. Larger MSOs such as Hathway, Den and SitiCable have been investing on building their broadband infrastructure over the past couple of years.[33] Following their cue, the smaller regional MSOs have also realised the importance of broadband for revenue growth and beginning to focus on broadband services.



32. Status Report: Q3-2016: DAS Phase III deadline no great shakes for DTH industry, IndianTelevision, http://www.indiantelevision.com/dth/dth-operator/status-report-q3-2016-das-phase-iii-deadline-no-great-shakes-for-dth-industry-160219 accessed 19 March 2016

33. "India will be a huge broadband market over the next 3 years:" Rajiv Kapur, IndianTelevision, http://www.indiantelevision.com/iworld/broadband/india-will-be-a-huge-broadband-market-over-the-next-3-years-rajiv-kapur-150624 accessed on 19 March 2016

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DTH and Digital cable ARPU

ARPU (INR per month)	2015P	2016P	2017P	2018P	2019P	2020P	5-year CAGR
DTH	248	258	266	299	334	367	8%
Digital cable	214	219	230	261	298	343	10%

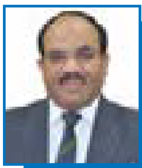
Source: KPMG in India's analysis 2016 based on data collected from industry discussions
Note: Our new estimates reflect further delay in completion of digitisation and higher subscribers for DD FreeDish, reflecting its performance in Phase III areas in 2015

Content deals and carriage fees

Towards the end of 2014, based on a directive by TDSAT, Star India had initiated a plan to provide all its channels on a transparent and non-discriminatory RIO basis and offered incentives to MSOs based on the availability and placement of its channels[34]. The new RIO approach enabled tiering of consumers through a structure that did not push all channels in the base pack and instead encouraged MSOs to create packages based on consumer requirements. This had the potential to push MSOs to introduce tiered packages and subsequently increase collections from subscribers, which could have benefited multiple players in the industry. But according to industry discussions, this did not pan out as expected and Star India has moved away from using RIO for its content deals after the earlier RIO agreements expired in November 2015.

On the whole, in the industry content deals between MSOs and broadcasters continue to be fixed in nature or based on Cost per subscriber (CPS), with many deals lasting only a year. Also, many of the large broadcasters have net content deals with carriage fees and subscription revenue share being part of the same deal. While some of the large broadcasters have managed to monetise increasing HD channel penetration by having separate content costs for HD channels, some of the smaller broadcasters receive similar amounts for SD and HD channels. Going forward, increasing HD penetration can be a subscription revenue growth driver for broadcasters.

After rollout of STBs in Phase I and II markets, there was a decline of 25 to 30 per cent in carriage fees but there has not been any significant decline after 2014. As per industry discussions, there was an increase in the overall carriage fees paid to distributors in 2015 due to the launch of new channels and channels continuing to increase distribution in smaller towns and cities (LC1 areas – less than class I; towns with under 0.1 million population). As per industry discussions, carriage fees remained broadly stable for existing deals but new deals saw a hike of 5 to 10 per cent in carriage fees. Looking into 2016, carriage fees for existing deals is expected to remain stable but MSOs are expected to see 10 to 15 per cent increase in carriage fees due to the increasing number of channels being carried by each MSO. Higher subscription revenues for MSOs will have to start flowing through before the industry witnesses any further reasonable decline in carriage fees per channel.



"We believe that the Indian Television Distribution Industry is at the cusp of an important phase, where customer needs and demands will guide overall growth. Customer needs will play an important role in deciding not just the quality of content but also the platform on which they want to consume the content. Most broadcasters have started developing their content for non-linear viewing. Considering the shift, MSO's have started leveraging their existing cable infrastructure to provide broadband services."

V D Wadhwa
Executive Director and Chief Executive Officer
Siti Cable Network Limited

"Contrary to expectations of carriage fees coming down with the implementation of DAS Phase I and II, there has actually been an increase in carriage fees during the last year. The two main drivers for this are - first, most small and new channels in any genre want to be in the neighbourhood of the top channels in that genre and second, channels continue to be dependent on ad revenues given that subscription revenues are not growing as expected and carriage fees help improve ratings which ultimately help increase ad revenues."

Nitin Nadkarni
Chief Financial Officer
Sony Pictures Networks India Private Limited

34. We will offer all our channels only on RIO: Uday Shankar, CEO, Star India, Afaqs.com, http://www.afaqs.com/news/story/42299_We-will-offer-all-our-channels-only-on-RIO-Uday-Shankar-CEO-Star-India accessed on 2 February 2016

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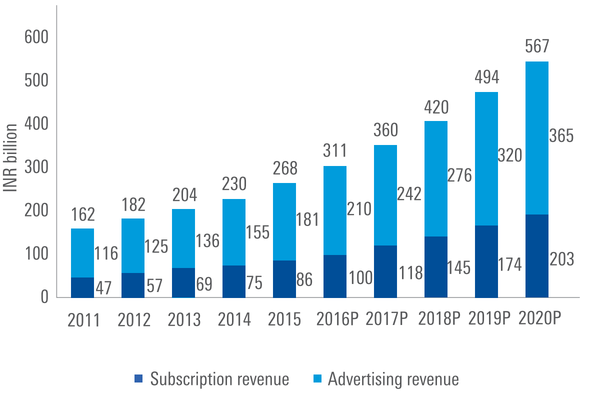
Broadcasting

TV advertising revenue growth for broadcasters across genres in 2015 better than expected, in spite of a high base in 2014 due to the general elections. The total TV advertising market is estimated to have grown at 17 per cent in 2015 to INR181 billion, higher than the 13 per cent projected in our report last year. On the other hand subscription revenue growth for broadcasters continued to underwhelm, growing at an estimated 15 per cent to INR85 billion, lower than our expectations of 20 per cent in the previous year's report.[35]

Going forward, television advertising in India is expected to grow at a CAGR of 15 per cent between 2015-20, to reach INR365 billion. Subscription revenue for broadcasters is expected to grow at a CAGR of 19 per cent between 2015-20 to INR203 billion. This is expected to be driven by i) increase in the declared subscriber base in Phase III and IV, ii) increase in subscription revenues collected on the ground due to channel packaging and increasing HD penetration, and iii) increase in revenue share of broadcasters in the subscription pie. The share of broadcasters in the subscription revenue pie is expected to grow from 24 per cent in 2015 to 28 per cent in 2020.

Broadcaster industry size



Source: KPMG in India's analysis 2016 based on data collected from industry discussions
Note: Our new estimates reflect further delay in completion of digitisation
Figures are rounded to nearest integers and may not add up exactly to column totals

TV advertising revenues in 2015

The television advertising industry witnessed a 17 per cent growth on the back of a strong economy, growing ad spends by e-commerce companies, contribution from cricket events and two important state elections (Delhi and Bihar). This is higher than our expectations of 13 per cent for 2015 in last year's report.

Companies in the e-commerce space are said to have spent approximately INR1,200 - 1,400 billion on advertising on TV in 2015, mostly on account of spends by popular sites such as Flipkart, Snapdeal, Jabong, Olx, and Quikr.[36] Several e-commerce companies launched TV commercials for the first time in 2014 and several more continue to do so in 2015, with tier II e-commerce companies also stepping up their mainstream media ad spends. The benefit of ad spend growth from e-commerce companies was largely seen by TV channels, since the print industry did not witness a significant increase in ad spends from the sector. As per industry discussions, the TV advertising spend by e-commerce companies is expected to have grown at 80 per cent in 2015, as they continue to invest heavily in customer acquisition and brand building. As a share of total TV ad spends, e-tailing category spends in TV advertising increased from approximately 3 per cent in 2014 to approximately 5 per cent in 2015, while total e-commerce spend on TV contributed to approximately 7 per cent in 2015.

Sports continues to be a big driver of ad revenues on TV. The ICC Cricket World Cup is expected to have propped up TV ad spends, contributing INR6 billion in TV advertising in 2015.[37] And though IPL 2015 was expected to suffer from cricket viewership fatigue post the Cricket World Cup, both viewership and ad revenues were better than expected, with IPL estimated to have earned approximately INR8.5 billion in 2015.[38] In 2016, as well, cricket events are expected to contribute significantly to ad revenue growth with IPL expected to see growth of ad revenues to INR10 billion and ICC T20 world cup expected to earn INR3 billion in ad revenues.[39]

2015 saw strong growth in advertising backed by increased brand building in the e-commerce and mobile handset space. Sports was another big driver for ad revenue growth with IPL 2015 seeing very good revenues. The outlook for IPL 2016 is also very positive.

Rohit Gupta
President
Sony Pictures Network India Private Limited

35. Based on industry discussions
36. Based on industry discussions
37. With World Cup viewership worse than 2011 edition, Star misses Rs 850-crore ad target, Economic Times, 6 April 2015
38. IPL signs on more sponsors, eyes more revenue, The Mint, 3 March 2015
39. Star India eyes over Rs300 crore as ad revenue from World T20, The Mint, 8 March 2016

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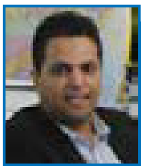
HD channels are also contributing significantly to ad revenue growth for some broadcasters. Initially, HD channels were offered as premium ad-free channels and were completely dependent on subscription revenues. However, this has changed with broadcasters beginning to monetise HD channel feeds separately for ad revenues. Typically HD channel rates are higher due to the premium nature of HD channel viewers.

As per industry discussions, The FMCG category (including Food and Beverages, Personal and Household products), continued to contribute approximately 50 per cent of the ad spends on TV in 2015. Baba Ramdev-promoted Patanjali Ayurved Ltd also emerged as one of the biggest spenders on TV as it seeks to establish itself as a serious contender in the Indian FMCG market. Patanjali is expected to have spent INR3 billion on advertising on different media between November 2015 and March 2016, of which a significant portion would have been dedicated to TV advertising.[40] Patanjali started its TV advertising in November 2015 when the company launched atta noodles. Since then Patanjali has expanded its TV ad campaigns to seven product categories, out of the 30 product categories that it sells.[41]



Though there are other emerging sectors which are driving TV revenue growth, the FMCG sector continues to be the mainstay of TV advertising. In fact, the FMCG space is getting more vibrant with the entry of local brands such as Patanjali. Older players such as Nestle are also trying to build their brand image back which is all expected to increase media ad spends. Additionally, with the inclusion of BARC ratings, the FMCG sector which is one of the largest spenders in the rural markets, will be able to allocate spends more efficiently.

Nikhil Gandhi

Vice President and Head Revenues, Media Networks,

Disney India

In 2016, the launch of 4G networks by Reliance Jio and the large incumbent mobile operators – Bharti Airtel, Vodafone and Idea – is expected to boost ad spends on TV. The 4G launch is also expected to result in higher ad spends by mobile handset companies.

The roll out of BARC India ratings was a landmark event for the TV industry

The TV audience measurement system from BARC India was launched in April 2015, as the sole government registered TV ratings service in India, and as a replacement of the system operated by TAM India. BARC India rolled out its ratings in a phased manner over the year in 2015:[42]

- BARC India rolled out its first set of data with the release of the household data for all homes and HD separately in urban areas with the population of 0.1 million+ in April 2015. This was based on the New Consumer Classification System (NCCS) and with the following age cuts Kids (4-8 yrs.), Tweens & Schoolers (9-14 yrs.), Youth (15-21 yrs.), Young Adults (22-30 yrs.), Adults (31-40 yrs.), Peak (41-50 yrs.), Mature (51-60 yrs.), Seniors (61 yrs.+).
- BARC India released Individual viewer ratings in June 2015.
- In October 2015, BARC India launched an industry first – All India (Urban + Rural) TV viewership data.
- BARC India currently has a reach of 153.5 million TV households with 77.5 million urban and 76 million rural, spanning megacities, 1-7.5 million towns, less than 1 million urban areas and rural areas.

40. Ramdev's Patanjali eyes a bigger bite of consumer goods pie with ad blitz, The Mint, 3 December 2015
41. Baba Ramdev's Patanjali Ayurved Ltd becomes India's biggest FMCG advertiser this week; outnumbers Cadbury, Parle, The Economic Times, 6 February 2016
42. BARC ratings expected to roll out on April 29, Business Standard, 29 April 2015

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Differences between the TAM and BARC India viewership measurement system:

Criteria	TAM	BARC India
Sample size	12,200 installed meters	Started with a sample size of 22,000 homes with plans of to increase to 50,000 over the next three to four years.
Coverage	Urban focus	Urban and rural coverage; approximately 30 per cent all samples rural
Customer classification	Uses SEC classification	Uses NCCS (New SEC) where households are classified on the basis of the education of the chief wage earner (CWE) and ownership of a number of consumer durables from a fixed list (like electricity connection, cars, 2-wheelers, ACs etc.) which is a more accurate reflection of their purchasing power
Technology	Frequency-based peoplemeter	Uses audio watermarking to track content through its broadcast cycle, which increases integrity and reliability of the data generated. This is a code inserted into the audio channel of the television signal which transmits through the distribution platforms and cannot be, either deleted or overwritten in the cryptographic family it adopts.
Customer classification	Uses SEC classification	Uses NCCS (New SEC) where households are classified on the basis of the education of the chief wage earner (CWE) and ownership of a number of consumer durables from a fixed list (like electricity connection, cars, 2-wheelers, ACs etc.) which is a more accurate reflection of their purchasing power
Partners	Research conducted by Nielsen	Appointed multiple partners to install meters, conduct surveys, produce sample design and for quality checks
Ownership	Owned by AC Nielsen, Kantar Media Research and Indian Market Research Bureau	Promoted by Indian Broadcasting Federation, The Indian Society of Advertisers and Advertising Agencies Association in the ratio 60:20:20

Source: News articles, Company data, KPMG in India's analysis 2016 based on data collected from industry discussions

Inclusion of new markets such as rural India, North East and Jammu and Kashmir in the measurement for the first time and increase in number of households measured, led to significant changes in the ratings in some genres. FTA channels from private broadcasters which run library content such as Zee Anmol, Star Utsav and Rishtey and public broadcaster DD National featured among the Top 10 channels consistently.[43] Improvement in ratings for regional channels was also observed, especially since there was better representation of households in South India in the sample size. Sun TV was a top-ranked channel at the all India level for several weeks while other regional channels such as TV9 Telugu, Maa TV, and Asianet, etc. also entered into top 10 at different times during the year. Higher consumption of Hindi News channels versus English News channels was also observed.[44]

As per industry discussions, FTA channels moving to top 10 BARC India rankings due to the inclusion of rural data is unlikely to impact ad spend allocations among the Hindi GECs, since advertisers look at viewership trends within specific target markets for making their ad spend decisions and not at the overall ratings. Instead, inclusion of rural markets can enable advertisers who were so far allocating media budgets to target rural audience without any concrete data to take data-backed decisions. For instance, prime time in the rural market has been identified as the hours between 5.30 to 10.30pm versus 6.30 to 11.30pm in urban markets.[45] It has also opened new avenues for advertising for several brands who have in the past allocated their media budgets to Doordarshan to reach the rural audience.

Inclusion of rural ratings becomes all the more significant at a time when some urban markets are tending to become saturated for some product categories. With the e-commerce sector also turning its eyes towards capturing under-penetrated rural markets, rural ratings gain even more significance. There are also some skeptics in the industry who believe that the rural ratings are not easily monetisable due to low level of affordability by rural consumers. However, all the stakeholders in the industry are in a discovery phase currently and no immediate impact has been observed. Since most advertising deals from large advertisers are long term and based on consistency in ratings, there has been no effect on ad rates or re-allocation of ad spends among different channels so far. Going forward, ad rates and ad spend allocation could change eventually, if similar trends sustain.

43. Ranking Pay and FTA channels together: It hurts perception of flagship channels, BestMediaInfo,http://www.bestmediainfo.com/2015/12/ranking-pay-and-fta-channels-together-it-hurts-perception-of-flagship-channels/accessed on 19 February 2016

44. DD News ahead of Pvt. English news channels in prime-time: BARC, Business Standard, 13 December 2015

45. The rural rating disruption, 3 December 2015

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While the industry has already recognised BARC as the only television viewership rating system, advertisers as well as broadcasters are careful in reading the data and are looking at urban and rural viewership in different lights. It is still early to see any significant movement in ad rates but it is likely that going forward channels which are more urban-focused will command a premium.

N P Singh

Chief Executive Officer

Sony Pictures Networks India Private Limited

On the content side as well, the combined rural and urban ratings will be given time to settle down before broadcasters start making changes. The top-ranked pay Hindi GECs and highly-ranked pay channels in other genres are unlikely to turn FTA as their subscription revenues are substantial, with expectation for further improvement. But some broadcasters may launch FTA film channels or a few of the laggard channels in other genres may turn FTA. Inclusion of rural markets in ratings and Phase III digitisation together have led to higher importance on DD FreeDish and more broadcasters could consider becoming available on DD FreeDish's platform. Broadcasters are also likely to review their programming to accommodate the content consumption patterns in rural markets as well.

Over the past few years, TV viewership is fragmenting across genres and regions including rural. As a result, the investment in content is on the rise. However, scaling up content investments for rural market is unlikely to be economically feasible if the channels continue to be FTA and are not supported by subscription revenues.

Mihir Modi

Chief Finance and Strategy Officer

ZEE Entertainment Enterprises Limited

Monetisation of rural markets will be one of the key growth drivers for the TV news industry in the coming years. While the rural markets currently comprise only 7 to 10 per cent of the total TVs news advertising pie, they are expected to grow at rapid rate.

Gulab Makhija

Chief Financial Officer

Independent News Service Private Limited (India TV)

TAM, via an agreement with BARC India exited the TV audience measurement space and all meters of BARC India and TAM will be transferred into a 51:49 joint venture known as Meteorology Data Limited (MDL). This will ensure that there is only one currency for TV viewership measurement and strengthen BARC India's ratings by increasing its reach. As part of the JV, MDL will manage the panel households and further TV panel expansions while data will be computed and disseminated through the BARC India ratings data software BARC India Media Workstation (BMW).

Both BARC India's BAR-O-Meters and TAM's Peoplemeters will now be a part of Meterology Data Pvt Ltd. (MDL), the company formed post the JV. TAM's peoplemeters will now be de-installed in phases and will be re-deployed in BARC India selected panel homes. The industry was looking for a single TV viewership measurement currency to avoid confusion. The move will also ensure that industry benefits from this single currency which is created and owned by them.

Partho Dasgupta

Chief Executive Officer

BARC India

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BARC India plans to start providing digital audience measurement by measuring unduplicated audiences through a single source panel, across all devices and platforms, measuring combined programme impressions or advertisements regardless of where and how the content/ad is being consumed. As part of this, BARC India has issued a Request for Proposal in December 2015, which elicited a positive response from 11 global agencies including Nielsen, Kantar Media and comScore. BARC India also intends to collaborate with content creators in order to maintain the accuracy of the findings.[46]

Impact of BARC India ratings on advertising revenues

"Half the money I spend on advertising is wasted; the trouble is, I don't know which half." Thus said John Wanamaker, 200 years ago. The scenario wasn't very different until a few months ago, until BARC India started reporting India viewership numbers. With 75 per cent growth in TV households over the last decade, Television has always featured as a very important component across marketing plans. But with no metric to gauge the India viewership numbers, the medium has been undervalued for long.

Increased reach and high potential

TV penetration in rural stands at 40 per cent and a huge chunk still remains untapped, indicating huge growth potential for the medium. The true potential of the ROI generated by the medium will now be realised as the entire India is being monitored. The absolute eyeballs delivered and the CPT generated vis-à-vis other mediums will come back in focus.

Quality audience

With 2/3rd of the consuming population residing in Rural India and accounting for 50 per cent of the GDP, the rural consumer is responsible for changing the 'Rural India' image to 'Emerging India'. This Consumer is evolving, with a 45 per cent of viewers belonging to the consuming NCCS AB class and younger age group. As per a study carried out by Nielsen amongst Rural Superconsumer, 90 per cent of the respondents reported Television to be the most effective channel influencing their recent purchases. Until now, multiple routes such as BTL and Outdoor was used extensively by Marketers to reach this audience, but now with visibility and delivery efficiency TV will garner the most.

Scale and ROI vs other mediums

Television offers scalability, ROI and communicate in a sustained manner through simple messaging in an audio-visual manner. The same can't be said of OOH or BTL where the medium is struggling with scalability, ROI and a relevant measurement metric. Advertisers will now have a choice to shift their budgets and streamline their communication. In terms of the Ad pie, this will be a shift to watch out for. Other mediums like Print and Radio suffer from lack of a differentiated rural offering. Therefore giving the TV medium an edge where the FTA channels are able to provide customised offering to viewers.

Future perfect

With the government's push on rural banking and employment schemes, the sector focus will improve on financial service, Auto and Real estate. FMCG will continue to rule the roost as 'mature categories of urban areas are in their 'growth phase' in rural India. We will witness a new impetus in spends from these categories.

Content connect

Within the Television content space, news is not the only genre in demand. The rise of Hindi general entertainment channels, notably Zee Anmol, Movie and Music channels only indicates the appetite of this audience for more content.

In line with the demand, content availability too has increased manifold. Recently, DD Free Dish has increased its capacity from 64 to 80 channels and is planning to take it up to 112 channels. The OTT platforms through increasing smartphone penetration will only serve as an extension of the TV growth story in these markets. With regional channels added in the FTA basket, the economic dynamics are set to change from a market prioritisation level as well.

All developments have only charted a new chapter in the TV Ad story of the country.

Ashish Sehgal
Chief Sales Officer
ZEE Entertainment Enterprises Limited

Unless otherwise noted, all information included in this column/article was provided by Ashish Sehgal. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

46. Top research firms line up to partner BARC for digital measurement, The Mint, 16 February 2016

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Geo targeting of ads on TV

Geo-targeting is the method of determining the location of a user and delivering different content or advertising to that visitor based on his or her location. This has largely been used for internet advertising but is now being leveraged for TV advertising as well in order to focus advertising efforts on a particular target group in an area. In the Indian TV space, geo-targeting has notably been employed in a significant way by Zee and Star. In 2015, Zee adopted the bespoke solution for Zee Cinema, having tasted success previously with some of its channels such as Zee News, Zee TV, Zee Marathi, Zee Kannada and Zee Bangla.[47] In 2014, Star India launched 'Adsharp', a platform for broadcasting localised ads.[48]

Geo-targeting, also known as 'programmatic' or 'addressable' TV, is an innovative method to enhance the use of available ad inventory. Advertisers can choose to air different ads on the same channel in different regions to maximise the impact and reduce costs.[49] This is especially important in a fragmented, price sensitive market like India.[50] Geo-targeting can help attract new advertisers, especially small businesses and regional players, who are facilitated to launch advertisements exclusively in their concerned region of operation. Geo-targeting ads on TV can also result in existing advertisers on print and radio diverting a part of their funding to TV from other media such as print.[51]

There is considerable scope for geo-targeting, considering that the Indian market is underpenetrated and India is a heterogeneous market. Currently, geo-targeting contributes to a very small portion of the TV advertising pie but industry participants expect its share to increase significantly. It would be possible to accelerate growth by adopting certain practices followed by international markets. First, video programming companies can share their subscriber data with data research companies, who in turn can advise media companies and advertisers as to which TV spots to target. Secondly, apart from linear television, on-demand viewership should also be looked at. As TV migrates to the internet platform, higher growth in digital geo-targeted advertising is also expected. This can be achieved via modern processes like 'Interactive Television' which is offered by Comcast, a multinational mass media player, where clients can expand the reach of television through web interactivity and also by engaging with customers directly.[52] Additionally, in the long term, geo-targeting can be used to not only to target audiences for effective advertising, but to also customise the message conveyed via methods like single sign-in and automated content recognition.[53]

TV Ad-tech – the unfolding revolution

TV business is going through a fundamental metamorphosis worldwide. The art of story telling in video continues to be and will be a dominant form of entertainment. It is the underlying business models, technology and operating methods that are changing to adapt to the new world of globalised content distribution and our changing behaviour of watching video on our mobile devices. All media other than TV have always been targeted, be it local editions on print, city-specific FM radio, area-specific billboards and personalised media consumptions in Internet enabled devices. TV, although being one of the largest advertising mediums, sorely lacked targeted advertising options. With the advent of Internet devices and IP connected set-top boxes, advertisers have woken up to the idea of targeted advertising on TV.

TV ad tech is expanding in three dimensions i) Geographic and demographic targeting on pan-regional TV, ii) Personalised targeting on live and on-demand TV content on connected devices, iii) Data-driven programmatic buying.

Targeting on pan-regional TV

Amagi which pioneered geo-targeting by partnering with multiple TV networks in India, has also helped TV networks to geo-target advertising in Russia, Brazil, Singapore and Middle East as well. STAR India also runs its own geo-targeting network enabling regional buys on their TV channels.

Given its cultural diversity and regional differences, there is a pressing need in India for regional targeting of advertisements on TV. The country is currently split across 17 markets where advertisers can buy inventory on premium TV channels for each of the regions. These regions are mapped to BARC measured markets, which enable advertisers to be able to plan holistically across geo-targeted ad spends and their national media spends.

Across India, large advertisers to regional SME brands have leveraged targeted TV advertising, and are growing at a dramatic pace in leveraging this media option.

Demographic targeting on TV is one of the biggest trends in the U.S. Given tens of millions of set-top-boxes with IP connectivity, data collected from viewership is driving targeting across rich demographic segmentation.

47. Amagi and Zee expand partnership for geo-targeted ads, IndianTelevision, http://www.indiantelevision.com/television/tv-channels/movie-channels/amagi-and-zee-expand-partnership-for-geo-targeted-ads-150716 accessed on 14 March 2016
48. Star India Launches AdSharp: Revolutionary Concept That Allows Advertisers To Geo-target TV Ads, Trak.in, http://trak.in/tags/business/2014/07/14/star-india-adsharp/accessed on 14 March 2016
49. Here's how TV channels are geo-targeting TV ads, Moneycontrol, http://www.moneycontrol.com/news/special-videos/heres-how-tv-channelsgeo-targeting-tv-ads_943160.html accessed on 14 March 2016
50. We Help TV Channels To Multiply Their Ad Inventory: KA Srinivasan, Amagi Media, Advertising Age India, http://www.adageindia.in/media/we-help-tv-channels-to-multiply-their-ad-inventory-ka-srinivasan-amagi-media/articleshow/46655348.cms accessed on 14 March 2016
51. Zee TV to offer geographic targeting of ads, Afaqs, http://www.afaqs.com/news/story/38589_Zee-TV-to-offer-geographic-targeting-of-ads accessed on 14 March 2016
52. Comcast, https://www.comcastspotlight.com/ad-solutions/overview/ad-solutions-geographic-targeting accessed on 14 March 2016
53. What brands need to know about programmatic TV, Digiday, http://digiday.com/agencies/need-to-know-programmatic-tv-dont-call-programmatic-tv/accessed on 14 March 2016

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Personalised targeting on live and on-demand TV

2015 was the year TV content worldwide started to come on online platforms in a big way. TV networks are starting to build direct-to-consumer strategies for reaching their audience.

As TV content in both live and on-demand move to IP connected devices, TV networks are building TV-like content experiences with personally-targeted advertising on connected devices. This has been the holy grail of advertising; to target individuals and serve the most apt advertising.

In India, there are multiple TV networks bringing their linear and on-demand content online. With the expected increase in 3G and 4G penetration, TV content owners are preparing to monetise their content online, and advertising is the most dominant commercialisation option available at this point of time.

There are multiple initiatives worldwide to enhance video advertising with interactivity and context to enhance audience connect. In the next few years lot of these would come to our mobile devices as content owners and advertisers are looking to make the video experience as personalised as possible.

Data-driven programmatic buying

TV has been historically bought in a traditional brick-n-mortar model. That is about to change. Media buyers are starting to leverage online programmatic buying platforms to buy TV inventory. Internet-media buying practices of leveraging data and real-time bidding are starting to come into the TV buying market.

Given TV on traditional and connected platforms are nothing but video, media buyers are looking to integrate their buys across online video and TV. There are initiatives worldwide to create an integrated GRP metric and identifying unduplicated reach across all viewing platforms.

Democratising advertising

The availability of targeting across devices and online buying models is democratising advertising and bringing new advertisers. At Amagi we get close to 4000 first time advertisers asking for advertising options on a monthly basis. These are largely SME brands across different regions in the country and span businesses ranging from education, FMCG, real estate to consumer goods and local services.

Future – exciting

Over the next few years I envision an all-encompassing demand-side platform that allows advertisers to express their objectives. These platforms would then connect with multiple supply-side platforms across different media options, analyse large amounts of data from multiple data sources and come with the most optimal media plan for the objective the advertiser is looking to meet.

Lines will be blurred across traditional and online medium. Machines will integrate them into a seamless media planning and buying experience for all big and small advertisers.

I am excited and looking forward to this new world order. Are you ready for this change?

Baskar Subramanian
Co-founder
Amagi Media Labs

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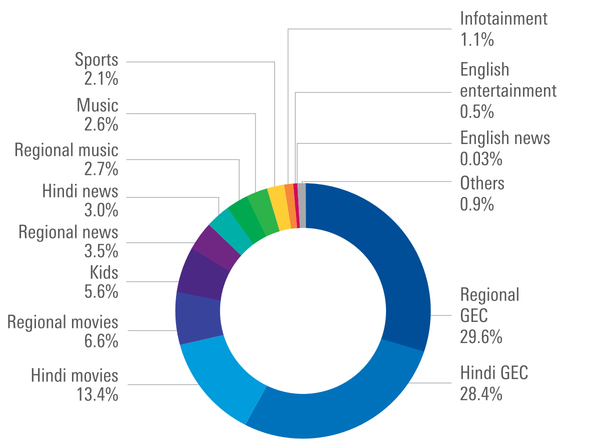
Genres

Television viewership continued to be driven by Hindi and Regional GECs, which accounted for majority of the total viewership, contributing 58 per cent to the total viewership over the period Week 41, 2015 to Week 7, 2016, based on data from BARC India (TG: All 4+, Market: All India, Period: Wk 41, 2015 to Wk 7, 2016). Hindi movies genre accounted for 13.4 per cent viewership over the same period, followed by Regional movies genre which accounted for 6.6 per cent of viewership. News channels (including Regional News) accounted for 6.5 per cent viewership.

Viewership share by genre in 2015



Source: BARC India, TG: All 4+, Market: All India, Period: Wk 41, 2015 to Wk 7, 2016; Copyright © 2016 Broadcast Audience Research Council India. All rights reserved. Reproduction of any matter published in this report, in part or whole, in any language or format, or derivative work, without the express written permission of BARC India is strictly prohibited and will be liable for legal action.
Note: English News includes English General News and English Business News; Hindi News includes Hindi General News and Hindi Business News; English Entertainment includes English GECs and English Movies.

Hindi GECs

Hindi GECs remained the clear favourite on the advertising front, witnessing a growth of 15 to 16 per cent in ad revenues in 2015[54]. Though the introduction of new TV viewership measurement system by BARC India led to ambiguity in ratings, the top performing shows saw increased ad spends based on past performances and internal assessments by advertisers. The inclusion of rural data in the sample size led to a scale up in the rankings of channels. FTA channels such as Zee Anmol, Star Utsav and Rishtey started appearing in the top 10 channels list,[55] with Zee Anmol staying in top 3 for some time. This was a product of the higher reach of the FTA channels in rural areas and their presence on DD FreeDish.

On the content side, Hindi GECs continued to experiment, but with mixed results. Fictional shows saw a shift from the typical family dramas to themes such as the supernatural, mythology and history. With the success of 'Naagin', a new supernatural show which has climbed to the top of the BARC India ratings ladder,[56] many existing shows such as 'Sasural Simar Ka' and 'Yeh Hai Mohabbatein' have also started including supernatural themes in their stories. Incidentally, Broadcasting Content Complaints Council (BCCC), the independent self-regulatory body formed by the broadcasters, has issued an advisory for such shows to employ the necessary restraint and maximum discretion while portraying occult, superstition, black magic, exorcism and witchcraft.[57] However, long running shows such as 'Yeh Hai Mohabbatein', 'Saath Nibhana Saathiya', 'Kumkum Bhagya', 'Diya Aur Baati Hum' and 'Sasural Simar Ka' continued to be popular as many new launches in the year failed to make a mark. Many new launches, while not lacking in innovation or quality of content, were pulled off the air after only a few months due to poor performance. Due to the intense competition in this genre, many new shows were just not able to garner enough eyeballs to be viable.[58] For instance, 'Badtameez Dil', a romantic musical series on Star Plus was pulled off the channel in just two months and was instead shifted to Hotstar, while Sab TV stopped airing four of its new shows on the same day within four months of their launch.[59]

While the previous few years had seen only the continuation of old non-fiction shows, this year there was significant experimentation in the non-fiction space. However, similar to their fiction counter-parts, none of them were able to make a major breakthrough. 'On air with AIB' on Star Plus and Star World along with Hotstar, a new initiative by the younger generation of content producers, was an attempt to bridge a gap in the market and met with moderate success.[60] Adaptation of new international formats was seen in this space as well. Star Plus experimented with 'Aaj Ki Raat Hai Zindagi' with Amitabh Bachchan which is based on the British show 'Tonight is The Night' and new dance reality show Dance Plus while Zee TV which had typically stayed away from international format shows, tried its hand with 'I Can Do That' as well as the Shah Rukh Khan-hosted 'India Poochhega Sabse Shaana Kaun' and later 'The Voice India' on &TV.

54. A mixed bag for GECs, TelevisionPost, http://www.televisionpost.com/special-reports/2015-a-mixed-bag-for-hindi-gecs/accessed on 20 February 2016
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57. BCCC asks TV channels to exercise restraint when showing occult shows, TelevisionPost, http://www.televisionpost.com/television/bccc-asks-tv-channels-to-exercise-restraint-when-showing-occult-shows/accessed on 20 February 2016
58. Veni, vidi, non vici: Shows that didn't last on TV in 2015, Indian Television http://www.indiantelevision.com/television/tv-channels/gecs/veni-vidi-non-vici-shows-that-didnt-last-on-tv-in-2015-151018 accessed on 21 February 2016
59. 'Phir Bhi Na Maane Badtameez Dil' to Go Off Air; Abeer-Meher's Show to be Replaced by 'Kuch Toh Hai Tere Mere Darmiyaan', International Business Times, http://www.ibtimes.co.in/phir-bhi-na-maane-badtameez-dil-go-off-air-abeer-mehers-show-be-replaced-by-kuch-toh-hai-645826 accessed on 19 March 2016
60. With 'On Air with AIB', Star India Claims to Have Hit the Bull's-Eye Online! Here's How, Advertising Age India, http://www.adageindia.in/digital/with-on-air-with-aib-star-india-claims-to-have-hit-the-bulls-eye-online-heres-how/articleshow/49636618.cms accessed on 19 March 2016

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Some of the leading channels also saw higher investments in content and expanded the number of original content hours aired. While Star Plus had extended their weekday fiction shows to weekends last year, Zee TV followed suit this year.[61] Colors launched two new shows for the weekend prime time slots, 'Naagin' and 'Comedy Nights Live'[62]. Sony too has planned a new launch for the weekend prime time slot with the launch of a new comedy show with Kapil Sharma.[63]

A worrisome trend of the year was the frequent threats of strike from workers and different crafts unions. Broadcasters and producers were forced to undertake drastic measures such as shifting the production of shows outside Mumbai.[64]

Top 5 fiction characters on Hindi GECs

Rank	Character	Show	Channel
1	Ishita	Ye Hai Mohabatein	Star Plus
2	Jethalal	Tarak Mehta Ka Ulta Chashma	Sab TV
3	Ashok	Chakravarti Ashok Samrat	Colors
4	Sandhya	Diya aur baati hum	Star Plus
5	Akshara	Ye Rishta kya kehlata hai	Star Plus

Source: Characters India Love, Jan-Dec 2015, Ormax Media

Top 5 non-fiction characters on Hindi GECs

Rank	Character	Show	Channel
1	Kapil Sharma	Comedy nights with Kapil	Colors
2	Prince Narula	Big Boss	Colors
3	Sanlman Khan	Big Boss	Colors
4	Mandana Karimi	Big Boss	Colors
5	Anoop Soni	Crime Patrol	Sony

Source: Characters India Love, Jan-Dec 2015, Ormax Media

Hindi movies

Prices for C&S rights of Hindi movies declined significantly in 2014, but have stabilised since then.[65] The steep increase in prices of C&S rights in the past was due to the entry of a number of channels that drove the prices up. However, the past couple of years have seen a rationalisation in prices of C&S rights of movies.

Mix of pre-release and post-release deals for C&S rights continued in 2015, with the big banners insisting on signing pre-release deals. In the case of pre-release deals, many of the deals are being linked to the box office performance of films, except for a few A-lister movies. On an average, every year, each of the large broadcasters purchase C&S rights for 2 to 3 A+ category films, 5 to 6 A category films and 8 to 10 B category films, depending on the bundled deals with the production houses.[66] The cost of acquisition currently varies from INR100-200 million for a mid-budget movie to INR450-600 million for a blockbuster.[67]

Viacom18 launched its Hindi movie channel Rishtey Cineplex in February 2016, which should help the broadcaster in better monetising its C&S rights. Though this will add to the competition in viewership in an already crowded market, industry participants expect the launch to lead to only marginal increase in prices of C&S rights. The Hindi movies genre is mostly used for frequency building and in the past, the genre has largely grown on the back of increase in ad inventory through the addition of channels. Hence, it is expected that addition of a Hindi movie channel from one of the large broadcasters will help in getting increased ad budgets from the advertisers on this genre.

Regional entertainment

As per data from BARC India TV measurement system, Regional Entertainment channels comprising of Regional GECs, Regional Movies and Regional Music accounted for 38.99 per cent viewership share over the period Week 41, 2015 to Week 7, 2016 (TG: All 4+, Market: All India, Period: Wk 41, 2015 to Wk 7, 2016). Similar to Hindi Speaking Markets (HSM), GECs are the leading genre in regional markets as well with 29.6 per cent viewership share followed by Regional Movies with 6.6 per cent in 2015. Among the regional markets, Tamil channels occupy the biggest share with 25.7 per cent share in viewership and Telugu market is the second largest with 24.4 per cent viewership share.

61. Zee TV extends programming to 6 days with new show, TelevisionPost, http://www.televisionpost.com/television/zee-tv-extends-weekday-programming-to-6-days-with-new-show/accessed on 21 February 2016
62. Colors TV beefs up weekend programming line- up with two new shows, Exchange4media, http://www.exchange4media.com/tv/colors-tv-beefs-up-weekend-programming-line–up-with-two-new-shows_63157.html accessed on 21 February 2016
63. Will Sony be able to climb the ratings chart with the Kapil Sharma Show, Exchange4media, http://www.exchange4media.com/tv/will-sony-be-able-to-climb-the-ratings-chart-with-%E2%80%98the-kapil-sharma-show%E2%80%99_63555.html accessed on 10 March 2016
64. A mixed bag for GECs, TelevisionPost, http://www.televisionpost.com/special-reports/2015-a-mixed-bag-for-hindi-gecs/accessed on 10 March 2016
65. Satellite rights rates for Hindi films drop 40%, The Mint, 15 January 2016
66. Based on industry discussions
67. Game of content, Financial Express, 22 September 2015

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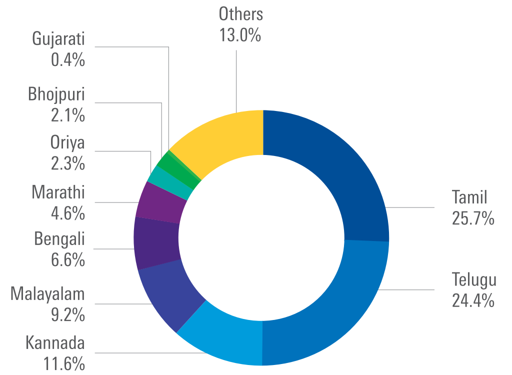
Viewership share of regional channels



Source: BARC India, TG: All 4+, Market: All India, Period: Wk 41, 2015 to Wk 7, 2016; Copyright © 2016 Broadcast Audience Research Council India. All rights reserved. Reproduction of any matter published in this report, in part or whole, in any language or format, or derivative work, without the express written permission of BARC India is strictly prohibited and will be liable for legal action.

> Broadcasters in the regional markets are looking at improving the quality of content on their channels. The entry of big production houses in the South Indian markets as well as the declining popularity of dubbed programmes has led to a shift in programming from dubbed content to remakes of Hindi content both in fiction and non-fiction.

K Madhavan
Managing Director
Asianet Communications Limited (Star-Asianet)

Regional markets are expected to grow largely in-line with the national ad markets, contrary to what was seen over the past few years. Regional markets are yet to see the benefits of ad spends from E-commerce players and this may result in some upside in advertising revenue growth for regional TV channels.

Due to the increasing competition intensity, regional TV channels now are looking at investing in original content in addition to dubbed content which has increased their content costs. Original content productions costs between INR75,000 to INR150,000 per episode compared to dubbed content which costs only around INR25,000 per episode.[68]

National broadcasters continue to aggressively expand and consolidate their positions in regional markets owing to the growth potential. In 2015, Viacom18 rebranded their regional GECs acquired from ETV in five languages under the Colors umbrella in order to better monetise from the entire bouquet of channels across platforms.[69] In the future, if competition continues to be high, smaller players may not be able to compete with the big pockets and higher reach of larger players leading to further consolidation in the market.[70]

> Regional is a misnomer for other 'language' markets and the sheer scale and reach of these non-Hindi GECs and language markets is much greater than many other 'national' genres. And even within HSM, markets such as Marathi and Bengali are redefining content benchmarks and even beating the Hindi GECs. Advertisers are thus increasing their spends on these local language GECs.

Anuj Poddar
Executive Vice President
Viacom18 Media Private Limited

68. Regional Invasion, Business Today, 26 April 2015
69. Viacom18 completes ETV Kannada re-branding under Colors umbrella, IndianTelevision http://www.indiantelevision.com/television/tv-channels/regional/viacom18-completes-etv-kannada-re-branding-under-colors-umbrella-150422 accessed on 22 February 2016
70. Standalone regional channels face heat from national networks' acquire-expand strategy, Exchange4media, http://www.exchange4media.com/tv/standalone-regional-channels-face-heat-from-national-networks%E2%80%99-acquire-expand-strategy_60398.html accessed on 21 February 2016

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News

Ad revenue growth for News channels was muted in 2015, coming on the back of an election year. As per industry discussions, the TV news industry grew at mid-single digit rates of 5-8 per cent. Much of the growth came from increased spending of non-traditional players such as e-commerce and auto while spending by traditional players such as FMCG and financial services was lower than expected. However, according to industry discussions, Patanjali, a consumer products brand led by Baba Ramdev emerged as one of the biggest spenders with ad spends mainly in the news genre.

Over the past two years, many of the top news broadcasters have reduced their ad inventory by showcasing about 18-20 minutes of ads on Hindi news channels. This reduction in ad inventory has however, not been matched by an equal increase in ad rates which grew in the low single digits. Some of the Hindi and regional news broadcasters have tried to balance this by targeting smaller and niche brands, which do not have access to the negotiating power of the larger media buying agencies. While currently these smaller brands contribute to only 30 per cent of the news advertising pie, over the next few years this is could increase to as much as 60-70 per cent for the Hindi and regional news genre.[71]

The year 2015 was not a good year even from the perspective of costs, as the benefits of digitisation have not fully set in and news channels continued to see an increase in employee and talent costs. Carriage fee which was supposed to continuously decline with digitisation, in fact increased for new deals. News channels still do not see much potential in subscription-based revenues.

New launches in the news genre continue. Zee News is launching an English news channel, adding to its bouquet of 10 Hindi and regional news channels, and will lead to increased competition in the already highly competitive English News space.[72] While consolidation in the news space makes sense due to lack of financial viability of so many news channels, it is unlikely to happen over the short-term due low cost of entry and exit as well as imbalance in valuation expectations.

With increasing penetration of internet and smartphones, consumption of news on digital platforms continues to gain traction, including live streaming of TV news channels. Going forward, industry participants expect that digital will act as a complementary source of revenues for TV news broadcasters. News broadcasters are also trying to leverage the digital opportunity by increasing viewer engagement on social media.

"The News genre has benefitted from the introduction of BARC ratings. The news industry has been making investments in TAM dark areas even before BARC. The hard work of these investments will now finally pay off as the channels can start monetising from these regions."

Ashok Venkatramani

Chief Executive Officer

ABP News Network Private Limited

Kids

The Kids genre, which has long been under-indexed in terms of ad revenues, is seeing healthy advertising revenue growth driven mainly by non-traditional categories which are not normally targeted at kids, such as e-commerce and autos, advertising on Kids genre. Across various channels, on an average the non-kids brands contribute to 45 to 65 per cent of the inventory, with 90 per cent of households owning only a single TV a lot of default viewing occurs. Given this scenario, broadcasters decided that they needed to tap the advertising potential of non-kid products as well, especially those focusing on mothers.[73]

"Kids today are making their own choices regarding what to see and when to see. During a fixed part of the day, kids have uncensored viewing of the TV which they consider as their 'Me time'. Kids have also started taking great pride in their brand associations with content and products. This has created a whole new primetime for the Kids genre."

Vijay Subramaniam

Vice President and Head – Content and Communications, Media Networks

Disney India

71. Based on industry discussions
72. ZMCL targets April - June launch of English news channel, IndianTelevision, http://www.indiantelevision.com/television/tv-channels/news-broadcasting/zmcl-targets-april-june-launch-of-english-news-channel-160226 accessed on 10 March 2016
73. Non-traditional advertisers flock to Turner's kids channels, IndianTelevision, http://www.indiantelevision.com/television/tv-channels/kids/non-traditional-advertisers-flock-to-turner-s-kids-channels-160124 accessed on 22 February 2016

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With an increase in locally produced shows, broadcasters are now looking at opportunities beyond conventional free commercial time (FCT) deals to brand association and integration to increase their revenue potential. Nickelodeon entered into various in-show product placement deals with GSK's Horlicks while Pogo incorporated brands such as Centre Fruit and Jungle Magic in its animated film 'Sholay Adventures'. These deals are still at a nascent stage, contributing approximately 10 per cent of revenues,[74] but are expected to drive growth going forward.[75]

The third party acquisition model still remains a very common model of acquiring content. However, co-production of content with an animation studio as well as wholly-owned models also exist. While the proportion of local and international content varies from channel to channel, there is an increasing shift towards local content and is expected to touch 50: 50 over the next five years. Better economies of scale, consistency and quality has driven most of the business to international markets. However, Indian firms that focus on cost-effectiveness and quality are set to emerge in the future.

Broadcasters looked at various experimentations and innovations to increase the genre's viewership and similar to the past few years local content continues to work with the audience. Launch of a home-grown animated series based on a popular Hindi television character called 'Chhoti Anandi' for kids as well as tying up with popular Hindi movies to produce kid-focussed content were some of the key developments.[75]

Another upcoming opportunity is the potential in regional Kids channels. As per industry experts, kids do not really require hyper-local associations with characters with them but instead connect better with content that is available in local languages. Sun TV Network currently leads this space with one channel in each of the four South Indian languages – Tamil, Telugu, Malayalam and Kannada. Many leading channels in the genre such as Pogo, Cartoon Network, Disney and Hungama provide their Kids channels with Tamil and Telugu audio feeds.

However, this genre is among the most digitally adapted segments with a plethora of kid focused movies and shows available on platforms such as YouTube and Netflix. In order to overcome this threat Kids channels are integrating digital strategies with TV and engaging kids through multiple media. Turner is experimenting with providing app based services such as CN Watch and Play and CN Anything to enable kids to play games and watch videos at the same time while shifting Pogo to a more responsive website that can be accessed through multiple devices.[75]

English entertainment

The English entertainment genre, consisting of English movie channels and English GECs, has been seeing a positive growth in ad revenues over the past years, growing by 15 to 20 per cent annually.[76] Among the two, English GECs grew faster than English movies channels. However, the genre continues to be burdened with rising content costs due to the increase in production cost in international markets witnessing almost a threefold rise in the past few years. [77]However, large broadcasters continue to invest in their English bouquet in anticipation of it driving subscription revenue growth, owing to the premium positioning of the channels.

Viacom18 launched a new channel, Colors Infinity, in July 2015 to showcase new international shows to the mass.[78] This took the number of channels fighting for a small revenue share in the English entertainment genre to 20.[79] On the other hand, Star shut down Fox Crime and Turner shut down its premium subscription channel HBO Defined[81] (HBO Hits will be re-branded to HBO HD), as they did not gain enough traction.

Broadcasters are now also looking at localisation of content to bring down costs as well as provide differentiated content. These range from shows such as 'The Stage' on Colors Infinity, the first-of-its-kind Indian English music reality shows[82] to 'On Air with AIB' that put a humorous spin on societal issues.[83] Another trend that has been very successful is that of channels showing back-to-back episodes of shows in order to take advantage of binge-watching, leading to better engagement with the audience.

Given that piracy is most rampant for English entertainment content, English channels are trying to bridge the time gap between U.S. and India show timings, with Star World Premiere taking the lead on this.[84]

74. Brand integration contributes 10% to kids genre revenues, Exchange4media, http://www.exchange4media.com/tv/brand-integration-contributes-10-to-kids-genre-revenues;-expected-togrow-further_60259.html accessed on 22 February 2016
75. Based on industry discussions
76. English channels see healthy ad revenue growth in 2015, TelevisionPost, http://www.televisionpost.com/special-reports/english-channels-see-healthy-ad-revenue-growth-in-2015/ accessed on 22 February 2016
77. Piracy notwithstanding, English Entertainment genre charts growth story, IndianTelevision, http://www.indiantelevision.com/television/tv-channels/english-entertainment/piracy-notwithstanding-english-entertainment-genre-charts-growth-story-150725 accessed on 22 February 2016
78. Five shows to watch out for on Colors Infinity, India Today, 31 July 2015
79. Demand for shows, movies in english drives entertainment, movie channels, Economic Times, 11 July 2015
80. Star India to pull curtains on Fox Crime, TelevisionPost, http://www.televisionpost.com/television/star-india-to-pull-curtains-on-fox-crime/accessed on 1 January 2016
81. HBO Hits to be rebranded HBO HD, The Hindu Business Line, 20 November 2015
82. With 'On Air with AIB', Star India Claims to Have Hit the Bull's-Eye Online! Here's How, Advertising Age India, http://www.adageindia.in/digital/with-on-air-with-aib-star-india-claims-to-have-hit-the-bulls-eye-online-heres-how/articleshow/49636618.cms accessed on 19 March 2016
83. Colors Infinity to air new show 'The Stage', The Indian Express, 14 September 2015
84. Star World Premiere HD to simulcast 23 shows in India with U.S., IndianTelevision, http://www.indiantelevision.com/television/tv-channels/english-entertainment/star-world-premiere-hd-to-simulcast-23-shows-in-india-with-us-150922 accessed on 23 February 2016

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> English broadcasting needs to be re-evaluated by the industry. 4 years of Digitisation has increased the penetration of this category tremendously. At 80 million viewers nationally, English broadcasting is not niche anymore. It is a reach medium. And we are talking about reaching the most influential segment of Indian society. In fact, it is actually the only truly pan-Indian homogenous national audience that we have. As subscribers and audiences this group is a lot more valuable than what it is being paid for.
>
> M K Anand
> **Chief Executive Officer & Managing Director**
> Times Network Limited

Sports

2015 was a good year for the Sports genre in terms of ad revenues driven the ICC Cricket World Cup and IPL earning INR6 billion[85] and INR8.5 billion[86] respectively. 2016 is also expected to continue on a strong note with both IPL and ICC T20 world cup expected to boost ad revenues for their respective channels.

The Cricket World Cup in 2015 was one of the highlights for the Sports genre in 2015. Star Sports, the official broadcaster of ICC World Cup, introduced two new HD sports channels—Star Sports HD3 and HD4. In absolute numbers, total viewers for the world cup rose 14 per cent to 205 million in 2015 from 180 million in 2011. But considering that the total television viewing universe in India has become bigger in the past four years, the World Cup was seen by around 65 per cent compared with 84 per cent in 2011.[87] Star India on its part tried a few innovative ideas to boost its ad revenues from the event. It opened up more opportunities for smaller advertisers this year by selling spots on regional feeds — Tamil, Malayalam, Kannada and Bengali, apart from Hindi and English. Hindi and regional feeds contributed 77 per cent of the overall viewership of the ICC Cricket World Cup in 2015.[88] Star India also sold ad spots for packaging match highlights and India matches as stand-alone properties.[89]

Popularity of non-cricket sports and sports leagues continues but monetisation is still not significant. The leagues need to put in place better infrastructure, consistency of formats and plan for a better and longer engagement with fans in order to make money. Regional cricket leagues such as the KPL are also an upcoming trend to reach out to a newer audience and has the potential to emerge as a popular advertising medium for regional brands.[90]

Competition in the sports genre is expected to intensify with Sony Pictures Networks India (SPN) launching two new channels, SONY ESPN (re-branded from Sony Kix) and SONY ESPN HD, in January 2016 in collaboration with ESPN.[91] ESPN now offers a bouquet of four sports channels – Sony ESPN, Sony ESPN HD, Sony SIX and Sony Six HD, widening its footprint in sports entertainment.[92]

Going forward as well, the Sports genre is expected to add significantly to TV advertising revenues in 2015 driven by revenues from the ICC T20 Cricket World Cup and IPL and the growing popularity of new sporting properties. Post channel disaggregation, the importance of the sports genre as a part of the channel bouquet has grown since sports content can drive subscription revenues on account of its exclusive nature. As a result, broadcasters are expected to increase their focus and investment on sports, in spite of advertising revenues not being enough to justify the content costs.

Regulations impacting the TV sector

TDSAT judgment on RIO rates and TRAI's consultation process on pricing models

In the NSTPL case relating to disputes with broadcasters, The TDSAT, had on 7 December, 2015 ordered that the RIO has the starting point for tariff negotiations between broadcasters and distribution platforms, starting 1 April, 2016.[93] TDSAT had also ruled that i) RIO must reflect the rates of channels and bouquets along with any bulk discount schemes, ii) the a la carte rate and bouquet rates must be in accordance with the ratio mandated by TRAI, iii) broadcasters have to issue fresh RIOs in compliance with the interconnection regulations within one month from the operationalisation of the order.[94]

Currently, even if broadcasters have published RIO rates, they end up giving 80 to 90 per cent discounts on their bouquet and this tends to be on based on mutual negotiations. As per the TDSAT ruling, all rates and discounts have to be made public, removing any kind of discriminatory pricing. Star India, Zee Entertainment and the IBF had moved the Supreme Court against the TDSAT ruling, but the court dismissed the petition.[95] The TDSAT judgment will come into force from 1 April, 2016. However, if TRAI issues any new regulations before that date, those regulations will be binding on the broadcasters.

85. With World Cup viewership worse than 2011 edition, Star misses Rs 850-crore ad target, Economic Times, 6 April 2015
86. Based on industry discussions
87. 63.5 Crore Viewership: World Cup Sets New Records on Indian TV, The Quint, http://www.thequint.com/sports/2015/04/02/with-635-million-viewers-the-world-cup-broke-all-record-in-india accessed on 19 March 2016
88. ICC World Cup is biggest ever on Indian television, The Hindu, 2 April 2015
89. Face off over Star Sports revenue: Sanjay Gupta vs Harsha Joshi, The Financial Express, 10 March 2016
90. Has KPL opened a new door for cricket crazy broadcasters?, IndianTelevision, http://www.indiantelevision.com/television/tv-channels/sports/has-kpl-opened-a-new-door-for-cricket-crazy-broadcasters-151214 accessed on 26 February 2016
91. ESPN re-enters India in collaboration with Sony Pictures Network, Business Standard, 11 January 2016
92. Sony partners ESPN to launch 2 sports channels, Moneycontrol, http://www.moneycontrol.com/news/business/sony-partners-espn-to-launch-2-sports-channels_4954421.html accessed on 19 March 2016
93. TDSAT's RIO angle in NSTPL case makes broadcasters approach Supreme Court http://www.televisionpost.com/television/tdsats-rio-angle-in-nstpl-case-makes-broadcasters-approach-supreme-court/accessed on 18 February 2016
94. RIO to form starting point for negotiations between broadcasters and platforms: TDSAT, Television Post, http://www.televisionpost.com/trai-tdsat/rio-to-form-the-starting-point-for-negotiations-between-broadcasters-and-platforms-tdsat/accessed on 19 March 2016
95. SC dismisses broadcasters' plea against TDSAT order in NSTPL case relating to RIO, TelevisionPost, http://www.televisionpost.com/television/sc-dismisses-broadcasters-plea-against-tdsat-order-in-nstpl-case-relating-to-rio/accessed on 26 February 2016

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Meanwhile, TRAI has started a comprehensive consultation process on the tariff issues related to the TV industry, in which it has proposed different models for the pricing of TV channels and sought comments from different stakeholders in the industry. Apart from the pricing models at the wholesale and retail level, the consultation paper is expected to examine a range of tariff-related matters, from the issue of carriage fees which broadcasters have to pay to distribution platforms to concerns related to providing consumers with wider viewing choice at a reasonable price. The objective of the consultation paper is to simplify and rationalise the tariff structure and reduce the incidence of disputes amongst stakeholders across the value chain, while ensuring that subscribers are protected against irrational tariff structures and price hikes.[96] Broadcasters are planning to approach TDSAT again requesting it to delay the implementation of the RIO order until TRAI completes the ongoing consultation on the review of tariff systems.[97]

Given that various stakeholders in the TV distribution value chain have been unable to resolve their mutual issues to ensure the right pricing models are implemented, we believe that the regulator stepping in to guide the industry towards the right model is a welcome move. This regulation if implemented correctly has the potential to radically change the TV industry distribution economics.

TRAI regulation on interconnection agreements between broadcasters and MSOs

In light of the ongoing disputes between the MSOs and broadcasters over revenue collection and sharing, in Jan 2016 TRAI amended its regulation regarding inter-connect agreements for the retransmission of pay channels. TRAI has now made it mandatory for broadcaster to enter into written interconnection agreements with MSOs for retransmission of pay channels including those pay channels for which no subscription fee is to be paid by the MSOs to the broadcaster.[98] This amendment rules out the scope of mutual negotiation between broadcasters and MSOs after the expiry of the agreement. TRAI has also prescribed a sufficient time window (at least 60 days prior to contract expiry) for giving notice for renewal. In the event of the non-execution of a written agreement within 15 days of expiry, the MSO would be obliged to inform the customer the expiry date of the existing agreement. This regulation is expected to help streamline the process of entering into interconnection agreements between MSOs and broadcasters, bringing much needed structure to the industry, which is largely unstructured otherwise.

Increase in FDI limit in TV distribution and news channels

The year 2015 ended on a positive note with respect to foreign investment norms, with the government increasing the FDI limits in TV broadcasting and distribution.

In Digital cable, DTH services and HITS, 100 per cent ownership (49 per cent via direct route and 100 per cent via FIPB approval) was permitted for foreign investors, an increase from 74 per cent previously.[99] While the increase in TV distribution sector is a welcome move, according to the industry participants we interviewed, this may not immediately lead to an increase in foreign investments in TV distribution. In the past, foreign involvement in distribution has elicited a mixed response. DTH players have managed to receive significant foreign investment due to the higher transparency in operations. However, in the Cable TV distribution business, the earlier FDI limits also remain under-utilised largely due to structural issues resulting in low foreign investor interest. Global cable industry majors such as Comcast and Liberty Global have stayed away from making investments in the Indian cable industry largely due to lack of clarity on ownership of last mile infrastructure and lack of addressability.[99] However, with digitisation in its final phases, industry participants expect these challenges to be overcome, making the Digital cable TV business a valuable proposition to foreign investors in the future.

In broadcasting, the FDI limit was increased from 26 per cent to 49 per cent in news channels via the FIPB approval route. While the increase in the news broadcasting sector is a welcome move, the sector may be unattractive to foreign investors currently, given that minority holding could interfere with decision enforcement. Foreign investors are likely to equate such stake-holding to an illiquid investment.[100] Additionally, bleak growth prospects, poor profitability and corporate governance issues are further bottlenecks.

96. Consultation Paper on Tariff Issues related to TV Services, TRAI, 29 Jan 2016
97. Television broadcasters mull approaching TDSAT to delay content order, The Economic Times, March 10, 2016
98. The Telecommunication (Broadcasting And Cable Services) Interconnection (Digital Addressable Cable Television Systems) (Sixth Amendment) Regulations, 2016
99. Will 100% FDI lure Comcast and Liberty to enter India?, Television Post, http://www.televisionpost.com/special-reports/will-100-fdi-lure-comcast-and-liberty-to-enter-india/accessed on 10 March 2016
100. FDI limit raised for TV channels, The Mint, 14 March 2016

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Sector	Earlier Limit	New limit
DTH, cable networks (MSOs operating at national and district level and undertaking up-gradation of networks towards digitisation and addressability, mobile TV, HITS)	74% (Up to 49% - direct route, beyond 49% - FIPB approval)	100% (Up to 49% - direct route, beyond 49% - FIPB approval)
Cable networks (Other MSOs not undertaking up-gradation of networks towards digitisation and addressability and LCOs)	49% (direct route)	49% (direct route)
Up-linking of 'News and current affairs' TV channels	26% (FIPB route)	49% on FIPB approval
Up-linking of 'Non news and current affairs' TV channels	100% direct route	No change
Down-linking of TV channels	100% direct route	No change

Source: #shootingforthestars, KPMG-FICCI report 2015, FDI limit raised for TV channels, The Mint, 14 March 2016

The 12-minute ad cap regulation

In 2013, TRAI had prohibited broadcasters from airing over 12 minutes of advertisements per hour, in accordance with similar norms for pay channels imposed internationally. The legal proceedings on implementation of the 12-minute ad cap continue, with the case currently underway in the Delhi High Court against TRAI by multiple parties including News Broadcasters Association (NBA) and leading broadcasters like B4U, 9X Media, TV Vision, Sun TV Network, E24 and Kalaignar TV. However, the Information and Broadcasting (I&B) minister's statement in Jan 2015 that the government is not keen on implementing the ad cap came as a welcome move for broadcasters.[101]

Broadcasters are required to keep a record of all the advertisements played on their channels, as per a request from TRAI. As per a recent TRAI report released in March 2016, 121 non-news pay channels and 28 news channels violated the 12-min ad cap during peak hours (7 to 10 pm) between 28 September and 27 December 2015. However, TRAI cannot take any coercive action against the rule breakers until the resolution of the case, as per the ruling of the Delhi High Court.[102]

Conclusion

The operating environment of the TV industry continued to evolve in 2015, with several changes throughout the year. Though the deadline for DAS implementation in Phase III was not met, there has been relative success in STB seeding in phase III areas. However, a transformation in the operating model of the cable ecosystem and improvement in the economics of TV distribution continued to evade the industry in 2015.

One of the most significant developments in the year was the establishment of a new viewership measurement system by BARC India. Although the move enabled the measurement of rural viewership for the first time,[103] it did not impact ad budget allocations or the content strategy of broadcasters immediately. Ad revenue growth also outperformed as compared to last year, in spite of the high base effect of an election year in 2014. The ad revenue growth was propped up by the e-commerce sector advertising growth and the sporting events including IPL 2015 and the ICC Cricket World Cup.

In 2016, the key things to watch for will be the continuation of e-commerce ad spend growth on TV and BARC India TV ratings leading to an impact on ad spends across genres and ad rates among channels within genres. The industry is also likely to be keenly awaiting the outcome of TRAI's consultation paper on content pricing models, since it is likely to have a significant impact on subscription revenue growth and more equitable sharing of revenues within the value chain.

101. Arun Jaitley opposes cap on ads in TV, print media, The Times of India, 19 January 2015
102. TRAI says 149 paid channels violated ad cap rule, Exchange4media, http://www.exchange4media.com/tv/trai-says-149-paid-channels-violated-ad-cap-rule_63597.html accessed on 10 March 2016
103. BARC rural ratings: What some industry professionals had to say, IndianTelevision, http://www.indiantelevision.com/television/tv-channels/viewership/barc-rural-ratings-what-some-industry-professionals-had-to-say-151026 accessed 19 March 2016

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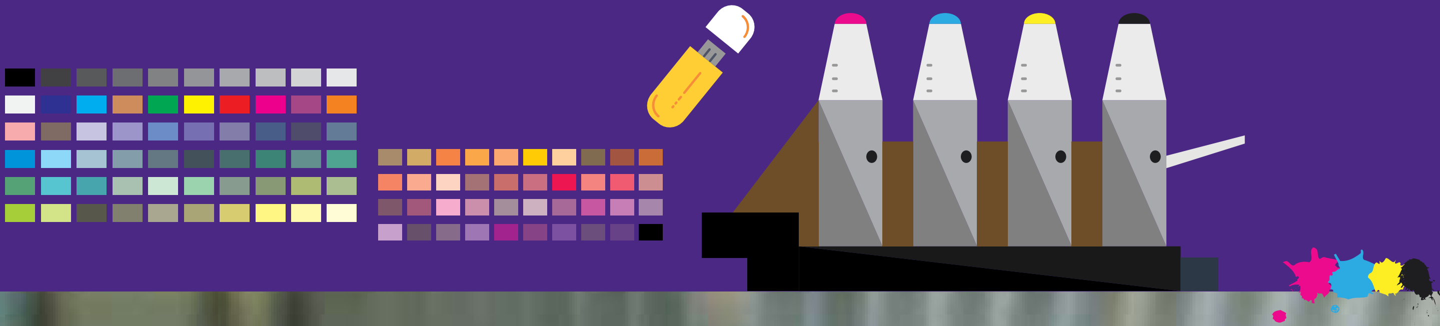

Print

Stays in circulation

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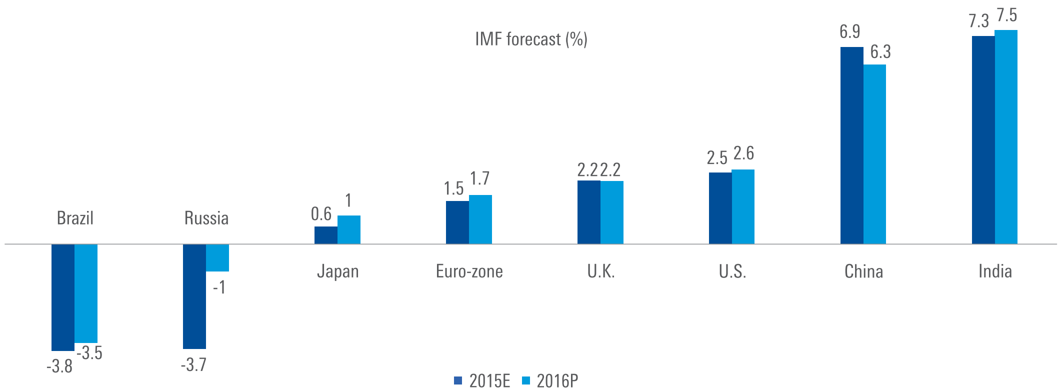
Introduction

The print industry experienced a dynamic operating environment in 2015. While industry players witnessed significant growth during the first half of the year, the growth in the second half remained largely muted. Industry discussions indicate that the trend was much more pronounced in case of vernacular dailies, primarily due to a reduction in spends by a few sectors. The real estate sector faced a slowdown and with 2015 being a non-election year, government spends too fell considerably. Telecom and e-commerce companies also preferred advertising on television, and in English newspapers over Hindi and other regional newspapers.

Having said that, the traditional newspaper business continues to grow at a steady rate of around 8 per cent on the back of sustained advertiser interest and existing reader base, while the Indian print industry makes inroads into new technological opportunities to enhance its content quality, service delivery and reader engagement. Recognising the potential of digital media in India, leading print players have redirected a part of their effort and investment towards making services such as news delivery possible via mobile applications and web portals. The focus is not just limited to digital media, and equal efforts are being made to increase interactivity on the traditional medium of disseminating news. This may not stand true for smaller players, which are primarily emphasising on strengthening their presence in the existing markets and consolidating their existing operations.

One of the reasons for the prominence of print media in the face of technology disruptions is the robust growth of the Indian economy and the overall positive macro environment. Following the current government coming into power in 2014, India has kept a strong eye on its Gross Domestic Product (GDP) growth, being a USD2.2 trillion economy[1] at current prices. During FY15, India's domestic consumption and investment contributed 57 per cent and 33.1 per cent, respectively, to the GDP[2]. This played a significant role in boosting investors' confidence and keeping India's economic sentiments charged up. According to the International Monetary Fund (IMF) forecast, India's GDP grew at a rate of 7.3 per cent in 2015. It is expected to surpass 7.5 per cent in 2016[3], making India the fastest growing large economy in the world.

GDP growth (in per cent)



Source: 'World Economic Output Update', IMF, January 2016.

01. 'India's economy is on the rise', Deutsche Welle (DW), http://www.dw.com/en/indias-economy-is-on-the-rise/a-18999088, accessed on 9 February 2016.
02. 'India soars high', KPMG in India, February 2016.
03. 'World Economic Output Update', IMF, January 2016.

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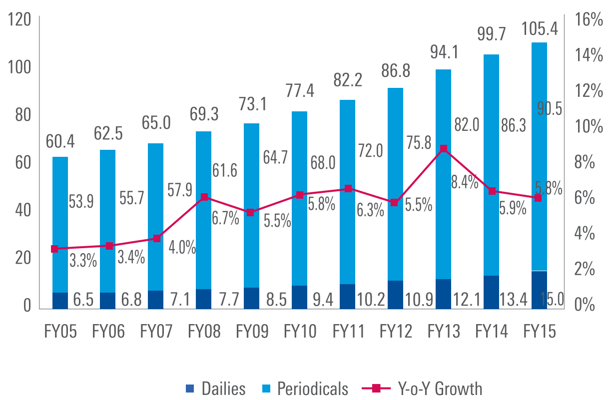
The growth of the country is visible through myriad infrastructure projects, increasing consumer consumption, the rising scope of education, better health and hygiene, increased level of employment, etc., which result in increased spend on advertising from both public and private sectors. The print media will continue to benefit from this positive macro environment – buffered from the threat of digital media for the moment.

It is particularly interesting to note that while the increasing spread of news through various media has resulted in the decreasing share of media spends on print industry, the growing number of registered publications belies the logical assessment that print media is heading for a slowdown. Even today, print media remains highly fragmented and an increase in the number of registered players who are still attracted to this conventional medium continues. As of 31 March 2015, the total number of registered publications was 105,443, comprising 14,984 newspapers (dailies, bi/tri weekly) and 90,459 periodicals.[4]

Number of registered newspapers and periodicals (in '000)



Source: The Registrar of Newspaper in India, Annual Report FY15 ended on 31 March 2015.

The Indian print industry continues to witness the introduction of over 5,000 registered newspapers/periodicals each year. The total number of new registered publications showcased an increase of 3.1 per cent, growing from 5,642 in FY14 to 5,817 in FY15. The number of new registered publications in Gujarati and Tamil witnessed the highest percentage change between FY14 and FY15, clocking 23.6 per cent and 23.4 per cent growth, respectively. Conversely, new registered Telugu and Urdu publications declined 11.6 per cent and 10.3 per cent, respectively, for the corresponding period.[5]

New publications registered

Language	Number of new publications registered in FY14	Number of new publications registered in FY15	Change
Hindi	2,295	2,349	▲
Marathi	584	666	▲
English	509	533	▲
Gujarati	352	435	▲
Kannada	325	302	▼
Telugu	327	289	▼
Urdu	301	270	▼
Tamil	171	211	▲
Others	778	762	▼
Total	**5,642**	**5,817**	▲

Source: The Registrar of Newspaper in India, Annual Report FY15 ended on 31 March 2015.

Of the total registered print publications in India, over 40 per cent are published in Hindi and approximately 47 per cent address the vernacular readership (including bilingual and multilingual publications).

Newspapers continue to account for a major proportion of the overall revenue generated by the print media industry in India. While niche magazines registered an incremental growth, magazines of general interest witnessed a dip in circulation. Several new content and delivery formats have emerged in the industry, and both newspapers and magazines are leveraging new media channels for additional distribution avenues to sustain a long-term growth. Even though the circulation and advertising market revenues have experienced a drop in their growth rate, the scope for print media is still formidable in the present-day context.

04. The Registrar of Newspaper in India, Annual Report FY15 ended on 31 March 2015.
05. KPMG in India's analysis, 2016.

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Performance of the Indian print industry

Print media market

INR billion	2011	2012	2013	2014	2015	Growth in 2015	2016P	2017P	2018P	2019P	2020P	CAGR (2015-2020P)
Total advertising	139	150	163	176	189	7.3%	204	222	242	263	286	8.6%
Total circulation	69	75	81	87	94	8.2%	101	108	114	121	127	6.1%
Total print market	209	224	243	263	283	7.6%	305	330	356	384	412	7.8%
Newspaper revenue	197	211	230	249	269	8.0%	291	316	343	371	399	8.2%
Magazine revenue	12	13	14	14	14	1.6%	14	13	13	13	13	-1.8%
Total print market	209	224	243	263	283	7.6%	305	330	356	384	412	7.8%

Source: KPMG in India's analysis, 2016; Industry discussions conducted by KPMG in India.

The Indian print industry grew at a rate of 7.6 per cent from INR263 billion in 2014 to INR283 billion in 2015. Having grown by 7.3 per cent in 2015, the print advertisement revenue reached INR189 billion. The advertisement revenues have grown at a CAGR of 8.5 per cent between 2010 and 2015, whereas the circulation revenues have displayed a CAGR of 7.1 per cent during the corresponding period. Advertising continued to be the backbone of the print industry, accounting for more than 66 per cent of the total revenues, whereas circulation revenue made up for the rest. However, a slight decline in y-o-y ad growth was witnessed compared to 8 per cent in 2014, primarily due to a reduction in spends by a few sectors.[6]

With the readership being largely limited to the country's metro and tier-I cities, the trend of English language newspapers dominating the advertising budgets of companies is slowly waning. Advertisers have started increasingly been factoring in the Hindi and vernacular print media segment, as they directly reach customers in prospering tier-II and tier-III cities/regions of the country.

The increasing size of the middle class that speaks different languages has led companies eyeing for smaller towns as prospective growth markets to increase their focus on localised messaging in regional languages. The print industry in India is relatively less dependent on circulation revenue, with the trend being more pronounced among the leading players. The advertising to circulation revenue ratio, which was considered a challenging factor by many, coupled with meagre cover prices compared to western counterparts, has in fact favoured the industry in sustaining growth as against the growing popularity of digital media in the country.[7]

06. KPMG in India's analysis, 2016.
07. Industry discussions conducted by KPMG in India.

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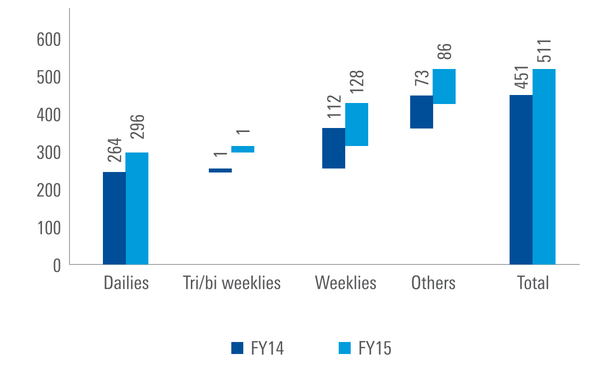
Circulation of registered newspaper publications (in million)



Source: The Registrar of Newspaper in India, Annual Report FY15 ended on 31 March 2015.

Newspaper circulation is likely to continue its growth trajectory and this expected growth could largely come from tier-II and tier-III cities, which are also the major consumption markets for sectors such as FMCG, retail, e-commerce resulting in a commensurate growth in advertising.

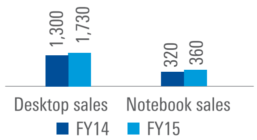
Tier II and III cities - Focus consumption centres

Growing online sales

- Tier II and tier III cities and towns made up 65% of Amazon's orders during the 'The Great Indian Festive Sale' in 2015[2]
- 70% of Snapdeal's sales come from tier II and tier III cities[1]

Going digital

Desktop and notebook sales in rural India (in '000)[4]



- 35 million rural smartphone users in India in FY15[3]

Expanding reach of FMCG companies

- Godrej appliances plan to open around 300 stores in tier II & III cities in the next three years[6]
- Britannia plans to double its distribution to rural areas in the next three years, increasing it from the current base of 7,000 distributors[5]

Automobile giants going rural

- Hyundai increased its number of rural outlets to 333 in 2015, from 320 in 2014[8]
- Tata, one the largest automobile companies in India, plans to treble its dealer outlet count over the next three years, focussing majorly on rural areas[7]

The industry witnessed an 8.2 per cent rise in circulation revenue in 2015, on the back of increased cover prices and rise in circulation figures[8]. For instance, while Rajasthan Patrika increased its cover prices by more than 25 per cent in 2015[9], DB Corp increased its cover price by 13 per cent between January 2015 and March 2015[10]. In 2015, DB Corp witnessed an increase of 16.5 per cent in its circulation revenue, of which about 12 per cent contribution came from increase in cover prices and approximately 4 per cent occurred owing to introduction of new editions.[11]

Even though circulation has showcased a steady growth, there lies a significant scope for expansion, since a noteworthy gap between 'can read' and 'do read' categories still exists.

Source: (1) 'Snapdeal now shifts focus to rural areas', The Financial Express, http://www.financialexpress.com/article/industry/companies/snapdeal-now-shifts-focus-to-rural-areas/101145/, accessed on 15 February 2016;

(2) 'Rural India embraces Flipkart, Amazon, Snapdeal this festive season', DNA India, http://www.dnaindia.com/money/report-rural-india-embraces-flipkart-amazon-snapdeal-this-festive-season-2137354, accessed on 15 February 2016;

(3) 'How smartphones are penetrating deeper in rural India', The Rural Marketing Journal, http://www.rmai.in/ejournal/national-international-trend/5-how-smartphones-are-penetrating-deeper-in-rural-india, accessed on 16 February 2016;

(4) 'Desktop, Notebook see more demand in rural areas', The Hindu, http://www.thehindu.com/business/Industry/desktop-notebook-see-more-demand-in-rural-areas/article7434548.ece2, accessed on 11 February 2016;

(5) 'Britannia to ramp up rural distribution, manufacturing', The Business Standard, http://www.business-standard.com/article/companies/britannia-to-ramp-up-rural-distribution-manufacturing-115080401434_1.htm, accessed on 11 February 2016;

(6) 'Godrej Appliances focus on tier II & III cities, 300 stores in the pipeline', Franchise India, http://news.franchiseindia.com/Godrej-Appliances-focus-on-tier-II-III-cities-300-stores-in-the-pipeline-7472, accessed on 11 February 2016

(7) New models, dealer focus rev up Tata Motors, Times of India, http://timesofindia.indiatimes.com/business/india-business/New-models-dealer-focus-rev-up-Tata-Motors/articleshow/48950511.cms, accessed on 11 February 2016;

(8) Rural stress thwarts automobile industry's growth, Business Standard, http://www.business-standard.com/article/companies/rural-stress-thwarts-automobile-industry-s-growth-115111701075_1.html, accessed on 11 February 2016;

08. KPMG in India's analysis, 2016; Industry discussions conducted by KPMG in India.
09. Industry discussions conducted by KPMG in India.
10. 'DB Corp: Making headlines', The Hindu Business Line, http://www.thehindubusinessline.com/portfolio/firm-calls/db-corp-making-headlines/article7239269.ece, accessed on 4 February 2016.
11. Industry discussions conducted by KPMG in India.

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Newspaper and magazines

Amid the mounting trend of a multitude of newspapers around the world downsizing or transitioning towards digital media, the newspaper space in India is still holding strong. The thriving newspaper market, in parts, is being driven by the increasing readership in smaller towns, where we have seen a noteworthy growth in the young and aspiring population. The growing impetus towards education has led to a stark increase in the national literacy rates over the past several years, propelling newspaper readership in the country.

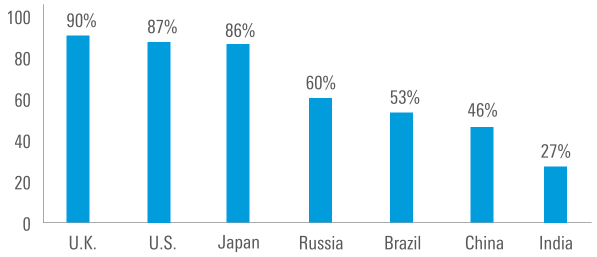
The readership of print media is likely to increase further as the Indian government is targeting to achieve the universal literacy goal by 2060.[12] Newspapers continued to dominate the print industry in 2015, contributing 95 per cent of total print revenue. Diametrically opposite, the magazine space is trying to overcome the challenges posed by digital and dropping demand. Over the past few years, many publication houses have discontinued the physical versions of their products. In 2015, India Today shut down print editions of its magazine in three south Indian languages — Telugu, Tamil and Malayalam[13]. Also, new players in this space target lesser revenue by decreasing the revenue margin per magazine issue vis-à-vis existing competition, which imbalances the business proposition of the mature player.

Revenue contribution from newspapers and magazines

Revenue contribution	2013	2014	2015	2016P	2017P	2018P	2019P	2020P
Newspaper industry	94.4%	94.6%	94.9%	95.5%	96.0%	96.3%	96.6%	96.8%
Magazine industry	5.6%	5.4%	5.1%	4.5%	4.0%	3.7%	3.4%	3.2%

Source: KPMG in India's analysis, 2016.

Internet penetration



Source: 'India on the Go: Mobile Internet Vision 2017', KPMG – IAMAI report, July 2015; KPMG in India's analysis, 2016.

In contrast to the Western countries, where the internet has embedded itself acutely into the newspaper domain, India still lags far behind, about 70 per cent of the country does not have internet access.[14]

Although internet penetration is increasing rapidly, newspapers, which cost not more than INR200 per month, are still the medium with deep reach and credibility. News channels, particularly those airing news in regional languages, have also had a positive impact on newspaper circulation, as people who watch television news often turn to the newspapers to validate the facts and for analysis. Hence, newspapers have continued to hold their ground for being more reliable when compared to news channels.

12. 'Change literacy's definition', Live Mint, http://www.livemint.com/Opinion/VdmuVIAbpEYuiCjPxep5RN/Change-literacy8217s-definition.html, accessed on 18 March 2016.
13. 'India Today to close print editions of magazine in three south Indian languages', The News Minute, http://www.thenewsminute.com/socials/552, , accessed on 5 February 2016.
14. KPMG in India analysis.

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Contribution of language markets

Print media language market mix

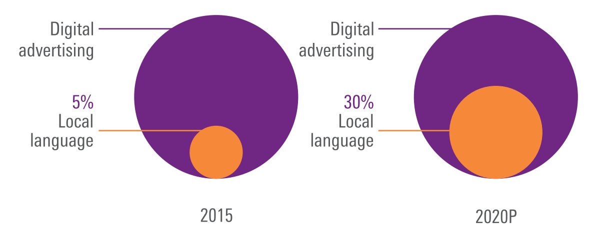
INR billion	2011	2012	2013	2014	2015	Growth in 2015	2016P	2017P	2018P	2019P	2020P	CAGR (2015-2020)
English market	83	86	91	96	101	4.9%	105	109	113	117	121	3.8%
Advertising	57	59	62	65	69	4.7%	72	75	79	82	86	4.6%
Circulation	26	27	29	31	32	5.2%	33	34	34	35	36	2.0%
Hindi market	62	68	75	83	91	9.4%	101	111	122	133	145	9.6%
Advertising	41	45	50	54	59	8.2%	64	71	79	87	95	10.2%
Circulation	22	24	26	29	32	11.7%	36	40	43	46	49	8.7%
Vernacular market	63	69	76	84	91	9.0%	100	110	121	133	146	9.9%
Advertising	42	46	51	57	62	9.5%	68	76	85	94	105	11.1%
Circulation	21	24	26	27	29	8.0%	32	34	37	39	42	7.3%
Total print market	209	224	243	263	283	7.6%	305	330	356	384	412	7.8%

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India.

Hindi and vernacular segments together contributed approximately 64 per cent of the total print revenue. The readership of English print is sliding compared to Hindi and vernacular media, which have showcased continuous growth over the last couple of years. The Hindi print media market increased to INR91 billion in 2015, from INR83 billion in 2014. Vernacular print media grew at 9.0 per cent over the same period, reaching INR91 billion in 2015. On the contrary, English print media witnessed a slowdown in growth, declining to 4.9 per cent in 2015 from 5.2 per cent in 2014. While digital media has continued to penetrate the English newspaper subscriber market, regional print markets are still at early stages to witness a radical impact.

With the increasing competition in metro cities, several companies have been consolidating their presence in regional markets by means of launching new products and acquiring smaller companies. Owing to the significant size and diversity of the Indian print space, brands have gradually started integrating a regional component to their advertising spending. A number of companies have launched their campaigns in local languages that have given them much more resonance compared to the ones launched in English.

Proportion of digital advertising in local languages



Source: 'By 2020, 30% of total digital advertising spend will be on local languages', The Business Standard, http://www.business-standard.com/article/management/by-2020-30-of-total-digital-advertising-spend-will-be-on-local-languages-study-115080600703_1.html, accessed on 11 February 2016.

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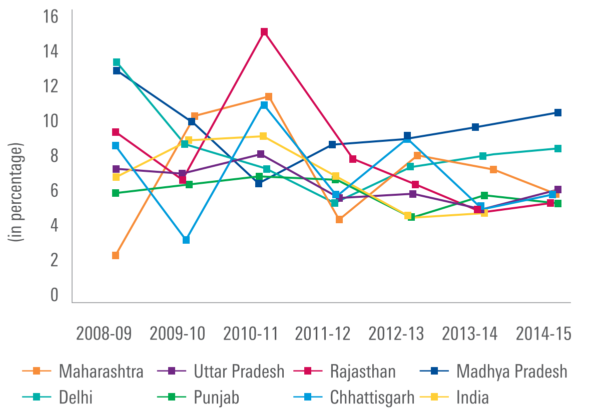
The growing income levels and transforming demographics have also spurred the spending power in tier-II and tier-III cities. With the rising literacy level, increasing population and rising demand for region-specific content, the print media is acclimatising and focussing on delivering content in the readers' native language.

Another major factor that has driven the growth of Hindi and vernacular print publications is the high GDP growth rate of Hindi speaking states as against the national growth rates. Most of the states such as Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh have been consistently outpacing the national average.[15]

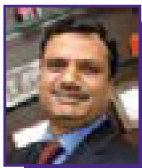
GDP growth rates of major Hindi speaking states vs national GDP growth rates



Note: 2004-05 has been taken as base year.

Source: Government of India, 'Growth opportunities intact; But, we remain selective', Emkay Research, February 2016.

E-commerce companies have also spent a significant amount of their ad budgets on print advertisements by taking up premium ad inventory in major newspapers[19]. Even though e-commerce ad spends have seen an escalated growth in English print media, their penetration in regional print media remains very low. However, as new publications and editions continue to focus on regional markets, e-commerce companies are likely to start exploring this as an opportunity.



Indian print media continues to occupy centre-stage in the advertising plans of traditional sector advertisers (FMCG, automotive, durables, financial services, etc.). This stickiness towards print, despite a plethora of new age format options, can be attributed to superior value proposition offered through:

- Deeper engagement with reader, aided by deft packaging of advertisements with credible, well curated editorial content
- Invitation pricing and convenience of home delivery, ensuring wide and regular access to an advertiser's target audience.

Mohit Jain

Executive President

The Times of India Group

Trends

Traditional print ad categories continue to spend on the medium

Print advertising grew at a rate of 7.3 per cent in 2015[16], primarily driven by growth in ad spends by FMCG and e-commerce players. FMCG's contribution continued to grow in 2015, maintaining the category's leadership position in the print advertising pie. As several publishing houses followed a differential pricing for FMCG, the latter's share in the print advertising pie grew to 14.6 per cent in 2015 from 13.5 per cent in 2014.[17] The consumption of FMCG products grew in 2015 and this, coupled with the lowering of raw material prices, created more scope for the companies to spend on advertising[18].

As the Reserve Bank of India (RBI) reduced the repo rate by 75 bps in 2015, the lending rate to corporates also fell and correspondingly spurred some credit growth. Auto and durables saw some growth and the contributions by these sectors to ad volumes is expected to further increase in 2016.[20] While BFSI contribution fell slightly, the introduction of 21 new banks, including 10 small finance banks[21] and 11 payment banks[22], along with NBFC growth is projected to propel the ad spends in 2016.

The efforts from a number of automotive companies to boost revenue provided the required impetus to promote higher print ad expenditures in 2015, with major contribution coming from companies operating in the passenger vehicle segment, such as Maruti Suzuki and Hero MotoCorp. After witnessing a decline in the last

15. 'Growth opportunities intact; But, we remain selective', Emkay Research, accessed on 11 February 2016.
16. KPMG in India's analysis, 2016.
17. 'Boom Time for Media', Pitch Madison Advertising Report, February 2016.
18. 'FMCG ad spends increase by 16.1% to account for an estimated Rs.2677 crore in Q1', Exchange4media, http://www.exchange4media.com/marketing/fmcg-ad-spends-increase-by-16.1-to-account-for-an-estimated-rs.2677-crore-in-q1_61273.html, accessed on 3 February 2016.
19. Pitch Madison report estimates 9.6 per cent growth in ad spends in 2015, Campaign India, http://www.campaignindia.in/Article/393495,pitch-madison-report-estimates-96-per-cent-growth-in-ad-spends-in-2015.aspx, accessed on 8 February 2016.
20. Industry discussions held by KPMG in India.
21. 'RBI issues 10 small bank licences', Livemint, http://www.livemint.com/Industry/1Jqz0fDRUpIUeYSJs8tCmK/RBI-grants-small-banks-licence-to-10-applicants.html, accessed on 17 March 2016.
22. '11 entities get payments bank licences: What it means for Indian banking sector', Firstpost, http://www.firstpost.com/business/ril-aditya-birla-et-al-getting-payment-bank-licences-what-it-means-for-the-indias-banking-sector-2399840.html, accessed on 17 March 2016.

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two years, vehicle sales inclined upward in 2015 resulting in significant spending on advertising and promotions. The contribution of the auto sector in the print ad space touched 12.8 per cent in 2015, up from 11.9 per cent in 2014.[23]

Telecom players contributed 4 per cent to the total ad spends in the print sector. Airtel accounted for the largest ad volumes, followed by Idea.[24] With 4G services being launched by major telecom players, including Airtel and Vodafone,[25] and the expected roll out of Reliance Jio and Idea 4G in 2016, the advertising industry as a whole is expected to grow 10 to 15 per cent in 2016.[26]

The government at the centre and in various states are focussed strongly on media, including newspapers, to communicate its concepts, priorities and ongoing work in the country. The ad spends primarily revolved around campaigns, such as 'Make in India', 'Swachh Bharat Abhiyan' and 'Digital India'.[27] Additionally, the state elections in Delhi and Bihar contributed a major proportion to the total advertising spends during the last year. With West Bengal, Tamil Nadu, Kerala and Assam going to polls in 2016, ad spending by state governments is anticipated to play a significant role in the industry growth in 2016.

Ad spends from the real estate sector in 2015 have not kept pace with the previous years. This has largely been due to the radical slowdown witnessed in the sector. Sales have declined considerably and the number of unsold properties have gone up. Property prices in a number of cities have mounted at a slow rate, while the cost of capital for companies has continued to remain high. This has forced many companies to reduce their ad spends.[28]

Big spenders on print advertising

Categories	2010	2011	2012	2013	2014	2015	Change in 2014
FMCG	7.4%	8.9%	10.3%	12.3%	13.5%	14.6%	▲
Auto	7.1%	9.8%	11.4%	11.7%	11.9%	12.8%	▲
Education	14.6%	10.6%	10.6%	9.7%	9.4%	9.8%	▲
Real estate and home improvement	8.0%	8.4%	8.6%	8.7%	8.0%	7.0%	▼
Clothing/fashion/jewellery	5.3%	6.5%	7.1%	6.1%	6.1%	6.0%	▼
E-commerce				1.0%	2.2%	4.3%	▲
Telecom/internet/DTH	6.3%	4.7%	4.1%	3.6%	3.7%	3.8%	▲
Retail	5.8%	5.6%	5.8%	5.7%	5.3%	5.6%	▲
BFSI	8.7%	6.7%	5.7%	6.0%	4.8%	4.7%	▼
Election/political ads				0.6%	1.7%		
HH durables	5.3%	5.7%	4.9%	3.9%	4.2%	4.6%	▲
Travel and tourism	2.5%	2.8%	2.3%	1.9%	1.7%	1.9%	▲
Corporate	3.0%	2.8%	2.2%	1.7%	1.4%	1.3%	▼
Media	2.2%	1.5%	1.4%	1.4%	1.1%	1.0%	▼
Alcoholic beverages	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	■
Others	23.6%	25.7%	25.3%	25.4%	24.9%	22.4%	▼

Source: Pitch Madison Reports.

23. 'Boom Time for Media', Pitch Madison Advertising Report, 2016.
24. 'TV expected to gain largest portion of telecom ad spends with 4G roll-out', Exchange4media, http://www.exchange4media.com/advertising/tv-expected-to-gain-largest-portion-of-telecom-ad-spends-with-4g-roll-out_62520.html, accessed on 17 February 2016.
25. 'Airtel, Vodafone, Idea and Reliance Jio's 4G push to help advertising sector grow 15% in 2016', Economic Times, http://telecom.economictimes.indiatimes.com/news/airtel-vodafone-idea-and-reliance-jios-4g-push-to-help-advertising-sector-grow-in-2016/50424926, accessed on 5 February 2016.
26. 'Telecom Firms' 4G Push to Help Advertising Sector Grow 15% in 2016', NDTV, http://profit.ndtv.com/news/corporates/article-telecom-firms-4g-push-to-help-advertising-sector-grow-15-in-2016-deloitte-1261776, accessed on 12 February 2016.
27. 'Airtel, Vodafone, Idea and Reliance Jio's 4G push to help advertising sector grow 15% in 2016', Economic Times, http://telecom.economictimes.indiatimes.com/news/airtel-vodafone-idea-and-reliance-jios-4g-push-to-help-advertising-sector-grow-in-2016/50424926, accessed on 5 February 2016.
28. 'Will the real estate bubble burst due to falling sales & rising inventories?', ET Realty, http://realty.economictimes.indiatimes.com/news/industry/will-the-real-estate-bubble-burst-due-to-falling-sales-rising-inventories/48637577, accessed on 8 February 2016.

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There is growing focus on tier-II and tier-III cities, which is likely to drive advertising spends in the coming few years. Non-metro cities now contribute as much as 35 per cent to the total sales of India's luxury brands.[29]

- FMCG product consumption in tier-II, tier-III and tier-IV cities is expected to account for approximately 45 per cent of the consumption in 2025, with e-commerce firms accounting for greater than 10 per cent in some categories [30]. For example, currently, about 55 per cent of Myntra's revenues come from such cities.[31] Similarly, Amazon is witnessing a 50 per cent growth in tier-II cities.[32]
- In the auto sector, an example is Tata Motors, which is focussing on fortifying its presence in rural areas, growing from 468 in FY15 to 1,500 sales touch points in the next four to five years. The company is also focussing on a rural format for its outlets to sustain relations with customers in their local languages.[33]

Going forward, the print ad spends are expected to grow at 7.8 per cent in 2016.[34] The increase in ad spend is likely to come from government spending and traditional print heavy sectors, such as FMCG, e-commerce, BFSI and auto.

Continuing developments across different sectors are expected to work in favour of the print sector. In 2016, following events are expected to drive growth in print advertising:

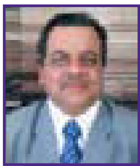
- Numerous launches in the automotive industry, including 30 new cars and 25 new two-wheelers
- Entrance of a number of Chinese mobile handset manufacturers, such as Xiaomi, Vivo and Le-Eco, in India
- State assembly elections in Tamil Nadu, West Bengal, Assam, Puducherry and Kerala that are scheduled to take place in 2016
- Continual growth in e-commerce, covering more new product categories and services
- ICC Cricket T20 World Cup, which is scheduled to take place in India in 2016.[35]

Amid the growing popularity of digital media, print industry sustains growth

Although the digital space is growing at a noteworthy pace, the Indian print industry does not consider it a threat in the near future. Internet penetration in the country is languishing at 27 per cent, compared to 87 per cent in the U.S. and 46 per cent in China.[34, 36] Its limited reach is too low to bring about a radical change in the print sector. Even in the U.S., about 60 per cent internet penetration served as a tipping point for the newspaper companies. The digital Infrastructure in India is still underdeveloped and fails to cover a major part of the country's geography, restricting the scope of news consumption via digital media.

Digital advertising: Still a small meteoroid for print industry

Although, digital ad expenditure has been forecasted to grow 35 per cent to INR81.1 billion in 2016[37], it is not expected to pose an immediate threat to the print industry given its miniscule base, unlike in the U.S., where digital ad expenditures are estimated to hold 34.4 per cent of the total ad expenditure in 2016[38].



"With smartphone and internet penetration increasing, India is experiencing a transformation in pattern of news consumption even in local languages, although desired monetisation is still a bit away. The digital success story is expected to continue as the current internet penetration in the country doesn't even cover one-third of the population. There is plenty of scope for growth for everyone."

R. K. Agarwal

Chief Financial Officer

Jagran Prakashan Ltd

29. 'India's luxury brand market to be driven by tier 2, 3 cities', Economic Times, http://economictimes.indiatimes.com/news/economy/indicators/indias-luxury-brand-market-to-be-driven-by-tier-2-3-cities-report/articleshow/49915370.cms, , accessed on 2 February 2016.
30. 'Re-imagining FMCG in India', CII, 2015.
31. 'Myntra registered $800 Million GMV Run Rate in January 2016', Fitnhit, http://fitnhit.com/technology/myntra-registered-800-million-gmv-run-rate-january-2016/54267/, , accessed on 2 February 2016.
32. 'Amazon.in witnesses tremendous business growth from Tier-II cities' , Tech Radar, http://www.in.techradar.com/news/Amazon-in-witnesses-tremendous-business-growth-from-Tier-II-cities/articleshow/48283703.cms, , accessed on 3 February 2016.
33. 'Despite slowdown auto companies continue on rural march', The Business Standard, http://www.business-standard.com/article/companies/despite-slowdown-auto-companies-continue-on-rural-march-115041900281_1.html, , accessed on 9 February 2016.
34. KPMG in India's analysis, 2016.
35. 'Boom Time for Media', Pitch Madison Advertising Report, 2016.
36. 'India on the Go: Mobile Internet Vision 2017', KPMG – IAMAI report, July 2015.
37. KPMG in India's analysis, 2016.
38. 'Digital to Account for 40% of Out-of-Home Ad Spending in 2015',Emarketer, http://www.emarketer.com/Article/Digital-Account-40-of-Out-of-Home-Ad-Spending-2015/1013107, , accessed on 10 February 2015.

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Growth of digital also presents a massive opportunity to Indian players who can tweak their business models and build a strong online presence unlike companies in the U.S., which did not have time to react to the changing readership patterns. However, a critical element could be to determine that the revenues lost in print are converted to revenues on the digital platform.

"We are seeing strong growth of digital regional language content – be it personal blogs, short form videos or jokes on whatsapp. The growth is coming both in form of user generated content as well as established publishers adopting digital medium. We are also seeing early signs of advertising dollars follow vernacular market digitally…a gap which is still very large where in 85 per cent of advertising in TV or print happens in regional languages."

Virendra Gupta

Founder and CEO

Verse Innovation Pvt Ltd (Dailyhunt)

It is interesting to note that even in mature markets like the U.K., while on one hand The Independent has announced that it plans to completely shift to digital media, on the other hand, Infinity Mirror continues to focus on the print medium, having recently launched a new newspaper 'The New Day'.[39]

Classified ads may not impact the top line

In India, classifieds segment constitutes a small share of 7 to 8 per cent of the total ad revenues, compared to 40 per cent in the U.S. before the digital era.[40] With growing internet penetration and a shift towards digital media, the contribution of classified ads depleted to 18 per cent in the U.S.[40] Henceforth, it could be ascertained that low contribution from classified revenues is likely to keep a check on the impact of digital media on the Indian print industry.

Digital, yet to impact household readership

Newspapers have continued to find acceptance among a majority of the households in India. While the youth population might have shifted to digital media, the age group of 35 years and above still prefers a physical copy.

The overall readership might have reduced by one or two people in the household, however the newspaper circulation is witnessing growth, reinforcing the strong foothold of print industry.[41] Easy accessibility, door-to-door delivery, affordability, comfort, the habit of reading a physical copy, etc., are some factors that have kept print players afloat in this digital era.

Newspaper consumption pattern in India showcases that a major proportion of people read newspapers during the early hours in the morning. The consumption is the highest between 8 a.m. and 9 a.m., with an average consumption per hour of 11.4 per cent compared to 2.5 per cent and 2.4 per cent in the U.S. and China, respectively.[42]

"Internet penetration is bound to grow exponentially in the near future. The best thing is that Indian media had a better learning curve in the digital space and most companies are positioned well with their digital strategies. Another aspect about Indian media industry is its unique advantages like efficient news gathering, cost-effective product distribution mechanisms and highly innovative ad-sales culture in their traditional media divisions. That makes all media verticals in India more robust than most other global media markets. Therefore, traditional media and digital media are likely to co-exist for a reasonably longer time in India."

Shreyams Kumar

Director - Marketing & Electronic Media

Mathrubhumi

39. It's The New Day - first look at Trinity Mirror's new newspaper, The Guardian, http://www.theguardian.com/media/greenslade/2016/feb/22/its-the-new-day-first-look-at-trinity-mirrors-new-newspaper, , accessed on 10 February 2016.
40. Print: Holding its Ground Despite Digital Tsunami, Edelweiss Securities Limited, September 2015.
41. Industry discussions conducted by KPMG in India; KPMG in India's analysis, 2016.
42. Print: Holding its Ground Despite Digital Tsunami, Edelweiss Securities Limited, September 2015.

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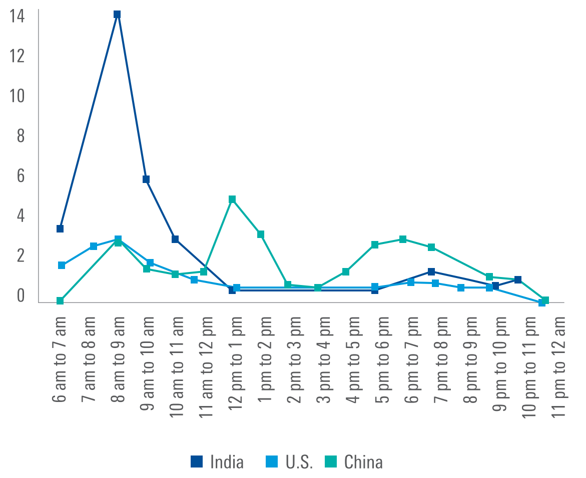
Average consumption of newspaper by hour (%)



Source: Edelweiss Securities Limited, Print: Holding its Ground Despite Digital Tsunami, September, 2015.

The introduction of in-house websites allows companies to grab more audience and monetise content through digital platforms. Combined news supply is the new step being taken to enhance content and increase the reach through varied platforms. For instance, Rajasthan Patrika, has launched a website called 'Catch' to segregate its consumers, both on print and digital platforms. Other print players, such as HT Media and DB Group, have also segregated news on their digital platforms according to the taste of audience. Genre specific websites have been introduced to cater to a specific set of audience. Some of the segregated genres include business, politics, general, entertainment and education. The aim is to increase the consolidated revenue of the firm and to get non-print readers on board by utilising the content that is already there.

Traditional player	Digital brands
HT Media[1]	Business and politics: Livemint Job portal: Shine Entertainment: Desimartini Education: HTCampus
DB Corp[2]	Daily news: Dainik Bhaskar, Divya Bhaskar, DivyaMarathi, DailyBhaskar Business news: Moneybhaskar Cricket news: Dbcric Entertainment: Bollywood Bhaskar
The Times of India Group[3]	Daily news: Indiatimes Cricket news: Cricbuzz Matrimony portal: Simplemarry Real estate portal: Magicbricks Classifieds portal: TCNext Job portal: Timesjobs Professional networking website: Peerpower E-commerce platform: Indiatimes shopping
Jagran Prakashan[4]	Daily news: Jagran Education: Jagranjosh Health portal: Onlymyhealth Blogging platform: Jagranjunction Reverse auction service website: Jeetle.in Shopping portal – d2hshop.com
The Hindu[5]	Daily news: The Hindu Current affairs magazine: Frontline Business news: The Hindu Business Line Sports news: Sportstar Classifieds portal: thehinduclassifieds.in Real estate portal: Roofandfloor

Source: (1) http://www.htmedia.in/RightListing.aspx?page=Page-HTMedia-Internet, accessed as on 18 March 2016;
(2) http://www.bhaskar.com/, accessed as on 18 March 2016;
(3) KPMG in India's Analysis, 2016
(4) http://jplcorp.in/new/Vertical.aspx?VID=2, accessed on 18 March 2016
(5) http://www.thehindu.com/, accessed as on 18 March 2016

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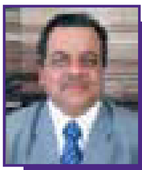
Regional markets, expected to remain buoyant

The growth in newspaper readership in India is being led by the growth of Hindi and vernacular publications. This has largely been seen in rural and small towns with existing publications launching new editions and new publications entering the market. In 2014, an increase in the readership of English publications contributed approximately 10 per cent to the total increase in readership, with majority of the increase in large towns.[43]



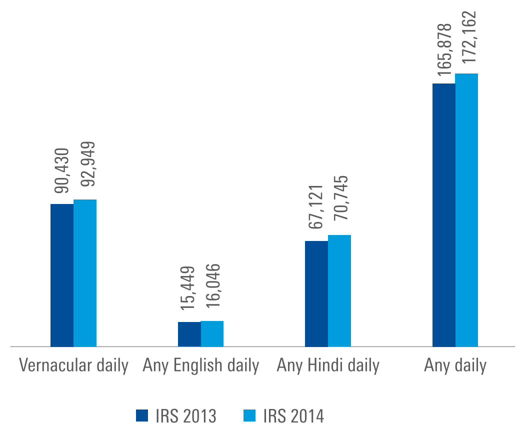
The most penetrative medium in India continues to be the newspaper. It has differentiated itself from other sources of media in terms of content creation and trustworthiness. 'Be local' is the secret sauce of the newspaper business. There are no other media that allow for such a high level of local customisation – both to the consumer and advertiser. While English newspapers continue to be a force in the metros, Hindi and vernacular publications have gained a strong foothold in other cities. Their growth is likely to continue with government's push on infrastructure, rural income, pay commission hike and One Rank One Pension scheme.

R. K. Agarwal

Chief Financial Officer

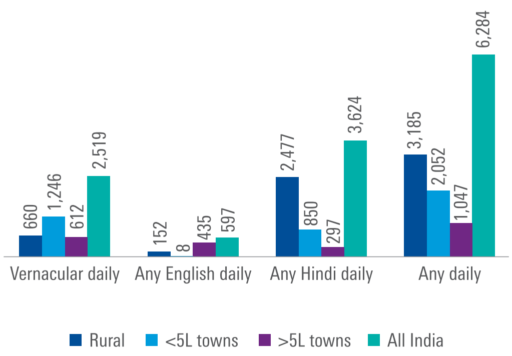
Jagran Prakashan Ltd

Readership ('000)



Source: IRS 2014.

Absolute change in readership ('000)



Source: IRS 2014.

Hindi and vernacular publications dominate the readership numbers, which could be gauged from the fact that the Times of India is the only English publication that made it to the list of top-ten most read publications in 2014.[43]

43. IRS 2014.

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Average readership of top 10 publications

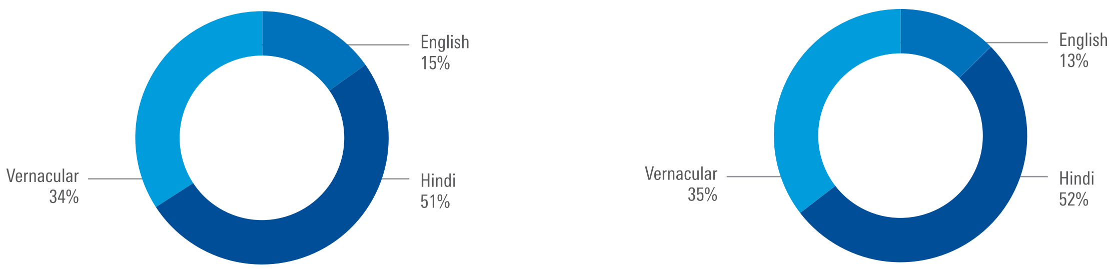
Publication	Language	Readership (in '000)		% change
		2013	2014	
Dainik Jagran	Hindi	15,527	16,631	7%
Hindustan	Hindi	14,246	14,746	4%
Dainik Bhaskar	Hindi	12,857	13,830	8%
Malayala Manorama	Malayalam	8,565	8,803	3%
Daily Thanthi	Tamil	8,156	8,283	2%
Rajasthan Patrika	Hindi	7,665	7,905	3%
Amar Ujala	Hindi	7,071	7,808	10%
The Times of India	English	7,254	7,590	5%
Mathrubhumi	Malayalam	6,136	6,020	-2%
Lokmat	Marathi	5,601	5,887	5%

Source: IRS 2014.

In 2015, regional publications increased their circulation and advertising revenues. The added focus of the industry on regional markets is reflected in the circulation numbers where English publications contributed to only 13 per cent of the total circulation in FY15, a drop of 2 per cent from FY14.[44]

Urdu continues to be a vernacular language with the highest circulation, followed by Telugu and Marathi.

Circulation of registered publications in FY14* and FY15*



*excluding bilingual and multilingual publications

Source: The Registrar of Newspaper in India, Annual Report FY14 ended on 31 March 2014; Annual Report FY15 ended on 31 March 2015.

44. The Registrar of Newspaper in India, Annual Report FY14 ended on 31 March 2014; Annual Report FY15 ended on 31 March 2015.

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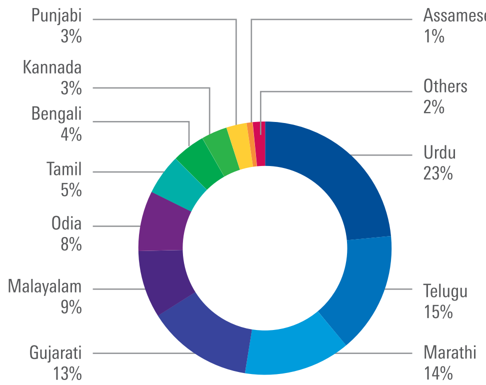
Circulation of registered publications in FY15 by regional language

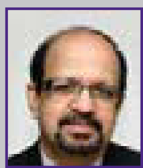


Source: The Registrar of Newspaper in India, Annual Report FY15 ended on 31 March 2015.

Social media programmes: shaping localised offerings

In an effort to ensure a deeper connect between Amar Ujala and its various pockets of readers, the company has been running a product integrated social media programme, which has been helping it drive circulations by organically shaping the newspaper to their readers tastes. This involves carrying newspaper content to hyper local audiences on social media sites, measuring their responses, capturing their voices and using this to shape personalised and localised offerings. The mobile app mirrors this exercise and so does their website.

Complimenting this, the company ran an extensive covert study of user tastes in regions it intended to grow, using popular social networks, which are destination spots for the young, high-value user. This allowed the company to map the psychographics of various audience pockets and create a user-guided framework for their product. These programmes have allowed the company to extend its reach deep into competition readership, and in existing regions, improve reader-connect with its own readership significantly.



Probal Ghoshal

Whole Time Director

Amar Ujala

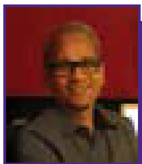
Disclaimer: Unless otherwise noted, all information included in this column/ article was provided by Probal Ghoshal. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India Since quotes will be present in multiple chapters, recommend this disclaimer be moved to the end of the document.

Hyperlocalisation on the radar

As companies are increasing their focus on tier-II - tier-III cities, and rural areas, they have started deliberating on their existing business models. The business models that were apt for metros and tier-I cities, might no longer hold relevance for the new emerging consumption centres.

To this end, the print players are going hyperlocal too, particularly in the markets with lower internet penetration, launching their leading properties that cater to audiences in a restricted format. In 2015, Dainik Bhaskar (DB) launched the editions of its newspaper in Bhagalpur, Muzaffarpur and Gaya in Bihar, having launched a Patna edition in 2014.[45] These launches took the total tally of the newspaper to 40 editions in 14 states.[46] The Dainik Bhaskar Group also launched seven district editions in Hajipur, Purnea, Biharsharif/Nalanda, Arrah, Chhapra, Samastipur and Darbhanga in 2015. With rising demand from smaller towns, other major publication houses, such as Lokmat and the Hindu, are also focussing on hyperlocal approach for their brands. The motive of national players entering new markets with more local editions is to provide targeted reach to advertisers. Local retail is taking the print route to reach local customers. This has resulted in a positive trend for the industry as advertisers are coming back to print from TV, after three to four years.

Advertisers intending to save their marketing and advertising costs, earn a healthier ROI, and simultaneously, reach every nook and corner of the country, having expanded their efforts in the hyperlocal space.



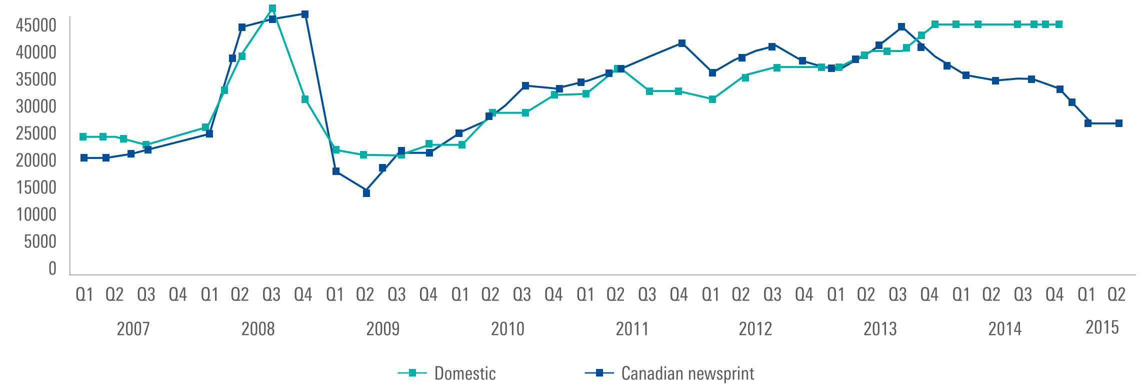
> Hyperlocal is not a viable option for major digital news players, in content and revenue terms. The content costs for such a product will be high, quality of always suspect and revenue from retail advertisers will be of low yield. Unlike a print product you cannot solve the problem by increasing your inventory. Only in a newspaper the front page can be relegated to page five (after four full page cover ads). In digital, if your website or app opens with a display ad, you run the risk of losing your readers. Plus, in print or broadcast, the reader has no 'kill' option. Digital readers are employing ad-blockers for a uninterrupted read. It is not a pretty picture.
>
> B . V. Rao
>
> **Editor**
>
> Firstpost

45. Who we are, Dainik Bhaskar, http://www.dainikbhaskargroup.com/who-we-are-history.php, accessed on 11 February 2016.
46. 'Dainik Bhaskar launches Bhagalpur edition, its 39th', Economic Times, http://articles.economictimes.indiatimes.com/2015-07-27/news/64918896_1_dainik-bhaskar-bhagalpur-db-corp, accessed on 11 February 2016.

Softness in newsprint prices

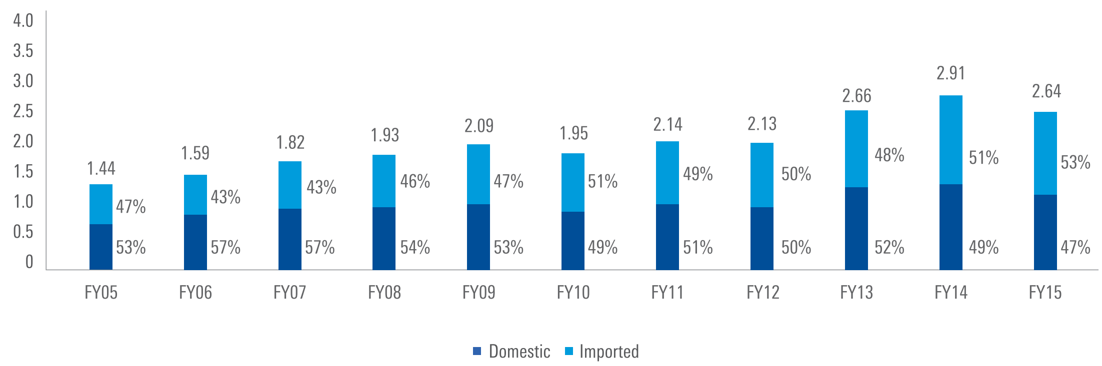
Newsprint prices reduced considerably in 2015, falling from approximately INR31,000 per metric tonne in 4Q2014 (ended on 31 December 2014) to approximately INR27,500 per metric tonne in 2Q2015 (ended on 30 June 2015).[47] A correction of about 7 per cent in the newsprint prices resulted in the number of firms witnessing growth in the EBITDA margins in FY15.[48] For instance, reduction in newsprint prices was one of the major reasons why the Dainik Bhaskar Group showcased an incline of about 34 per cent in its margins from the mature editions' business in FY15.[49] Going forward, a further correction of 2 to 3 per cent in newsprint prices is expected in the Indian print industry.[50]

Newsprint prices: Cost per tonne (in INR)



Source: Crisil Research database. Accessed on 16 March 2016.

Consumption of newsprint in India (million MT)



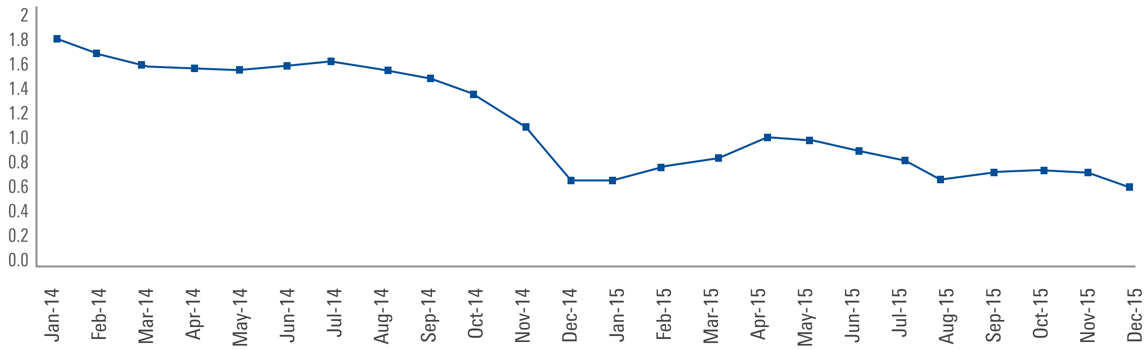
Source: Indian Newsprint Manufacturers Association, http://inma.org.in/consumption.html, accessed on 28 January 2016; KPMG in India's analysis, 2016.

At 50 per cent of the total cost, newsprint forms a major part of the expense for a publisher in the print industry. The total consumption of newsprint stood at 2.64 million MT in FY15, having witnessed a slender decline from 2.91 million MT in FY14. About 53 per cent of the total consumption (1.39 million MT) was met by imports from international newsprint producers.[51]

47. Crisil Research database. Accessed on 16 March 2016.
48. 'Print: Holding its Ground Despite Digital Tsunami', Edelweiss Securities Limited, September 2015.
49. DB Corp Ltd. Director Report, Economic Times, http://economictimes.indiatimes.com/db-corp-ltd/directorsreport/companyid-30711.cms, accessed on 28 February 2016.
50. 'Print: Holding its Ground Despite Digital Tsunami', Edelweiss Securities Limited, September 2015.
51. Indian Newsprint Manufacturers Association, http://inma.org.in/consumption.html, accessed on 28 January 2016.

A number of print companies, including regional players, import newsprint from Russia owing to lower sea freight costs when compared to the U.S., and the relatively advantageous Rouble–Rupee exchange rate[52]. With freight contributing approximately 15 per cent of newsprint landed price, a decline in crude oil prices positively impacted the newsprint prices. The Rupee has appreciated against the Rouble in the last two years and towards the end of 2015; the INR–RUB exchange rate fell to 0.91 as compared to 1.88 in January 2014.[53] This has led to a reduction in newsprint imports from the U.S., making Canada and Russia one of the top exporters to India.

Fluctuation in Rouble as against the Indian rupee (INR/RUB)



Source: 'Database Retrieval System (v2.15)', Sauder School of Business, http://fx.sauder.ubc.ca/data.html, accessed on 25 February 2016.

In addition, the decline in overall demand for newsprint in some of the leading countries have placed India at an advantageous position to negotiate with newsprint suppliers. The first half of 2015 witnessed a 12 per cent decline in the world's demand for newsprint owing to the shift towards digital media. This is expected to continue with China's newsprint demand projected to decline by 7.6 per cent per year over the next decade.[54]

52. Industry discussions conducted by KPMG in India.
53. 'Database Retrieval System (v2.15)', Sauder School of Business, http://fx.sauder.ubc.ca/data.html, accessed on 25 February 2016.
54. 'China's newsprint demand expected to decline by 7.6 percent per year over next decade', Wan-Infra, http://www.wan-ifra.org/articles/2015/12/01/china-s-newsprint-demand-expected-to-decline-by-76-percent-per-year-over-next-de, accessed on 15 February 2016.

Managing costs through consolidating ad sales

The print and digital platforms are now being given equal importance. Conventionally, digital ads were believed to be completely different from print, with sales personnel having to do twice the work to process advertisements across different media. However, the advent of consolidated ad selling proposition has led to decrease in costs and increase in revenues for companies. Media firms are now offering advertisers bundled solutions—one such bundle could include print power jacket covers, video ads on digital platforms, radio ads, etc. Companies, such as Guardian News and Media, and News International, have broken away from the traditional ad selling approach and have merged print and online advertising offerings into a singular selling platform[55]. In India, too, Deccan Herald has adopted this model to reduce their ad processing overheads.[56]

"In 2015, among the many emerging trends in print media, one stands out as most crucial to the monetisation process of media. The advertiser – brands or institutions – have now gone beyond the 'space-buying' mode, seeking a more holistic package as deliverable from media organisations. This has translated into the advertiser working closely with their agencies and media groups and carving custom solutions, often with a combination of branding, response and market impact as deliverables. This may well be a market response to the absence of a credible third party index for readership, a role that IRS once performed for the newspaper-advertising ecosystem."

Probal Ghoshal

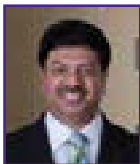
Whole Time Director

Amar Ujala

Advertisements, going beyond the visual appeal

Over the last few years, the newspaper and magazine space has witnessed numerous imaginative and remarkable advertising campaigns that have reinforced print's capacity to bring about an engaging experience. Players have been trying out different sizes, shapes, technologies and placements for a significant consumer engagement. For instance,

- Kajaria Ceramics launched a print advertisement in the form of a 3D rendered image. The ad had 3D glasses attached to it that gave viewers a real-life 3D experience.[57]
- Motorola leveraged a magazine ad for its new product 'Moto X' to showcase its collection of different coloured smartphones. The ad had several keys at the bottom which, when pressed, changed the colour of the phone displayed in the advertisement. The ad was made possible with the use of a polycarbonate paper that covered the LED light pipes, which illuminated through the circuit were connected to the colour strips.[57]
- Tata Motor's advertisement for their Zest sedan was a four page advertorial supplement that included a transparent packet pasted on the newspaper, bearing a distinctively bar-coded car key. Audience were given an opportunity to win the sedan by visiting a dealer and matching the bar code. The ad aimed at communicating the ease of owing a car and resulted in improved footfall at stores.[57]



"Year 2015 saw advertisers looking at print to deliver impact more than frequency. From the dominating jackets to half jackets, front page innovations to perfumed papers, advertisers were looking at print to deliver the difference which TV could not do. If one combined this with the local reach and other consumer connect programmes under which newspapers partnered with brands, then surely over 25 per cent of the business was generated through this. This is a welcome change and possibly the way forward."

Pradeep Dwivedi

Chief Corporate Sales & Marketing Officer

Dainik Bhaskar Group

55. 'Publishers are solving the print-digital advertising disconnection – but is it too late?', The Media Briefing, http://www.themediabriefing.com/article/publishers-are-solving-the-print-digital-advertising-disconnection-but-is-it-too-late, , accessed on 15 February 2016.

56. Industry interviews conducted by KPMG in India.

57. 'Print advertising: innovations deliver when there is a deeper message to be conveyed', YourStory, http://yourstory.com/2015/05/print-advertising-innovations/, accessed on 15 February 2016.

Technological disruptions

Increasing internet penetration and technology advancement have led traditional print players to experiment with technology both in the physical and digital space. With new emerging concepts and innovative approaches presented to both advertisers and readers, the landscape of print media is transforming. While the players are expanding their presence on digital media, they are taking proactive steps to sustain their circulation revenue and prevent cannibalisation from the new avenues of news and information. The physical newspaper copies still provide a critical mass, reach and scale, and constitute a significant part of the revenue pie for the print industry. The augmented and virtual reality concepts are being adopted across the industry to increase the overall engagement with readers.

While the print industry continues to witness increasing activity from many newspaper and magazine players, non-print players have also started to foray into the area of news dissemination. With the growing base of generation Y in India, digital media has emerged as one of the favoured destination for news and information, which in turn has enticed players from the fields of social media, search engine, handset manufacturing, app development, content aggregation, etc. to explore this space. The swift growth of news consumption has established the mobile phone and portable device spaces as the new battlefield for several companies. Firms are working harder than ever to keep readers within their ecosystems by offering them more products and services.

> Emergence of pure play content websites like News in Short, Newshunt, ScoopWhoop etc. could be the next game changer.
>
> Pradeep Gupta
> **Chairman and Managing Director**
> Cybermedia

Digital developments in news and information

2007

Regional print forays into digital media

Malyala Manorama becomes the first regional newspaper in India to establish its presence in digital media by launching a mobile app[1]

2009-2010

Newspapers join Twitter

Several newspapers including The Times of India, The Hindustan Times, The Hindu and The Indian Express join Twitter[2]

Third party apps enter news space

Newshunt begins offering news content in multiple languages, including news feed from major English newspapers and a large number of vernacular publications[3]

2012

Newspapers explore augmented reality

The TOI group forays into the augmented reality space through the launch of the 'Alive' app. The app allows users to scan specific images on the newspaper and delivers related multimedia content[4]

2013

Mobile apps start gaining momentum

Inshorts is founded. The app has emerged as India's highest rated news app with more than three million downloads and around half of a billion page views per month in 2015[5]

2013

Companies consolidate digital marketing services in their portfolio

HT Media acquires a social media agency, Webitude, to offer digital marketing services such as digital media planning and buying, social media marketing, social application development and deployment, etc.[6]

2015

Apps move to smartwatches

Keeping pace with the latest technology and gadgets, Manorama launches first Apple watch app in Malayalam[7]

Publishers collaborate with social media giants

India Today, The Quint, Aaj Tak, Hindustan Times and the Indian Express join hands with Facebook to launch news feature 'Instant Articles'[8]

Some of the newspapers players in India become an active contributor to 'Twitter Moments'[2]

2016

Virtual reality become a reality

Manoramaonline starts offering immersive experience to its readers with 360 videos, bringing virtual reality (VR) technology to the forefront via specially designed headsets from companies such as Google, Facebook, Samsung, etc.[9]

Source: (1) 'Credit for the first Malayalam news app goes to Manorama', Manorama Online, http://english.manoramaonline.com/lifestyle/gadgets/digital-india-week-malayala-manorama-mobile-app-nokia.htmlSnapdeal now shifts focus to rural areas', accessed on 18 March 2016;

(2) Official Twitter pages

(3) 'Top 7 Best Indian News Apps for Smartphones', Beebom, http://beebom.com/2014/04/best-indian-news-apps-for-smartphones, accessed on 18 March 2016;

(4) 'Times of India brings the newspaper 'Alive'', Afaqs!, http://www.afaqs.com/news/story/36291_Times-of-India-brings-the-newspaper-Alive, accessed on 18 March 2016;

(5) 'The journey of India's highest rated news app', Inshorts, http://blog.inshorts.com/2015/12/indias-highest-rated-news-app-inshorts-in-2015-timeline/, accessed on 15 February 2016;

(6) 'HT Media acquires social media agency Webitude', Afaqs!, http://www.afaqs.com/news/story/38055_HT-Media-acquires-social-media-agency-Webitude, accessed on 18 March 2016

(7) 'Manorama launches first Apple watch app in Malayalam', Manorama Online, http://english.manoramaonline.com/lifestyle/gadgets/manorama-launches-first-apple-watch-app-in-malayalam.html, accessed on 18 March 2016;

(8) 'Facebook launches Instant Articles in India', Livemint, http://www.livemint.com/Consumer/JnOWjrd6kH8DZAlICrNHxN/Facebook-launches-Instant-Articles-in-India.html, accessed on 18 March 2016;

(9) 'Manoramaonline offers immersive experience to readers with 360 videos', Manorama Online, http://english.manoramaonline.com/news/science-technology/virtual-reality-malayalam-media-manorama-360.html, accessed on 18 March 2016

Engagements spanning multiple screens

Leveraging virtual reality

Virtual reality is gradually instituting itself as one of the most sought after technologies in the print media. Malayalam Manorama's virtual reality 360 degree app, launched in 2014, helps viewers to get virtual reality experience with the help of a cardboard viewer from Google and other major online retailers.

Using augmented reality

In 2013, the Times Group launched an Augmented Reality (AR) application known as 'Alive' in order to extend customer engagement beyond the physical copy. With more than one million downloads since its launch, the app has been successful in attracting audiences attention with its interactive and responsive features. Over the years, the app has attracted and conducted more than 200 brand campaigns across a number of industries, crafting AR enabled advertisements to enhance customer experience. Some of the major campaigns launched with the help of 'Alive' app include BMW, Samsung, ICICI, Fed-Ex, Cadbury, Femina and Audi, among others. The app is available across various platforms such as Windows, Android, iOS, etc.

While the 'Alive' app has been able to garner interest among the readers, some of the industry players are of the view that the viewers who are interested in digital mediums will anyways access them directly and hence an app is of limited use to direct them from a traditional to a digital medium.[58]

Virtual Reality, or VR, is a frontier technology that allows the user to take in life-like immersive imagery from all angles. VR helps us tell the stories better and to emotionally connect with our audience. We have started doing this with our travel and auto channels and are looking to expand this further.

Jayant Mammen Mathew

Director

Malayala Manorama

Image courtesy: Malayala Manorama.

58. Industry discussions conducted by KPMG in India.

The increasing penetration of broadband and smartphones is driving the consumption of digital video, with the average time spent of viewing videos increasing. Even though traditional print players have incorporated elements such as virtual reality, augmented reality and QR codes for driving video consumption to complement their print properties, there are limited options available to integrate videos. Hence, to capture more eyeballs, players are giving equal importance to both print and digital.

Additionally, print players are traditionally not geared to create multimedia content, especially video. This challenge is being addressed by training internal resources (essentially photographers), sourcing from third party providers as well as in some cases, providing avenues for citizens to contribute pictures and videos.

Bijoy Sreedhar

Vice President
Business Development
Lokmat

Magazine brands evoke strong trust and engagement amongst its user communities. This is far more than any other media platform or offering. The challenge for the magazine media is to leverage this unique strength across various digital platforms as digital is an interactive 'any time anywhere medium' that offers several opportunities for unlocking more value from engaged consumers. Magazine publishers and editors will have to think differently about what they do on digital compared to fixed frequency print titles, for starters. Multi-platform opportunities across mobile, social, video, on-line, apps, programmatic, ecom across a magazine brand will open new revenue and profit streams which did not exist earlier. Seamless engagement across various digital platforms with audiences will be the key.

Ashish Bagga

Group CEO
The India Today Group

'Blippar', an AR mobile app, was launched in India in 2014. It has recorded more than 500,000 downloads ever since. The company behind the app has collaborated with a number of renowned advertisers including Kellogg's, IBM, Wipro and Hero Honda.[59] In 2015, the company partnered with Amar Chitra Katha to produce a digitally interactive issue of their kid's magazine 'Tinkle'[60]. In May 2015, the magazine unveiled features such as games, bonus material, selfie with Suppandi, etc., that leverages mobile augmented reality and image recognition platform of Blippar, and within a months' time witnessed more than 70,000 interactions between the magazine and app.[61] Due to the partnership, kids could now play games and experience the stories coming to life on their smartphones.[61]

Via QR codes

For a multitude of businesses, predominantly education, food and beverages, packaged goods manufacturing and retail; the foremost channel of promotion continues to remain the conventional print/publishing media. However, over the years, QR codes have emerged as one of the lucrative options to bridge the gap between print and digital advertising. A QR code is a square-shaped barcode embedded in newspaper advertisements that links people using a smartphone to webpages, photo galleries, videos, coupons, tickets, etc. Having garnered significant popularity in the west, QR codes have made serious headway in India, with several leading brands embracing the concept. For instance, LG, DHFL, Shoppers Stop, Intec, Cox & Kings, SimplyMarry, State Bank of India, Spykar and Advanced Hair Studio have adopted QR codes in their newspaper and magazine advertisements to drive their readers to their online content.

59. 'We would rather become the next Microsoft or Google than sell', Economic Times http://articles.economictimes.indiatimes.com/2015-11-11/news/68192363_1_augmented-reality-qualcomm-ventures-app, accessed on 17 February 2016.
60. 'Tinkle unveils augmented reality enhanced magazine for kids', Best Media Info, http://www.bestmediainfo.com/2015/05/tinkle-unveils-augmented-reality-enhanced-magazine-for-kids/, accessed on 17 February 2016.
61. 'Blippar brings Tinkle to life, now play darts with Supandi', Indian Express, http://indianexpress.com/article/technology/social/blippar-brings-tinkle-to-life-now-play-darts-with-supandi/, accessed on 17 February 2016.

"When you look at the consumer also, whether it is shopping, entertainment or information, they seamlessly move back and forth from physical experience to digital. Their culture now is 'phygital'. So at Mathrubhumi, we no longer approach our products in silo as traditional, physical or digital, but have a more embracing outlook of considering these as 'phygital'. We are building and delivering as much digital engagement around all our physical products, so that they stay relevant. We use QR codes effectively in appropriate contexts in our physical media products to give instant digital connect and experience for the audience. We use it for editorial content as well as advertising. With 'Vignet', the digital publishing software from our technology venture, we are able to do most things digital much faster than ever and integrate them with physical media and brand collaterals."

Shreyams Kumar

Director - Marketing & Electronic Media

Mathrubhumi

Smartwatches, placing the world on wrists

Wearable devices, particularly smartwatches, have started gaining traction in the developed markets and a few developing nations, if not worldwide. Given this backdrop, a number of third-party applications are being launched for wearable devices, and over the next four years, the number of third-party apps is expected to increase from 2,500 in 2014 to 349,000 in 2019.[62] Keeping pace with the technological advancements, a number of print companies including BBC News, the New York Times, the Guardian, the Wall Street Journal and CNN have developed apps supporting tailor-made content for a swift glimpse on the smaller screen of the watch.[63, 64]

- The CNN app for Apple Watch allows users to get breaking news across 12 personalised categories. Users can simply tap on the screen to open a story and choose to save it or continue reading on their phone. They can even launch live CNN TV on their phone from their watch.[65]
- The New York Times app, named as is, sums up the essence of stories in one sentence with photos and bullet-point summaries. The app delivers content categorised in different genres such as politics, science, technology, business, politics and arts. Users are given an assortment of reports written especially for the app and readers can sift through these stories in a few seconds. The app allows users to save the story for a later reference. The user can also transfer the story to their smartphones.
- The Guardian has an app called 'Moments' that consists of concise screens, bearing custom-made content for a particular time of the day, and a day of the week

With news publishers focussing on developing content for smartwatches, advertisers are looking at smartwatches as the next advertising channel for targeted promotions. The advertising spend is expected to increase from an estimated USD1.5 million in 2014 to approximately USD69 million in 2019.[66]

Foldable newspaper, a concept that blurs the line between physical and digital media

Continuous research and development in the display device arena has had a considerable impact on the print industry, making digital text a staple across a number of domains. Going forward, similar developments are likely to change the landscape of news delivery. For instance, e-paper reader may turn out to be a major breakthrough that moulds the print space in the coming years. If we go by the prototype, the e-paper reader is a light, flexible and foldable electronic reader with a touchscreen that looks like a paper. These foldable displays could be used for applications such as e-books, newspapers, portable signs, etc.

If launched commercially, the device has the potential to emulate and replace the traditional newspaper in the long run. However, with a number of apps that enable users to read on smartphones and tablets currently, users would need a compelling reason to switch to e-paper reader, which is less likely to happen in the short-term.

62. 'Apps for wearables set to surge, Mobile World Live', http://www.mobileworldlive.com/apps/news-apps/app-wearable-devices-grow-tremendously-next-four-years/, , accessed on 17 February 2016.
63. 'The best news apps for Apple Watch include NY Times, Washington Post and WSJ', AppAdvice, http://appadvice.com/appnn/2015/04/the-best-news-apps-for-apple-watch-include-ny-times-washington-post-and-wsj, accessed on 25 February 2016.
64. 'Apple Watch: 20 apps worth trying on launch day – in their developers' words', Theguardian, http://www.theguardian.com/technology/2015/apr/24/20-apple-watch-apps-launch-day, accessed on 25 February 2016.
65. 'CNN is on Apple Watch', CNN, http://cnnpressroom.blogs.cnn.com/2015/03/09/cnn-is-on-apple-watch/, accessed on 19 February 2016.
66. 'Digital Advertising: Online, Mobile and Wearables 2014-2019', Juniper Research, April 2015.

Social media for news delivery

India has a reported 143 million social media users[67], forming about 65 per cent of India's internet user base[68]. The usage of social media platforms in India is on the rise, with a reported 100 per cent y-o-y growth in rural areas and 35 per cent y-o-y growth in urban areas in FY15.[67] Thanks to the growing popularity of social media, some media companies have started to calibrate their newsroom priorities. News items that are likely to create more impact on platforms such as Facebook and Twitter are given more importance.[69]

> Mature technology for every aspect of newspaper production has existed for quite some time now. But the emergence of social media is realigning newsroom priorities in a number of media houses, with editors asking these two recurring questions;
>
> 1. This item is trending on Twitter/ Facebook should we give it more importance?
> 2. Should we give more importance to or choose this item because it is likely to create an impact on Twitter/Facebook tomorrow.
>
> R. Lakshmipathy
> **Business Head**
> Dinamalar

A number of leading newspapers in India have adopted a new style of storytelling, delivering news content by means of interesting videos on Facebook, pictures posted on Instagram, etc.

- The Indian Express, an English-language daily, has registered more than 10,000 followers on its Instagram page, posting some of the best photographs from their news archive.
- The Times of India leverages Instagram to share stories in the form of pictures and short videos. The newspaper has gained over 124,000 followers.[70]

Along with a pack of print players, players not belonging to the print domain have also taken several initiatives to become contenders in the news space.

Social media platforms

	Twitter Moments	Facebook Instant Articles
Concept	Twitter curates trending news/tweets and showcases them in a slideshow format. The list is constantly updated as new stories emerge during the course of the day News is available across varied topics ranging from entertainment, politics, science, to sports, etc.[71]	Facebook allows news publishers to publish their content directly instead of posting links.[72] India became the third country in the world to get this feature. To begin with, Facebook launched the service with content from five publishers — India Today, The Quint, Aaj Tak, Hindustan Times and The Indian Express— in the country.[73]
Developments	While Twitter is currently generating the content by itself, the platform is expected to soon let news organisations generate content, which could then be curated.[74] Along with the 'Moments' feature, Twitter also introduced a news tab in their mobile app[75] and acquired Periscope, a live video streaming app.[76]	In February 2016, Facebook announced its plans to open up the 'Instant Articles' programme to all publishers globally. Facebook's other steps to push news distribution include introducing a 'Trending' sidebar[77] and allowing verified news journalists to stream live videos directly to users using the 'Mentions' app.

In line with the rising popularity of social media, players delivering news on the digital platform are adopting newer ways of presenting content on these platforms. For instance, Firstpost, in order to reach out to its younger audience, presents news items in the form of engaging videos. Recently, the company published a candid video describing the Union Budget 2016 in a funny manner, which the youth could easily relate to.[69]

67. 'Use of social media doubles in rural India', The Hindu, http://www.thehindu.com/sci-tech/technology/internet/social-media-use-doubles-in-rural-india/article7334735.ece, accessed on 8 February 2016.
68. 'Do you know how many Indians have access to Internet?', India Today, http://indiatoday.intoday.in/story/internet-access-india-facebook-twitter-social-media-smartphone/1/425323.html, accessed on 8 February 2016.
69. Industry discussions conducted by KPMG in India.
70. 'How Our Newspapers Are Engaging Indian Millennials On Instagram', Lighthouse Insights, http://lighthouseinsights.in/indian-newspapers-on-instagram.html/, accessed on 8 February 2016.
71. 'Twitter launches Moments to showcase best tweets', Times of India, http://timesofindia.indiatimes.com/tech/tech-news/Twitter-launches-Moments-to-showcase-best-tweets/articleshow/49245740.cms, accessed on 11 February 2016.
72. 'Facebook Mulls Ad Changes for Instant Articles After Publisher Pushback', WSJ, http://www.wsj.com/articles/facebook-mulls-ad-changes-for-instant-articles-after-publisher-pushback-1447281399, accessed on 11 February 2016.
73. 'IndianExpress.com among first publishers to launch Facebook Instant Articles for Android, Indian Express', http://indianexpress.com/article/technology/tech-news-technology/indianexpress-com-among-first-to-launch-facebooks-instant-articles-for-android/, accessed on 11 February 2016
74. 'Twitter launches Moments, a Curated News Tab!', TRAK, http://trak.in/tags/business/2015/10/07/twitter-moments-curated-news/, accessed on 11 February 2016.
75. 'Twitter Experiments With A 'News' Tab', Buzz Feed, http://www.buzzfeed.com/alexkantrowitz/twitter-adds-a-news-tab-in-new-experiment?bftwnews&utm_term=4ldqpgc#.whezbyGD0, accessed on 15 February 2016.
76. 'What is Twitter's new Periscope app?, Telegraph', http://www.telegraph.co.uk/technology/2015/12/010/what-is-twitters-new-periscope-app/, accessed on 11 February 2016.
77. 'Facebook Is Experimenting With How You Read The News', Huffington Post, http://www.huffingtonpost.com/2015/06/30/facebook-trending-experiment_n_7697852.html, accessed on 9 February 2016.

Mobile applications for news on-the-go

Mobile app usage in India is outperforming the global growth rate, registering an average y-o-y growth of 131 per cent, albeit on a smaller base.[78] Among the app categories, 'news and reading' witnessed an average annual growth rate of 311 per cent, making it the second fastest growing app category after 'personalisation'.[79] With decreasing attention spans and the snowballing trend of accessing news on-the-go, companies have started to focus on the 'news' category to grab a larger share of the mobile-user pie. In 2015, Apple launched 'Apple News' that comes pre-installed with its iOS 9 mobile operating system. The app primarily aggregates content from about 50 media companies, including The New York Times and Vogue. Being made available in the U.S. and the U.K., the app is likely to find its way to India soon.[80]

Additionally, numerous third-party app developers have also emerged in the news and information space.

Third-party apps in the news and information space

Service	Founded in	Source of revenue	Features	Performance
Inshorts[81]	2013	Focus, as of now, is to drive the engagement and the company is not emphasising on revenue models	• 60 word summaries of the day's top national and global stories • Focusses on the essential facts and does not provide any opinions • Launched its Hindi interface recently and plans to launch others in Marathi, Kannada and Tamil • 'TOSS' feature allows users to share notifications to other users of Inshorts in their contacts list.	In 2015, emerged as India's highest rated news app with more than three million downloads and more than half of a billion page views per month
dailyhunt[82,93] (formerly known as NewsHunt)	2009	• Native ads • Transactions for digital and physical books • Discovery and distribution	• Focusses on 90 per cent of non-English speaking population by providing newspapers in regional languages • Available for over 200 publications in more than 12 different languages • Provides magazines and e-books in vernacular languages.	Reported 90 million installations with 2.3 billion pages being consumed monthly
Flipboard[84]	2010	• Advertising	• Social-network aggregator • Digital magazine platform where individuals are able to create 'magazines' on different themes.	About 300 million downloads on mobile devices and over 70 million active users around the world
Quartz[85,86]	2016	• Advertising	• An iOS application that allows users to have a conversation with the news, similar to texting • A particular story is introduced through a 'text'. The user is then provided a couple of options to choose from, one providing further details on the story and other allowing to skip to the next story • The app provides bursts of important stories filled with emojis, GIFs and occasional haikus.	Considering the app was launched in February 2016, there are no statistics available

78. 'India'a app usage outpacing global growth: Yahoo Analytics', Yahoo, https://in.finance.yahoo.com/news/indiaa-app-usage-outpacing-global-145606077.html, accessed on 9 February 2016.
79. 'India is the fastest growing mobile app market', Economic Times, http://economictimes.indiatimes.com/tech/software/india-is-the-fastest-growing-mobile-app-market-yahoo/articleshow/47875388.cms, accessed on 15 February 2016.
80. 'Apple's new way to deliver the news to you', CNN, http://money.cnn.com/2015/06/08/media/apple-news-app/, accessed on 17 March 2016.
81. The journey of India's highest rated news app, Inshorts, http://blog.inshorts.com/2015/12/indias-highest-rated-news-app-inshorts-in-2015-timeline/, accessed on 15 February 2016.
82. Dailyhunt, http://www.dailyhunt.in/, accessed on 15 February 2016.
83. Dailyhunt, http://www.dailyhunt.in/about.php, accessed on 15 February 2016.
84. Flipboard Has Filed To Raise Another $50M, Tech Crunch, http://techcrunch.com/2015/07/21/flipboard-d/, accessed on 15 February 2016.
85. It's here: Quartz's first news app for iPhone, Quartz, http://qz.com/613700/its-here-quartzs-first-news-app-for-iphone/, accessed on 17 February 2016.
86. Quartz's new app wants to text you the news, The Verge, http://www.theverge.com/2016/2/11/10963794/quartz-app-iphone-ios-the-atlantic-download, accessed on 17 February 2016.

Key trends in the content industry

As per census data of the total literacy of 75%, the English literacy in India is only 10%. Majority of content that gets consumed in India, be it TV channels or Print Newspapers get consumed in local Indian languages. Digital equivalent demand of this behavior hasn't gotten enough support by technology providers and content publishers yet. We see that changing in 2016 for following reasons.

1. India will add 400M new internet users in coming few years. These users will access Internet for the first time through their mobile devices, and they will be local language users. Rapid addition of these users to our Internet economy will force all companies with online presence to provide local language variants of their products.
2. We will see explosion of Indian language digital content. Just as we saw with English content – people start contributing to the medium when they get comfortable consuming it. We expect the same for Indian language content. We are already seeing initial signs in form of personal blogs, short form videos and jokes on Whatsapp in local languages.
3. Availability of new tools for content creation, including innovations around Indian language keyboard. Indian language scripts are complex as compared to English. Multiple characters come together to form one "Akshar". As a result current typing speed of an average typist for Hindi is around 10% that of English. As users start sharing and creating original content, we will see innovations in area of content creation for Indian languages.
4. Growth of digital advertising and in local languages. 85% of advertising that happens in Print or TV happens in local languages. Digital channels will start seeing similar patterns in 2016. Note: At Dailyhunt we have seen an almost 3x jump in click through rates for local language ads.

Virendra Gupta

Founder and CEO

Verse Innovation Pvt Ltd (Dailyhunt)

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Virendra Gupta. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India Since quotes will be present in multiple chapters, recommend this disclaimer be moved to the end of the document.

Television players

Television players have also realised the importance of user engagement, and thus, have increased their presence across several digital platforms.

Apps by television players in the news and information space

Company	Services	Performance
NDTV[87]	Created multiple mobile applications including NDTV News, NDTV India, GADGETS 360, NDTV Cricket, NDTV Profit, NDTV InCar, NDTV Good Times and NDTV Play	NDTV News and NDTV Cricket have registered more than one million downloads in android devices
India Today Group[88]	India Today Group Digital (ITGD), the digital wing of India Today Group offers content from magazines (India Today, Business Today, and Cosmopolitan) and news channels (Aaj Tak, Headlines Today) through mobile apps and the Internet	ITG's web presence has increased over the years with more than 10 million distinct users, ranking it among the top and information websites in India
CNN-IBN and IBN7[89]	Launched a drive in 2015 to engage users real-time via Twitter's Periscope. The focus was to deliver interactive content, improving audience engagement and enabling people to watch live news through the app	-

87. Second Screen: The all new way to connect with NDTV, NDTV, http://www.ndtv.com/video/player/news/second-screen-the-all-new-way-to-connect-with-ndtv/292673, accessed on 17 February 2016.

88. 'Aaj Tak's growth will set a new benchmark and compel the competition to launch innovative content: Ashish Bagga', Best Media Info, http://www.bestmediainfo.com/2016/02/aaj-taks-growth-will-set-a-new-benchmark-and-compel-the-competition-to-launch-innovative-content-ashish-bagga/, accessed on 20 March 2016.

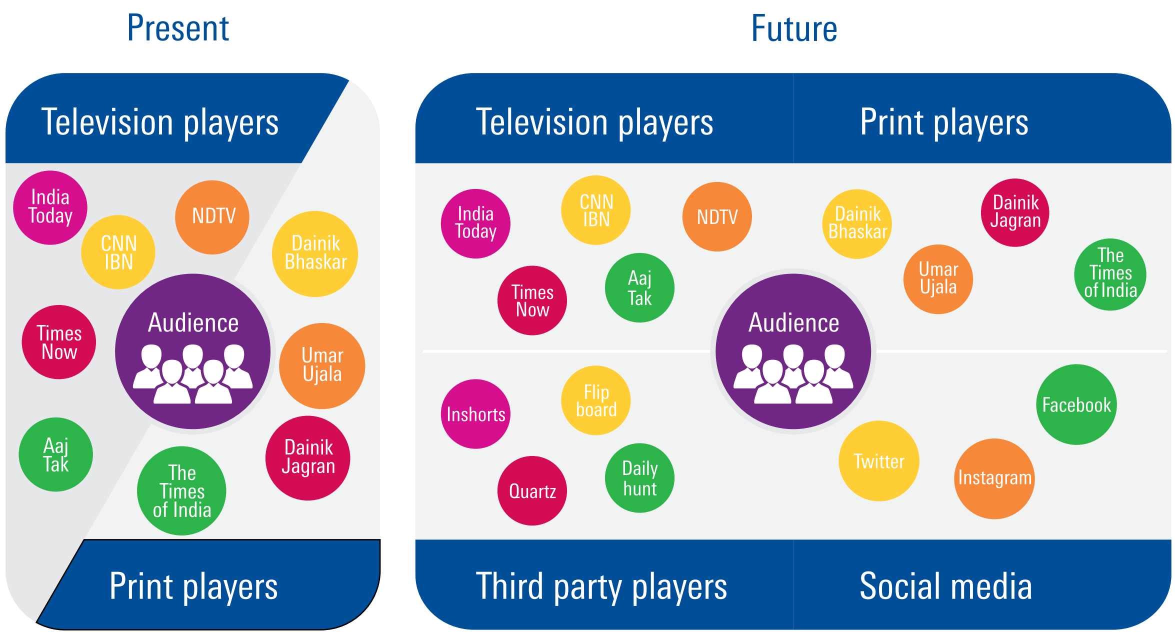
89. 'CNN-IBN & IBN7 use Twitter's Periscope', afaqs!, http://www.afaqs.com/news/story/45699_CNN-IBN--IBN7-use-Twitters-Periscope, accessed on 20 March 2016.

Challenges

New entrants and growing competition in news and information space expected to impact the print industry, in the long run

Traditionally, print and television companies operated in different ecosystems, each serving a different set of audience. However, this has changed with the increasing reach of digital media. Given the increasing popularity of the digital medium as a source for news consumption, print players could essentially be competing with television companies, third party apps, technology giants, and social media platform for the same set of target audience and mindspace.

The opinion amongst traditional print players, on whether to host news on platforms such as Facebook, Twitter, Inshorts, Dailyhunt, etc. remains divided. While a number of players host their news content on curated news aggregation platforms to drive their readership, others believe that this would create unnecessary competition and cannibalise their revenues in the long-term, as more and more people might switch to the aforementioned platforms for news consumption as against the digital properties of individual print players.



Low
Overall competition intensity between print and television companies

In the current scenario, there is hardly any competition between print and television players even though they are in the same business of news and information

High
Overall competition intensity among players in digital news and information space

In the coming years as digital media gains prominence for news and information consumption, players from different industries are expected to compete for mindspace of the same audience group

Note: Player names are illustrative for sample purposes.

Source: KPMG in India analysis.

Geo-specific advertising on alternate platforms may hamper print ad growth

Print is one of the most sought after mediums for localised advertisements. Brands looking at reaching and engaging audience in smaller cities and towns, do tend to make significant use of the print medium – given its ability to deliver a local message, a significant advantage over TV. Increasing focus on regional advertising has come to light owing to a number of developments, major being content consumption in native languages.

However, with FM radio phase III auctions, the advent of geo-targeted ads in television space, and mobile apps recognising the importance of engaging with the target audience in local languages, advertising revenue of the print industry are likely to get adversely impacted in the medium to long term.

FM radio phase III auctions

In 2015, the Indian radio industry concluded the first leg of phase III auctions. The e-auction which was conducted for 135 channels, concluded with 97 channels being allocated across 56 cities[90]. The growing reach of radio is expected to have a profound impact on smaller regional print players, which do not have the financial muscle to compete with large print players that have begun to spread their wings in advertising avenues other than print. For instance, HT Media, which operates the Fever FM radio station, spent INR340 crore in total to acquire 10 licences[91], and Jagran Prakashan acquired Radio City.[92]

Geo-targeted ads in the television space

In the TV sector, Star India set up an advertisement platform, known as Adsharp, for broadcasting geo-targeted ads in 2014. Using this, companies could customise their ads as per the tastes of specific local audiences. Furthermore, a significant number of media companies in the country, such as Zee TV, IBN7 and Colors, have been using Amagi's (a global media technology company) services to geo-target their ad campaigns. In 2015, Amagi and Zee Entertainment extended their services to advertisers through the inclusion of Zee Cinema to their list of channels that offer geo-targeted TV ads.[93]

Mobile apps recognising the importance of engaging with the target audience in local languages

The number of internet users in India is on the rise and is projected to be 825.2 million in 2020 from 331.5 million in 2015. At the same time, there has been a continual shift of Indian consumers toward vernacular content with Hindi emerging as a major language for accessing internet and users accessing the internet in English accounting for small fraction of the total user base.[94]

Thereby, smartphone companies are now focussing on making their handsets support languages other than English as well. Furthermore, a number of app developers have introduced applications specifically for regional audiences. For instance, a mobile messaging app 'Hike' unveiled a number of features in 2015, including keyboard support in Hindi, Marathi, Tamil, Gujarati, Bengali, etc.[95] In another instance, the creators of MyGov portal launched a mobile app in 2015 in English and Hindi, and announced that the app would soon be able to support several regional languages.[96]

The aforementioned developments in the television, radio and digital space are could possibly expected to reduce the print's share in the overall ad pie.

90. First Batch FM Phase III Auction Results, Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, accessed on 12 March 2016.
91. 'FM e-auctions: Radio operators spend big bucks on licences', Livemint, http://www.livemint.com/Companies/JfG2wFpxwush2eKJdNO5GJ/Govt-makes-Rs3000-cr-from-first-batch-of-Phase-3-FM-auction.html, accessed on 17 March 2016.
92. 'Jagran Prakashan completes acquisition of Radio City', The Economic Times, http://economictimes.indiatimes.com/industry/media/entertainment/media/jagran-prakashan-completes-acquisition-of-radio-city/articleshow/47632014.cms, accessed on 17 March 2016.
93. 'ZEEL AND AMAGI ADD ZEE CINEMA TO LIST OF CHANNELS THAT OFFER GEO-TARGETED ADVERTISING', Amagi website, http://www.amagi.com/press-release/zeel-and-amagi-add-zee-cinema-to-list-of-channels-that-offer-geo-targeted-advertising/, accessed on 12 February 2016
94. KPMG in India's analysis, 2016; Industry discussions held by KPMG in India.
95. Hike to launch its messenger in eight Indian languages, Financial Express, http://www.financialexpress.com/article/industry/tech/hike-to-launch-its-messenger-in-eight-indian-languages/182643/, accessed on 18 February 2016.
96. MyGov makers to introduce apps in Indian languages, BGR, http://www.bgr.in/news/mygov-makers-to-introduce-apps-in-indian-languages/, accessed on 18 February 2016.

Lack of a credible measurement system

The print industry has been facing perpetual issues with the measurement system used in India. A measurement system is a critical requisite that helps drive print advertising revenues. Robust measurement systems also help brands identify media consumption patterns across their target audience, and decide upon the advertising mix. Indian Readership Survey (IRS) was introduced by MRUC (Media Research Users Council) in 1995, aimed at establishing an industry standard for readership. However, the survey suffered a setback with prominent print players in the industry raising questions on its credibility. In 2013, the IRS results were challenged by 18 leading newspapers, which claimed that the results were flawed.[97] The new IRS was released in 2014, with multiple changes in the methodology to enhance its accuracy. However, it continued to receive criticism from players in the print fraternity[98], as only a quarter of the survey was deemed fresh and the rest of the content being the one discredited in 2013. Owing to this, the industry has reached a consensus that a more robust and pertinent measurement system needs to be established.

Print players have come together and are currently evaluating potential measurement systems using Broadcast Audience Research Council (BARC) as a benchmark for design, technology, ownership of construct and delivery. They believe their representation in MRUC (Media Research Users Council) is required, similar to how IBF (India Broadcasting Foundation) is represented in BARC.[99] The industry intends to ensure that there is a measurement currency that is backed by all, whether it is IRS or any other currency.

In light of growing apprehensions in the print sector, Media Research Users Council (MRUC) — the body controlling Indian Readership Survey (IRS) — and ABC have joined hands, with ABC now owning 50 per cent of IRS. Both the bodies have announced their plans for reviving IRS, with the field work for IRS 2016 likely to start in early 2016. The sample size would be increased to 330,000, or by about 33 per cent over the previous number, and proper back-checks would be performed.[100] The renewal of IRS is likely to act as a firm ground for setting up of a relevant measurement standard, one which intends to restore the faith of the print community in the coming years.

The main currency for print advertisers, to choose publications to advertise, are readership data and circulation. But the recent war over the IRS does not augur well for the print media sector. In a heterogeneous market such as India, you cannot invest in a medium without research so a robust individual measurement systems is of paramount importance. Focus should be on the lines of creating a better validation system, and using a larger sample size.

R. Lakshmipathy

Business Head

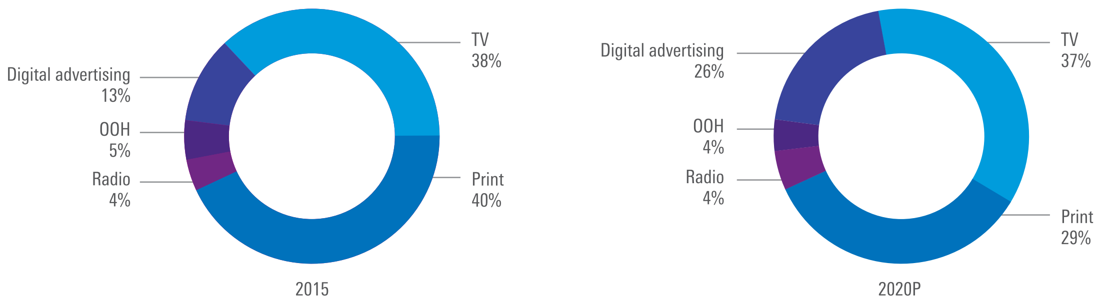
Dinamalar

97. Top newspapers quit IRS in protest, Times of India, http://timesofindia.indiatimes.com/india/Top-newspapers-quit-IRS-in-protest/articleshow/29876767.cms, accessed on 18 February 2016.
98. What's new? Certainly not IRS 2014, Exchange4Media, http://www.exchange4media.com/print/whats-new-certainly-not-irs-2014-says-times-of-india_59564.html, accessed on 18 February 2016.
99. Industry discussions conducted by KPMG in India.
100. We've recommended that the government only advertise in papers with ABC certificates" - Shashi Sinha, Chairman, ABC, Afaqs, http://www.afaqs.com/interviews/index.html?id=476_Weve-recommended-that-the-government-only-advertise-in-papers-with-ABC-certificates---Shashi-Sinha-Chairman-ABC, accessed on 11 February 2015.

Increasing digital ad spends

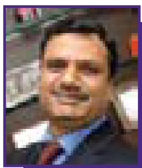
Digital media as a category grew the fastest in 2015 at 38.2 per cent and is expected to show a growth of 34.9 per cent in 2016. It is expected to reach a value of INR8,110 crore, accounting for 15 per cent of the total advertising expenses in 2016, making it the third largest contributor after television and print.[101] This could largely happen at the expense of the print industry, which is likely to lose a significant share in the total ad pie over the next five years.

Advertisement revenue composition



Source: KPMG in India's analysis, 2016.

It is estimated that by 2020, more than 11 per cent of the total advertising spend in India would be towards digital media. Increasing mobile and internet penetration, reducing data prices and introduction of 4G services are expected to further propel the growth of digital advertising in India. Government initiatives such as 'Digital India', digital literacy —focussing on strengthening India's technological infrastructure and achieving a digitally enabled and inclusive future can provide the much required impetus.



Over the past few years, advertising revenue of digital media has galloped at more than twice the rate of Indian Media Industry's growth. This euphoric phase has firmly placed digital ahead of radio and OOH advertising, though print and TV still account for over two-thirds of industry pickings. All the same, bellwethers [print/TV] are pulling out all stops to secure their fair share of the growing Indian advertising pie. With the country's economy poised for a healthy 7 to 8 per cent p.a. growth trajectory, the battle between media platforms is not going to ebb anytime soon!.

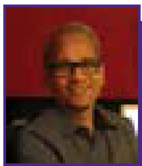
Mohit Jain

Executive President

The Times of India Group

101. Ad spend in India to grow at 15.5% in 2016, says GroupM , Business Standard, http://www.business-standard.com/article/companies/ad-spend-in-india-to-grow-at-15-5-in-2016-says-groupm-116012000014_1.html, accessed on 16 February 2016.

Owing to the growing digital opportunity, many of the print players have now started offering content through mobile apps and web portals. The possibility of cannibalisation between the print and digital media space does not yet exist, as the latter merely complements the former. However, the digital media is slowly and steadily distressing the readership figures for the print space. This is largely being witnessed in the case of millennial generation who access content in English, and primarily rely on news feeds from different platforms, including social media.



"Currently, the revenue model for digital news publications is advertising. That is also the traditional print — and to a large extent broadcast — model where the advertiser coughs up for subsidising the reader. News still commands a certain premium in print and broadcast. For example, ad revenues of television news (as a percentage of the total ad spend on television) will be in multiples of the television news viewership which is only 6 or 7 per cent of the entire television universe. There is a halo around the news genre here which allows it to punch way beyond its weight in terms of ad revenue share. In digital, there is no 'aura' around news products. In fact, in the digital space, the news brand has been 'diluted' because the nature of news itself undergoing a dramatic transformation and individuals are getting to be media houses on their own. So, it is unlikely that a news product in the digital space is ever going to be able to command a premium in the ad market space like print or broadcast. That is why payment gateways are not going to be easy to enforce in India. Yet, no digital revenue model will be successful until companies start charging the consumers as they are the ones that will bring in the volume. That is the challenge that digital news is facing. It is waiting for the magic bullet."

B. V. Rao

Editor

Firstpost

Additionally, the digital media serves as a growing prospect for advertisers as they are able to run instant surveys, connect with target audience, and get quantifiable statistics. Over the next few years, print companies are likely to start distributing content to a broader audience. However, expanding across digital platforms may not be adequate unless this is effectively monetised to recompense for any loss of revenue through traditional medium.

Continued dependence on newsprint prices and fluctuations in exchange rates

The Indian print industry continues to be driven by the macroeconomic dynamics in the country, given the high dependence on imported newsprint. Even though the newsprint prices have experienced a decline of late, firms expect the newsprint prices to incline upward in the future. The dwindling Indian Rupee has historically taken a toll on the print space in India. Newsprint costs make up for about half of a publisher's expenses and any fluctuations in the prices or exchange rates affect their bottom line. Given that a large chunk of the newsprint in India - especially for English newspapers - is imported, the depreciation of rupee sends the prices spiralling up. With no significant capacity expansion planned in the Indian newsprint space, the changing aspects of the imported newsprint concerning landed cost and quality could continue to direct the industry in the coming years.

Restrained growth opportunities in print media

Market fragmentation and existing competition restrict expansion opportunities

Owing to the rising demand of regional content and saturating circulation in metros and tier-I cities, print players have briskly expanded their presence to markets consuming news in languages other than English. Over the past few years, players have launched countless new papers/editions in regional markets. Consequentially, a majority of Hindi-speaking states are now home to a number of media players, leading to a massive paucity of new markets to be explored for spreading business. Vernacular markets, too, exhibit a similar trend as a high degree of competition exists in key language markets, such as Tamil Nadu, Kerala, Karnataka, Andhra Pradesh, Odisha and West Bengal.

Capital intensive nature of the industry constrains organic growth

Print is a capital-intensive industry and it takes anywhere between 8 to 10 years to reach break-even.[102] While this makes it difficult for small players to hold their footing, it leaves little or no headroom for further organic growth for large players, compelling them to either calibrate

102. Industry discussions conducted by KPMG in India.

their investment efforts on the existing markets to fortify their presence or diversify into other M&E sectors (radio, television, etc.). The Times Group, a leading publishing player in the Indian media market, has continued to explore growth territories other than newspaper publishing, by establishing presence in the radio (Radio Mirchi), television (Zoom, MN+) and digital (Times Jobs, Simply Marry, Magic Bricks) spaces.

Non-print businesses like digital and radio will provide the added support in terms of a stronger media proposition. With greater acceptance of digital news, shelf life of news has greatly increased as readers are able to access news throughout the day rather than just being limited to the first part of the day.

Girish Aggarwal

Promoter Director

Dainik Bhaskar Group

Conclusion

Even though revenue growth has slowed down in the recent years, the print media continues to hold relevance, which can be gauged from the addition of more than 5,000 registered newspapers/periodicals annually for the last few years[103]. Regardless of the noteworthy growth in digital media, the print industry faces no immediate challenge as internet penetration in India stands at a mere 27 per cent[104], which is currently too low to cause any adverse impact. Print companies are utilising digital medium for a consolidated service offering and many of the companies have expanded their existing portfolio to include new delivery formats such as social media platforms, mobile news apps, etc., — for an additional stream of revenue.

2015 turned out to be an interesting year for the print circulation revenue. In spite of an increase in cover prices, several of the players recorded a rise in their circulations, resulting in a y-o-y growth of 8.2 per cent in 2015, over the previous year. Although the advertising revenue grew at a slower pace (approximately 7.3 per cent) than the circulation revenue during 2015, it is expected to surpass circulation growth in 2016 and maintain the growth trajectory over the next five years.[104] With a growing focus on tier II, tier III and rural areas, the sectors such as FMCG, auto, retail, e-commerce are likely to increase their ad spend in these markets. Changes on the macroeconomic level are also likely to be conducive for the print industry.

With a number of third-party apps, social media players, technology giants, and television players establishing their presence in the digital news and information space, competition is likely to intensify for the print players on digital platforms. Thus, in the near future, we could see heightened collaboration among the print and curated news aggregators to increase their returns from the medium. Content differentiation, innovative ways of storytelling and superior content mobility could become imperative for print companies, as access on ubiquitous screens gain further traction.

Demanding readers, growing opinions, digital profligacy, accurate and yet differentiated coverage, etc., placed greater demands on the industry. The need to continuously improve the content, look, tone and feel continues to dominate the editorial rooms. Stickiness will be a huge factor for the industry and the future belongs to those who quickly adapt to readers' needs. The need to connect with readers and gauge their preferences has grown this year and is likely to keep moving in this direction.

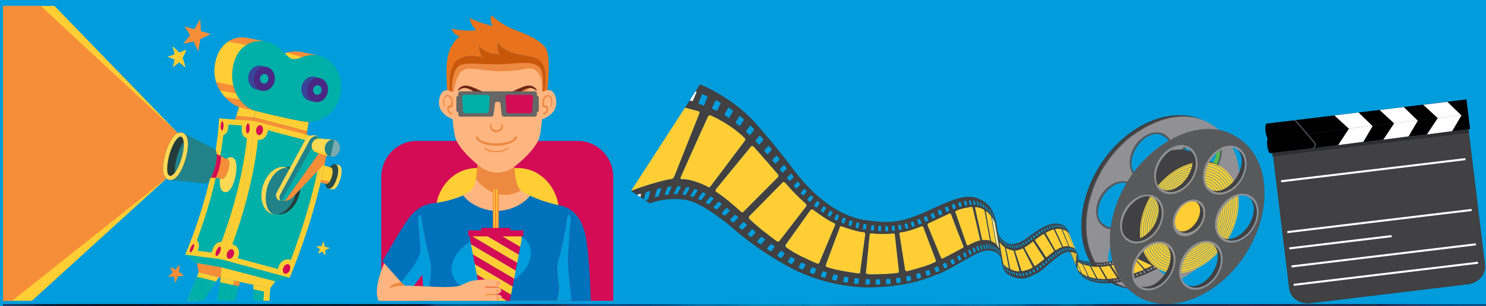
Pradeep Dwivedi

Chief Corporate Sales and Marketing officer

Dainik Bhaskar Group

As content becomes the focus of the print players, the improvement in reader experience and overall effectiveness of ad placements is likely to be key. This could partially depend on the robust measurement systems, by measuring user engagement across numerous platforms and screens, and thus allowing the companies and the advertisers to make informed decisions.

103. The Registrar of Newspaper in India, Annual Report FY15 ended on 31 March 2015.
104. KPMG in India's analysis, 2016.



Films

Screened out

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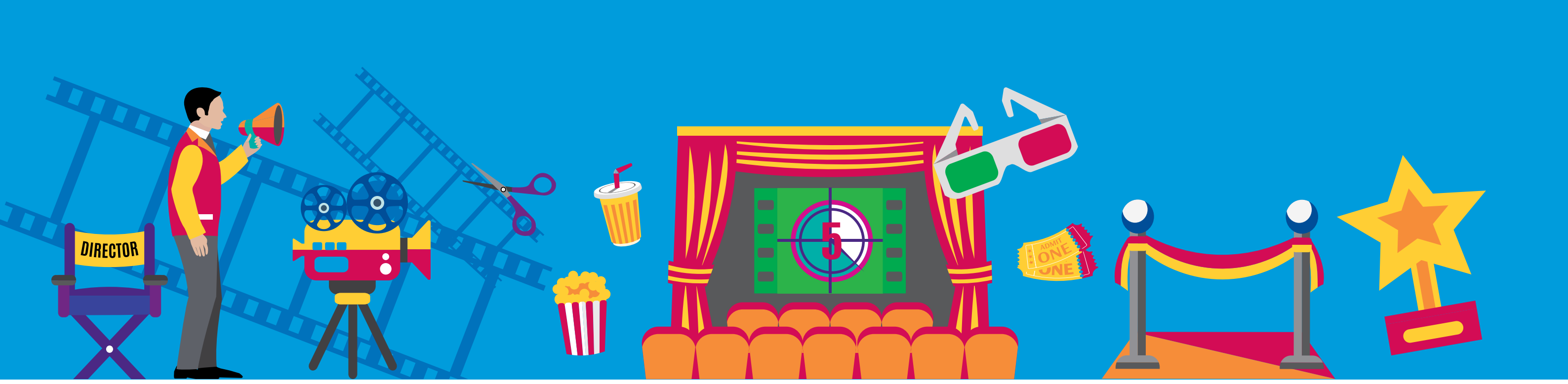

Executive summary

The year 2015 experienced an assortment of developments for the Indian film industry. While exhibitors recorded a significant growth in regional and Hollywood film collections, the collection for Hindi films (Bollywood) was almost flat as compared to previous years. On the other hand, strong regional content seemed to have gained acceptance even among the non-native language speaking audience, improving the share of regional films in the overall revenue pie. Action-hero film franchises, along with wide distribution and marketing, helped Hollywood in continuing its double digit growth trajectory in India, clearly demonstrating the audience's appetite for differentiated content.[01]

Bollywood too delivered a handful of films based on superior content that performed well. However, weak contents failed to attract audiences to theatres. With the rising average ticket prices and availability of alternate entertainment platforms, the domestic audience today has become more discerning than ever, when it comes to watching films in theatres. On the contrary, the overseas audiences, and cable and satellite (C&S) rights continued to favour films of A-listed actors in 2015. Producers need to take cognisance of the evolving audience and provide content that earns footfalls.[01]

On the other hand, under-penetration of screens continues to limit the domestic performance of the Indian film industry. Having undergone a phase of consolidation, the exhibition players are now focussing on organic screen additions and miscellaneous revenue streams, such as in-cinema advertising and value added services, to drive growth. However, it is high time that both the government and the industry start thinking of innovative solutions to increase the screen density, and unlock its true potential. In the coming years, digital is expected to emerge as a strong revenue stream as both the domestic as well as international digital platforms are building libraries for Indian audiences.[01]

Production

Increased cost consciousness in the industry

The industry has been taking into account the losses incurred, year on year, due to increasing budgets that fail to translate into a corresponding increase in box office collections, thus threatening the viability of the industry.

Talent and marketing costs are the main areas that are being looked at to improve the profitability of projects. In Bollywood, the talent costs can be as high as 60 per cent of the budget of a film[01], while they are limited between 15 and 20 per cent across the rest of the world.[02] Cost consciousness has led to a steady shift in the business model, with actors increasingly accepting a revenue share instead of frontloading the entire fee, thus enabling risk-sharing across the value chain. Studios are also experimenting with fresh talent, which comes onboard for a lower fee. For instance, talent costs at Yash Raj Films are approximately 25 per cent lower than the industry average because bulk deals are signed with new actors.[02] On the marketing front, there have been active measures to curtail the marketing spend by rationalising spends on print media, reducing the number of promotional tours, and shortening the duration of the campaign.[03]

> The theatrical performance of Hindi movies is more polarised today than ever before. If a movie is loved, it goes on to doing great business and if its not, then the numbers see a steep fall even if it opened well. Getting the cost model of any movie right is critical. The excess in movie marketing budgets and the indulgence in movie production budgets must go. There is a high level of awareness on this, it is now important for the industry and all stakeholders to align with this thought process.
>
> Amrita Pandey
> **VP - Studios**
> Disney India

Increasing focus on content development

The previous year saw many films with a strong storyline (with or without A-listed actors) doing well and a few films having A-listed actors crash at the box office, further strengthening the hypothesis that a good script is indispensable for the success of a film. Consequentially, players have initiated several programmes to consciously focus on content development:

- **Shift from the acquisition of projects to in-house content development:** Corporatised studios which used to acquire films a few years ago and invest in multiple projects like a private equity firm are now getting involved in developing the scripts, identifying the cast of the films and even working on the ensembles. By doing so, they have more control over the costs and the content from an early stage itself. Disney India's 'ABCD 2' and Eros International's 'Bajirao Mastani' were noteworthy examples of corporatised studios making films in-house.[04]

01. KPMG in India analysis based on industry discussions
02. 'Bollywood goes for cost-cutting: Promotional tours to be curtailed', Bollywood Hungama, http://www.bollywoodhungama.com/movies/features/type/view/id/8296 accessed on 04 March 2016
03. 'Bollywood goes for cost-cutting: Promotional tours to be curtailed', Bollywood Hungama, http://www.bollywoodhungama.com/movies/features/type/view/id/8296 accessed on 04 March 2016
04. Industry discussions conducted by KPMG in India

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- **International alliances and mentoring for content development:** Amongst other initiatives for content development, Drishyam Films, an independent film production company, has collaborated with the U.S.-based Sundance Institute in organising the Drishyam-Sundance Screenwriters Lab. The lab, organised annually, is aimed at developing good scripts by identifying and training new writers and directors and giving them an opportunity to be mentored by experienced international film-makers.[05 06]
- **Strategic alliances with domestic players across the value chain:** Having understood the need for a strong creative team and realising that it is difficult to get good creative artists on payroll, Reliance Big Entertainment's film production and distribution business has partnered with boutique production company, Phantom Films in a 50:50 venture for film production. Reliance is expected to benefit from the creative abilities of Phantom while exercising their commercial expertise to make profitable films. Similarly, Fox Star has collaborated with Dharma Productions for a deal worth INR5 billion.[07] This would allow the latter to focus on its core competency of content production and leverage Fox's distribution network. Thus, the players are consolidating through strategic alliances to maintain the focus on their key strengths.[08]

In order to cater to the evolving audience preferences, several initiatives are being undertaken with a view to be a market thought leader and profitable. There is a real commitment to development , scripts & story telling .Themes centred around women's empowerment, biopics, and stories which are rooted in real life will resonate well with the audience. There will be a greater focus on creating franchises which offer a better return on investments. VFX technologies will be leveraged to up the quality of movie experience .The coming years are going to be exciting for Bollywood as it also focuses on getting its business model right with a view to putting the industry back on a growth trajectory.

Vijay Singh
Chief Executive Officer
Fox Star Studios

Building franchisees

Over the last year, some of the studios have taken lead in developing stories that have the potential to span for a series of films and could be turned into successful franchises.[06] From a business point of view, franchises offer multiple potential benefits:

- **Leveraging historical success to attract footfalls:** Franchisees are like strong brands that can help build strong equity, which can be leveraged across a number of films by creating a loyal customer base. Out of the six franchisee films released in 2015 in Bollywood, five have successfully recovered their costs from domestic theatricals and even surpassed their forerunners in terms of domestic box office collections, indicating higher popularity.

Comparison of lifetime collections of franchisee films released in 2015 against their respective forerunners

Sequels in 2015	Lifetime (INR million)	Prequels	Lifetime (INR million)	% Increase In lifetime collection
Tanu Weds Manu Returns	1,520	Tanu Weds Manu (2011)	380	300
ABCD 2	1,057	ABCD (2013)	455	132
Welcome Back	970	Welcome(2007)	550	76
Pyaar Ka Panchnama 2	620	Pyar ka Panchnama (2011)	110	463
Hate Story 3	535	Hate Story 2(2014)	271	96
		Hate Story (2012)	140	281
Ab tak Chappan 2	66	Ab Tak Chappan (2004)	24	177

Source: http://www.koimoi.com/ and http://www.bollywoodhungama.com/ accessed on 28 February 2016

05. http://www.screendaily.com/news/production/drishyam-sundance-institute-line-up-writer-lab/5083754.article as accessed on 04 March 2016
06. Industry discussions conducted by KPMG in India
07. Economics times, June 4 2015,'Star India, 'Karan Johar ink three year production and distribution deal worth Rs 500 crore'
08. 'Karan Johar's Dharma Productions joins hands with Fox Star Studios for a Rs. 500 crore deal', Bollywood Hungama, http://www.bollywoodhungama.com/news/13044007/Karan-Johars-Dharma-Productions-joins-hands-with-Fox-Star-Studios-for-a-Rs.-500-crore-deal accessed on 2 January 2016

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Hollywood's success in 2015 was hugely attributed to an increase in special-effects film franchises like 'Fast & Furious', 'Avengers', 'The Hunger Games', 'Jurassic Park', 'James Bond' and 'Star Wars'. These franchisees led a group of 14 films with more than USD500 million each in worldwide box-office takings, up from just five such films in 2006.[09]

- **Reduced dependence on star talent:** Franchisees are driven by strong stories and characters, rather than star power. Having realised this, the franchisee films of Hollywood are consciously moving away from star cast as they have been proven to do well without A-league actors.[09] The same learnings are being leveraged in the Indian film industry with studios casting new talent or non A-league actors for such franchisee films.
- **Development of ancillary revenue streams:** The brand equity of the franchise and popularity of the characters can also be extended to licensing and merchandising to achieve greater profitability. 'The Avengers – Age of Ultron', which released in India in 2015 made comparable revenues from licensing and merchandising as from box office.[10] Extension of the film to other platforms such as TV serials, digital comics, story book adaptations allow additional revenues to flow in.

How technology is transforming film production

Improving quality of films: Continuous industry innovations, such as higher frame rates, 3D filming technologies, 4K and 8K resolution shooting and computer-generated imaging (CGI) are improving the quality of films produced.

Improving efficiency of production: Cloud-computing services are facilitating development of collaborative ecosystems which help manage the data requirements for film production and also facilitate collaborative film-making, thereby improving the efficiency of the various processes such as file conversions, real-time editing and storage of large media files.

Improving the return on investment: Analytical solutions are being used to gauge the audience engagement across various touch-points and take measures to maximize the return on investments. Movie studios around the world are also exploring predictive analytics algorithms that can forecast the success of their projects.

09. The Economist, 27 February 2016, 'Fading stars'
10. Industry discussions conducted by KPMG in India

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Marketing and distribution

Rationalisation of marketing costs

Many film production houses are taking steps to rationalise their marketing spends, such as:

Shortening the duration of promotion campaigns: The production houses are reducing the duration of promotion campaigns from the former eight to ten weeks, to five to six weeks.[11]

Lower investment in print media: The media platform mix is shifting towards television and digital. A typical media mix now comprises 40 to 50 per cent of TV, 10 to 15 per cent digital, 20 to 30 per cent activations and only 10 to 20 per cent print.[11] Social media is becoming a very important part of the marketing strategy because of the potential benefits of the two-way communication.

Integrated brand-tie ups to unlock synergies: Films are integrating relevant brands to foster a symbiotic relationship. For instance, Haldiram, an Indian sweets and snacks brand tied-up with 'Prem Ratan Dhan Payo' for both in-film and out of film associations.[12] Similarly, 'Piku' and 'Bombay Velvet' covered around INR180 million and INR190 million worth of publicity through brand tie-ups, respectively.[13]

Growth of digital marketing: Promoting films digitally has become attractive as it allows the production houses to employ a variety of strategies at lower costs. A few evolving features of digital marketing are as follows:

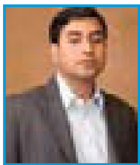
- **Use of newer platforms:** New social media platforms such as Snapchat, Instagram and WhatsApp are being explored for film promotions. Over-the-top content (OTT) platforms are being used to launch exclusive original audio-visual content. For instance, Fox Star Studios launched a mobile-first film preview for 'Bombay Velvet', on its partner OTT platform - Hotstar.[11]
- **Growth of content marketing:** Consumers prefer consuming content rather than advertising communication. Hence, there is an increasing focus on the use of content platforms. For instance, Listicles have started becoming popular due to their ability to satisfy the requirements of the digital audience for entertainment and information.[11]

Exhibition

Closing consolidation and moving to organic growth

Aggressive consolidation in the last couple of years has led to the emergence of four players controlling close to 70 per cent of the total multiplex screens in the country. Going by the number of screens owned, PVR cinemas (PVR), with 497[14] screens, continues to lead the Indian exhibition industry, though a series of major acquisitions in 2014 and 2015 have seen other players – INOX Leisure, Carnival Cinemas and Cinepolis - closing in on the gap. While large consolidation opportunities seem to have been exhausted, players continue to look out for smaller acquisitions. The next phase of screen growth is expected to be driven by organic additions.

Exhibition player	Number of screens
PVR Cinemas	497[14]
INOX Leisure	416[15]
Carnival Cinemas	341[16]
Cinepolis	215[17]



"The market for cinemas has been expanding and 2015 has witnessed significantly better footfalls than 2014. This coupled with robust growth in average ticket prices has resulted in overall growth for the business. 2015 has also seen major consolidation in exhibition and it is now imperative to look at organic pathways to growth."

Nitin Sood
Chief Financial Officer
PVR Cinemas Ltd.

11. Industry discussions conducted by KPMG in India
12. Nagpur Today, 02 December 2015, 'Haldirams Innovation In "Prem Ratan Dhan Payo"'
13. Business Standard, 02 June 2015, 'Brands join the star cast'
14. PVR Cinemas, http://www.pvrcinemas.com/ as accessed on 01 March, 2015
15. INOX Leisure, http://www.inoxmovies.com/ as accessed on 01 March, 2015
16. Carnival Cinemas, https://www.carnivalcinemas.in/ as accessed on 01 March, 2015
17. Cinepolis, http://www.cinepolisindia.com/ as accessed on 01 March 2015

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Evolution of online ticketing

The share of online ticketing has increased significantly from 6 per cent in 2006 to 32 per cent in 2015.[18] The convenience of deciding and choosing the seats without waiting in queues has enhanced the film watching experience and encouraged the overall footfalls.[18] Online ticketing also allows the exhibitors to upsell other value addition services such as Food and Beverage (F&B) services, thereby improving the total revenues per footfall. The entry of mobile wallet company Paytm, with a large existing user base, in the online ticketing space is expected to provide further impetus to online ticketing.

Quest for improving comfort and experience by exhibitors

Continuous innovation supported by technology evolution has become a key driver of growth for the exhibition industry. For a wholesome viewing experience, exhibitors are adopting newer technologies such as the 4DX and Dolby Atmos's immersive audio and laser projection. 4DX consists of high tech motion seats that are synchronised with the on-screen action to heighten audience emotion throughout the film. It offers over 24 varieties of special effects such as wind, fog, lightning mist and scents in a 3D format.

Also, there is an added focus to differentiate on the basis of convenience – while PVR screens provide wider seats, Cinepolis theatres allow more leg space. Exhibition players have also started their own in-house F&B outlets to provide an elaborate range of freshly prepared options. Improving the theatre experience by renovating the acquired properties is expected to bring about an increase of 10 to 15 per cent in revenue.[18 19]

"The Indian multiplex industry has largely completed the consolidation phase and for the new growth wave the Industry urgently needs to endorse technology not only to understand the patron (CRM, big data) but also to integrate business functions; improve reach through quality patron touch points; and deliver customer delight. It will soon face pressure from global media companies in the TV space for patron share of wallet."

Sunil Punjabi
Strategic Advisor
CJ CGV

"Convenience, comfort and choice in terms of shows, films and formats is changing the film viewing experience. In the standard theatres, the focus is merely on the film. In the more evolved theatres, the focus is on the other experiences such as the picture quality, comfort, F&B service, etc. The value added services and luxury experiences are allowing the exhibitors to cater to more consumer segments and increasing the pie for the exhibition industry."

Kamal Gianchandani
CEO
PVR Pictures Ltd

18. Industry discussions conducted by KPMG in India
19. Business Korea, 8 April 2015, 'Multi-projection Tech CJ CGV to Present ScreenX at CinemaCon 2015 in U.S.'

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Futuristic technologies: Virtual reality in films

As the focus shifts from seeing to experiencing films and making oneself a part of the ecosystem, the standards, hardware specifications and medium of consumption of high-quality films are expected to undergo a major change.

The ability of virtual reality (VR) to create a computer-generated three dimensional environment provides an ideal platform to create and consume content. It has the potential to engage with the users on a deeper level than any other existing media with merely a smartphone and its headgear. The immersive content allows the consumer to be an active part of the film ecosystem, fully understand the setting the director wishes to portray and even participate and change the course of the story rather than stay a passive viewer.[20] The ability to include the viewer in a scene provides huge opportunities for scriptwriters to further stretch their creativity. Camera movements too are likely to experience a shift to complement the consumer centric consumption. Various features such as better resolution, feedback mechanisms for touch and feel, seating arrangements and 4D effects are expected to further add to the VR experience. Thus, VR together with its potential of a superior viewing experience and the convenience of on-demand consumption has the potential to revolutionise the film industry.

Oculus rift, Sony's project Morpheus, HTC Vive, Google cardboard & Samsung gear VR are well-known brands promoting the use of VR technology. Short films such as 'Henry' and 'The displaced' are currently used to market the technology and have received exceedingly positive responses.

Technological advancements in the Indian cinema exhibition business

Companies today are going beyond the traditional ways to connect with their audience. From smartphones and tablets to mobile apps and cloud-based technology, there is a plethora of advancements to not only keep track of, but also to profit from. To stay one step ahead in the competitive environment, it is of utmost importance to anticipate the most significant technology trends that are shaping the business. One would need to then develop innovative ways to use them to an advantage, both inside and outside an organisation.

At a time when consumers have the latest technology – equipped home theatres and devices - the big challenge for the multiplex industry is to increase the frequency of visits, as well as offer different kinds of experiences that attract an audience of all age groups. Key players in the industry today have set new standards for themselves, an effort which has revolutionised the way entertainment is consumed in the country. Today's techno-savvy audience wants it all - crystal clear projection, distortion free immersive sound and great acoustics. Multiplex owners are stepping up to this challenge with the use of technology.

As multiplex chains gain scale, providing a consistent consumer experience and handling operations across all facilities becomes more challenging. Today, at INOX, technology has helped ensure a superior viewing experience across all screens by monitoring and maintaining a consistent sound and brightness level, as well as monitoring the health of the sound and projection system to prevent disruption in film viewing experience. There are systems in place to boost the in-cinema advertising revenues by enabling the advertisers monitor the advertising content directly and access logs on a real-time basis. INOX has set up 'Network Operating Centre' to provide a superior and consistent on-screen experience to its guests and also provide seamless reports to its business partners.

With increasing competition in the exhibition industry, it is essential for the players to differentiate themselves with attractive services. Multiplexes can use analytical tools to analyse data from various touch points such as the box office, F&B counters, and bookings made through the website and mobile applications. The insights from data can be used to understand consumption patterns and consumer preferences which can help them design effective services, and can assist them in differentiating themselves, as well as gain a loyal customer base, and support in unlocking higher value from each customer. At INOX, we have partnered with SAP HANA as our technology provider to integrate our back-end systems, improve efficiency and streamline processes which target our guests. Technology can also enable multiplexes provide a superior ticket-booking experience and F&B experience by providing added convenience. For instance, 'Paperless Entry' at INOX allows consumers to book tickets online and removes the hassle of long queues at the box office. Also, 'Q-Buster' enables customers standing in queue to place their order via a tab that will get their F&B orders directly delivered to their seats. Also, guests can now order their food by using the INOX mobile app while watching a movie, by paying through the 'saved card' feature. INOX has also deployed information beacons, which work on low energy bluetooth to provide location-based information and offers. Once guests walk in at an INOX, they start getting relevant offers and information pushed through the beacons to their smartphones. This information and offers can be availed at the ticket counters or at the F&B counters.

20. 'What It Was Like to Watch the New York Times' VR Movie', Fortune, http://fortune.com/2015/11/09/new-york-times-virtual-reality/ accessed on 26 February 2016

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Consumers today are very discerning and look for the best-in-class service from any provider. We are excited to be able to create more opportunities in the entertainment space for our guests. With these state-of-the-art initiatives undertaken, it is evident that the Indian cinema exhibition business is shifting towards two polar points: convenience and technology. 2016 is all set to be another great year for the industry and there is a lot in store. Multiplexes like INOX are set to provide their guests with the best movie viewing experience India can offer, including a lot more. As they say, this is just the tip of the iceberg.

Alok Tandon

Chief Executive Officer

INOX Leisure Limited

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Industry performance and projections

Film Industry Performance

Revenues (INR billion)	2011	2012	2013	2014	2015	2016p	2017p	2018p	2019p	2020p	2014-15 (YoY growth)	CAGR 2015-2020
Domestic theatrical	68.8	85.1	93.4	93.5	101.4	115.8	125.7	136.1	147.6	159.9	8.5%	9.5%
Overseas theatrical	6.9	7.6	8.3	8.6	9.6	11.4	12.4	13.5	14.5	15.6	11.5%	10.9%
Cable and satellite rights	10.5	12.6	15.2	14.7	15.9	18.2	19.8	21.4	23.2	25.1	8.1%	9.5%
Home video	2.0	1.7	1.4	1.2	1.0	0.9	0.8	0.7	0.6	0.6	-14.0%	-12.2%
Ancillary revenue streams	4.7	5.4	7.0	8.4	10.2	12.5	15.4	18.3	21.9	26.1	22.3%	21.1%
Total	**92.9**	**112.4**	**125.3**	**126.4**	**138.2**	**158.7**	**174.1**	**190.0**	**207.8**	**227.3**	**9.3%**	**10.5%**

Source: KPMG in India analysis

Domestic theatricals

Regional, Hollywood driving the growth of domestic theatricals

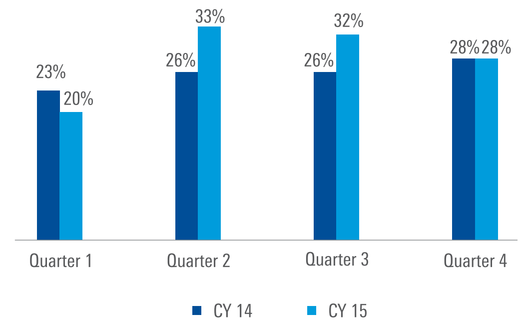
Domestic theatricals continued to be the main source of revenue with a 73 per cent share in the total revenues for the Indian film industry.[21] In 2015, domestic theatrical revenues grew by 8.5 per cent to reach INR101 billion on the back of an increase in overall footfalls as well as an inflationary growth in average ticket prices.[21] While, Bollywood had a soft year, Hollywood, with its tent pole franchise films and regional films with strong content, more than compensated for the former's downslide performance.

One of the most important themes that emerged during 2015 is the increasing share of Hollywood and regional content in the total domestic revenues. This may be an indicator of consumers looking beyond Bollywood for their entertainment.

The first quarter of 2015 witnessed lower than normal domestic collections, mainly due to the ICC World Cup and lack of good content films that resonated with the audience. Second quarter was revived by some films – such as 'Tanu Weds Manu Returns', 'Piku' and 'ABCD2' that performed very well at the box office due to the strong content. Also, a few Hollywood franchise films such as 'Avengers: Age of Ultron', 'Fast & Furious 7', 'Jurassic World', which got a wider release due to dubbing and release on e-cinema screens, also showed strong performance. The third quarter belonged to the domestic successes of the year – 'Bajrangi Bhaijaan' and 'Baahubali', which witnessed record collections.

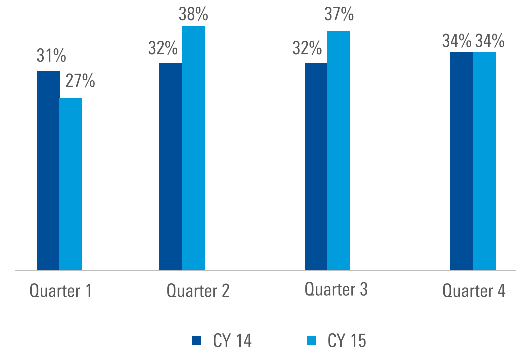
21. KPMG in India analysis based on industry discussions

Quarter-wise comparison of occupancies (CY14 vs CY15) across comparable properties of INOX Leisure



Source: Investor Presentation, Inox Leisure Limited, February 2016

Quarter-wise comparison of occupancies (CY14 vs CY15) across comparable properties of PVR



Source: PVR Cinemas

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Further, regional films which are normally the mainstay of single screens, contributed up to 30 per cent in revenues at some national multiplexes during the second and the third quarter, indicating wide acceptance of good regional content. The fourth quarter was muted as a few films with leading actors failed to perform well at the box office. This trend across the quarters is reflected in the occupancy levels of national multiplex chains such as INOX and PVR.[22]

Bollywood

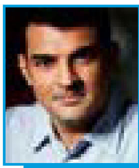
The box office collections for Bollywood in 2015 were low compared to 2014. In particular, only six of the leading 10 grossing films in 2015 crossed the INR1 billion mark and two crossed the INR2 billion mark as compared to 2014 wherein nine of the leading 10 grossers had collections above INR1 billion.[23]

Some of the key takeaways for Bollywood from the year 2015 are:

Domestic audience growing more discerning, focussing on strong content: Unlike the last few years when category-A films with A-listed actors invariably did well at box office, 2015 saw quite a few films with A-listed actors failing at the box office due to lack of strong content. With a wide exposure to good content cinema from Hollywood and regional films, the preferences of the audience are evolving.

Need to reassess the budgets, keeping profitability in mind: A mere 26 of the leading 50 Hindi films in 2015 recorded a positive return on investment from their domestic collections. This has increased the need for a serious cost restructuring and marketing optimisation plan.[23] In terms of absolute value of returns, five of the leading 10 films were low budget (less than INR500 million) films, which were mainly driven by strong content. Also, amongst the leading 10 films at the box office, four films failed to recover more than 25 per cent of their investments from their box office collections, despite their collections being upwards of INR800 million. Thus, having seen that the high budgets do not necessarily lead to proportional returns, there is a need to reassess the spending.[23]

Need for better windowing and slate planning: The year 2015 witnessed a major clash between two big releases 'Dilwale' and 'Bajirao Mastani'. This is expected to have resulted in a loss of revenue of about 15 to 20 per cent to each, reiterating the importance of having the right release strategy in place.[23]



With the multitude of entertainment options that are available and easily accessible today, the Indian audience is becoming much more discerning about its choices. It is looking for experiences that are compelling, engaging and specifically customised to suit individual tastes and preferences.

Siddharth Roy Kapur
Managing Director
Disney India

Eight out of the top 10 movies for the highest ROI per cent in 2015 were low budget movies (Less than INR500 million budget)

Rank according to ROI %	Movie	Budget
1	Tanu Weds Manu Returns	Low
2	Bajrangi Bhaijaan	High
3	Pyaar Ka Punchnama 2	Low
4	Kis Kisko Pyaar Karoon	Low
5	Dum Laga Ke Haisha	Low
9	Piku	Low
6	Hate Story 3	Low
7	Badlapur	Low
8	ABCD 2	Medium
10	NH10	Low

Methodology: ROI is calculated as: Collections from domestic theatricals (NBOC)/(cost of production + PA) Budget categorisation: High: > INR1 billion; Medium: INR500 million to INR1 billion; Low: < INR500 million

Source: http://www.koimoi.com/ and http://www.bollymoviereviewz.com/ accessed on 28 February 2016

22. KPMG in India analysis based on industry discussions conducted by KPMG in India
23. KPMG in India's analysis

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At a time when Movie goer base in India is not growing organically, Box office revenue clocked becomes an aggregation of the overall content performance of films on footfalls generated by existing movie goer base. Some marquee films underperformed while some had breakout numbers resulting in the overall box office revenue remaining stagnant. There was a contribution of 10-11 per cent growth in ATP. Movies have to perform to earn footfalls, theatrical collection does not grow in line with economy as it is not an annuity income. Films that delivered great content did see break out collections whether its Tanu Weds Manu or Pyaar Ka Punchnaama. So better content films & cleaner windowing at box office to avoid cannibalisation are two key lessons from the year. How to grow movie goer base in the face of growing satellite penetration & piracy remains the bigger & more fundamental challenge.

Ajit Andhare
COO
Viacom18 Motion Pictures

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Regional markets

The year 2015 stands as a testimony to the establishment of a strong foothold of regional cinema in both domestic as well as overseas market. Tamil and Telugu films, along with Bollywood, make about two thirds of the films produced every year.[24] It is expected that the cinema in southern India, especially Tamil and Telugu, shall soon surpass Bollywood in terms of the share of box office collections by language.[25]

'Baahubali', a Telugu-language film, grossed INR6 billion worldwide.[26] It opened in approximately 2,000 screens in northern India market, ultimately contributing about 25 per cent to its overall domestic collections.[27] This phenomenal success suggests that good content is breaking language barriers and fast gaining popularity among audiences.

Shift from star-driven to content-based films in the Tamil film industry

The Tamil film industry produced 203 films in 2015, out of which only 18 were profitable for the producers, having successfully recovered their cost of production.[28] Films with strong content like 'Kaaka Muttai' performed well not just at the Tamil box office, but were also accepted well in new markets like Hong Kong , collecting over HKD1 million (INR8.6 million).[28] 'Kanchana 2' along with its Telugu dubbed version 'Ganga' grossed over INR1 billion worldwide on an investment of INR180 million.[29] However, certain films such as 'Uttama Villain', despite starring top actors, performed poorly at the box office.

Cross-border popularity of strong cinema drives growth of the Telugu film industry

The Telugu film industry produced about 162 films in 2015. Out of these, only 30 per cent were able to recover their production costs.[30] However, 2015 emerged as a year of transition for this industry with films gaining nationwide and international acceptance - 'Baahubali' became the highest and 'Srimanthudu' became the second highest grossing Telugu film of all-time in the country apart from earning around INR419 million and INR188 million respectively in the overseas markets.[31]

> Today the theatrical audience is much more willing to experiment. With greater number of regional films performing exceedingly well in the non-language markets, it is expected that language barriers will soon cease to exist and content will emerge as the sole factor in deciding a film's performance. The flourishing digital landscape also supports this trend, as it allows greater creative freedom to content makers by enabling them visualise films beyond the confines of theatrical performance.
>
> Shibasish Sarkar
> **Chief Operating Officer**
> Reliance Big Entertainment

24. 'Status Check: Indian cinema in FY-2015', Indian Television, http://www.indiantelevision.com/movies/hindi/status-check-indian-cinema-in-fy-2015-150912 accessed on 2 January 2016
25. The Financial Express, 5 January 2016, 'Bollywood box office collections at Rs 11,500 crore; overall revenues may cross Rs 19,300 crore by FY17'
26. 'Baahubali (Baahubali) Total WorldWide Box Office Collections', Desire Trees, http://www.desiretrees.com/baahubali-bahubali-total-worldwide-box-office-collections/ accessed on 10 January 2016
27. Industry discussions conducted by KPMG in India
28. The Hindu, 26 December 2015, 'The highs and lows of 2015'
29. The Indian Express, 30 June 2015, 'Southern cinema in 2015: Content ruled over star power in first half'
30. International Business Times, 6 January 2016, 'Baahubali to Kumari 21F: Top 15 highest-grossing Telugu/Tollywood movies of 2015'
31. 'Highest Grossing Telugu Movies in 2015', Spicy Onion, http://spicyonion.com/box-office-india/highest-grossing-tollywood-movies-in-2015/ accessed on 10 January 2016

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Strong content drives growth, profitability in the Malayalam film industry

Over 140 films were released in Malayalam film industry in 2015.[32] Two of the biggest blockbusters 'Premam' and 'Ennu Ninte Moideen', made on a budget of under INR50 million and INR120 million respectively, collected more than INR500 million at the box office due to their good content.[33] 'Oru Vadakkan Selfie' earned INR200 million from theatricals alone and was chosen to be remade in Telugu, Tamil, Hindi, Marathi and Bengali. Overall, experimentation was the hallmark of the films released in 2015.[32]

Content and infrastructure challenges pain the Bengali film industry

The Bengali film industry continued to suffer losses for the third successive year as single screen theatres in West Bengal closed down and the state's film industry was hit by audience's growing preference for Hindi and English films. Over 100 theatres have shut down in the last 1.5 years.[34] There are approximately 30 centres with a population of over one million, without any screens.[34] In all, there are expected to be 250 to 300 screens in West Bengal.[34]

Although the turnover of the Bengali film industry in 2015 was approximately INR1.2 billion, equivalent to the previous year[35], 2015 registered a lower realisation on a per-film basis. The highest grosser for the year 'Bela Sheshe' collected merely INR45 million at the box office.[35] 'Byomkesh Bakshi' along with 'Bela Sheshe' witnessed 70 per cent occupancy for over a month in single screens and multiplexes, highlighting the preference for strong narratives amongst Bengali audience.[36] Even 'Arshinagar' witnessed full house shows during the Christmas week indicating that rich, varied content could draw audiences to theatres. In stark contrast, films boasting of the typical action-romance-foreign location combination, such as 'Herogiri', 'Kathmundu', 'Jamai 420', 'Besh Korechhi Prem Korechhi' and 'Romeo and Juliet' failed to register even 50 per cent occupancy two weeks into their run.[36]

"There is a strong need to improve the exhibition infrastructure in order to revive the Bengali film industry. The government must take unbiased initiatives to revive the defunct single screens and incentivise the surviving screens for renovation. There also a need to promote economic ways of theatrical distribution. The distribution rates need to be standardised and made equivalent to the national rates."

Himanshu Dhanuka
Director
Eskay Video Pvt. Ltd.

"In the past, Bengali movies which have been successful in connecting with people, have been very successful. However, in the last few years, there has been a dearth of good cinema due to lack of serious players. Lack of good cinema coupled with the deteriorating exhibition infrastructure has been discouraging the footfalls, leading to a stress in the economics of the Bengali Film industry."

Arijit Dutta
Managing Director
Priya Entertainments

32. The New Indian Express, 28 December 2015, '2015: Youngsters reigned, superstars failed in Mollywood'
33. The New Indian Express, 20 December 2015, 'Content Triumphed Over Star Power in Southern Filmdom During 2015'
34. Industry discussions conducted by KPMG in India
35. The Economic Times, 4 January 2016, 'Tollywood slips into Rs 100-crore loss in 2015'
36. The Economic Times,27 December 2015, 'Audience embracing content-driven films in Bengal in 2015'

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Strong content, low budgets and government support driving the growth of the Marathi film industry

The Marathi film industry is presently pegged to be worth INR1.50 billion.[37] The industry showed a growth of about 40 to 45 per cent in 2015.[37] The state government's rule of screening at least one show of a Marathi film in a multiplex, in a prime slot has definitely benefitted this industry.[38] However, its resurgence in the last few years is not only limited to this factor. In the last few years, this industry has produced an assortment of coming-of-age films, social dramas, biopics as well as commercial films for the masses, which have been a delight for audiences. 'Court', a multilingual art-house drama has been chosen as India's contender in the foreign language film category at the 2016 Academy Awards (Oscars) apart from having won several national and international awards.[39]

Gujarati film industry revives on the back of urban-centric films

Recently, Gujarati films have been performing well at the box office, raising hopes of the revival of the Gujarati film industry after a decade-long slump. Unlike films in the past, there has been a spurt in urban-centric films with growing investment. In 2015, the box office collection for Gujarati films was over INR550 million, up from INR70 million in 2014.[40] Films such as 'Gujjubhai the great', 'Chhelo divas' and 'Be yaar' have performed well at the box office.[40]

Other than these, the Punjabi film industry experienced a good growth of about 15-20 per cent in 2015.[41]

Last year also saw regional cinema exploring newer markets through greater distribution and marketing. With the audience getting more experimental, there is an increasing acceptance for regional cinema. However, there are challenges to building scale and generating non-theatrical revenue.[36]

Baahubali: The Beginning' – A case study

Baahubali: The Beginning', directed by S S Rajamouli, became the third highest grosser worldwide in the history of Indian cinema with gross box office collections of INR6 billion.[42] The film was simultaneously made in Telugu and Tamil and was simultaneously dubbed in Hindi, and Malayalam. It was released in 4,000 screens all over the world, including 175 screens in the U.S..[43] The international version of the film is soon expected to be released in other parts of the world, including China, Latin America and Europe.[44]

'Baahubali: The Beginning', the first of the two cinematic parts of an epic Indian historical fiction, was released on 10 July 2015. The film crossed INR5 billion mark at the box office in four weeks and went on to become: [45]

- The first south Indian film to gross over INR6 billion worldwide[46]
- The first non-Hindi film to gross over INR1 billion in the dubbed Hindi version[47]
- The highest grossing Telugu film of all time[48]
- The fastest among all Indian films to reach INR1 billion (two days), INR2 billion (five days), and INR3 billion (eight days) thresholds of international box office revenue[49]

The film leveraged an Indian tale of good and evil, diligently crafted on a scale representative of Hollywood's grandeur while also being a family entertainer. However, there are a number of factors behind the success story of this film, which could be summarised below:

- **Rich characters backed by a talented cast:** The film features leading South Indian artistes in key roles, with female actors playing valuable roles equivalent to the lead, thereby brilliantly portraying their respective characters and contributing towards the film's overall plot.
- **Strong emphasis on production:** The director, Rajamouli, has spent more on the production than on any artiste in the film. He roped in skilled technicians and national award winners such as production designer, Sabu Cyril; music director, MM Keeravani; and visual effects supervisor, V. Srinivas Mohan. The film's writer-lyricist, Madhan Karky, invented a new language 'Kiliki'- made up of about 750 words, with its own set of 40 grammar rules.[50]

37. Mid-Day, 3 April 2015, 'Here's why Marathi cinema is doing better than Bollywood'
38. The Telegraph, 17 January 2015, 'Amchi Marathi!'
39. The Hindu, 23 September 2015, 'Chaitanya's Court chosen as India's Oscar entry'
40. NDTV, 12 January 2016, 'After Recent Hits At The Box Office, 'Gollywood' Rises in Gujarat'
41. Industry discussions conducted by KPMG in India
42. The Indian Express, 4 August 2015, 'Bajrangi Bhaijaan, Baahubali, PK: India's highest grossing films'
43. The Business Standard, 8 July 2015, 'Baahubali set to hit 4,000 screens on July 10'
44. International Business Times, 14 September 2015, ''Baahubali' (Baahubali) to Release in 5,000 Screens in China: Rajamouli Film to Beat 'PK', 'HNY' Records'
45. The Times of India, 'Baahubali: Records made by the film so far', 04 August 2015
46. 'Baahubali (Baahubali) Total WorldWide Box Office Collections', Desire Trees, http://www.desiretrees.com/baahubali-bahubali-total-worldwide-box-office-collections/ accessed on 10 January 2016
47. International Business Times, 23 July 2015, ''Baahubali' (Bahubali) 13th Day Box Office Collection: SS Rajamouli's Film Set to Dethrone 'Dhoom 3' Worldwide?'
48. 'Highest Bollywood Grossers and Best Songs of 2015', Maps of India, http://www.mapsofindia.com/my-india/movies/highest-bollywood-grossers-and-best-songs-of-2015 accessed on 14 January 2016
49. The Times of India, 'Baahubali: Records made by the film so far', 04 August 2015
50. 'Baahubali: A marketing magnum opus', Business Line on Capmpus, http://www.bloncampus.com/hangout-at-bloc/cinema/baahubali-a-marketing-magnum-opus/article7421388.ece accessed on 14 January 2016

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- **Showcases VFX prowess:** About 17 VFX studios (Indian and international) and 600 graphic artists worked to create the film's 5,000 VFX shots.[51] [52] The cost of VFX effects used was about INR30 million.[53]

- **Strategic approach to the film's release:** The producers realised that its story was too big to be compressed into a single film and hence decided to release the film in two parts. This two-part release decision was meant not just to leverage the production cost better but also to do complete justice to its storyline.[53]

- **Integration with well-established local players for global reach:** A number of leading production houses came together to market the film in different regions. The film was marketed by Karan Johar's Dharma Productions, Studio Green's K.E. Gnanavel Raja (through Sri Thenandal Films), Global United Media and the U.S.-based BlueSky Cinemas who took care of the film's marketing in North India, Tamil Nadu, Kerala and overseas (Indian diaspora), respectively.[53]

- **Aggressive promotion and marketing:** Even though the film took almost three years to hit the screens, the production house made sure that people were kept updated with the developments. Starting from film's pre-production stage, it was aggressively promoted in a number of ways.

  - Marketing of the film started a year before the shoot with an audition campaign on social media platforms.[54]

  - A number of short promotional 'making-of' videos were released on video-sharing website and the team unveiled first look posters and videos featuring the film's lead stars on the occasions of their birthdays.[55]

  - Social media promotions attracted the youth and the resulting word-of-mouth created curiosity among older audiences as well.[55]

  - The trailer of the film which first released on YouTube on 1 June 2015, garnered positive reviews from several Indian actors, and several mentions, and shares soon followed on Twitter praising the overall look of the film and the director's efforts.[56] The film used an augmented reality application to play the trailer on smartphones and tablets.[57]

  - Karan Johar released the Hindi version like a big budget Bollywood film with aggressive promotions, including a star-studded premiere in Mumbai.[58]

  - The makers of the film held benefit shows in various places with the ticket prices ranging between INR4,000 to INR8,000 and the proceeds were donated to charity.[59]

  - The marketing team also had a strong presence in various Comic Cons around the country.

  - A cosplay event was held in which chosen winners were given a chance to visit the sets of the film.[55]

  - WhatsApp messenger was used to give regular updates about the film to the subscribers.[55]

  - A special skit was performed by the 'Baahubali' team for the event named Memu Saitham to help the victims affected by Cyclone Hudhud.[60]

  - There was an audio launch event in Tirupati in a stadium, attended by over 100,000 fans and was telecast live on TV. Another event in Cochin featured the unveiling of the world's largest poster and entered the Guinness Book of World Records.[61]

  - The film's website hosts merchandise that includes apparels, accessories and film's collectibles.[61]

> India is one of the most under-screened markets in the world, especially considering the number of films that are released in this market, not just Hindi but regional and Hollywood films too. Therefore it is absolutely important to get the right release date and desired showcasing in this crowded marketplace. Hand to hand with this however, audience tastes are also evolving and films like Piku, Airlift, Neerja etc are proof that they are seeking quality content which generates good word of mouth and thereby leads to box office success. We are seeing an upsurge in the popularity of Marathi, Punjabi and even Gujarati films lately all driven by great content. Hollywood films too have seen good growth in India thanks to an increase in multiplexes, 3D screens as well as changes in audience preferences. Hollywood's share back in 2009 was around 5 per cent, and now it's around 9 per cent.

Vivek Krishnani
Managing Director
Sony Pictures Entertainment Films India

51. The Indian Express, 29 April 2015, '600 artists, 17 VFX studios working on 'Baahubali': S.S Rajamouli'
52. 'What are some of the mind-blowing facts about the Baahubali movie?', Quora, https://www.quora.com/What-are-some-of-the-mind-blowing-facts-about-the-Baahubali-movie accessed on 25 January 2016
53. The Hindustan Times, 7 April 2014, 'SS Rajamouli's next, Baahubali has visual effects worth Rs 85 crore'
54. 'Baahubali – How social media added to its box office success', Codeuridea, http://codeuridea.com/baahubali-how-social-media-added-to-its-box-office-success/ accessed on 15 January 2016
55. 'Baahubali: The Beginning (2015): Latest Super Movies', Moviecracker, http://www.moviecracker.com/2015/07/bahubali-beginning-2015.html accessed on 20 January 2016
56. IB Times, 1 June 2015, 'Baahubali: The Beginning (2015)'
57. ''Baahubali - The Beginning' in Indian Business Perspective', LinkedIn, https://www.linkedin.com/pulse/baahubali-beginning-indian-business-perspective-parthasarathy accessed on 20 January 2016
58. 'Karan Johar and I share the same passion for films: Baahubali director SS Rajamouli', Firstpost, http://www.firstpost.com/bollywood/karan-johar-and-i-share-the-same-passion-for-films-baahubali-director-ss-rajamouli-2336196.html accessed on 18 January 2016
59. International Business Times, 6 July 2015, ''Baahubali' Benefit Shows: Ticket Price Ranges from ₹4,000 to ₹8,000; Rajamouli Sets New Record'
60. ' Baahubali Team Special Skit for Memu Saitam – YouTube', YouTube video, https://www.youtube.com/watch?v=KaBHuRCZYOE accessed on 25 January 2016
61. Industry discussions conducted by KPMG in India

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Hollywood

The year 2015 witnessed a healthy growth in the Hollywood collections compared to 2014. The collections of the five leading Hollywood titles in India increased from about INR2.9 billion in 2014 to more than INR5 billion in 2015. The share of Hollywood in the total domestic collections for India has also witnessed an increase. This could be attributed to three main causes:

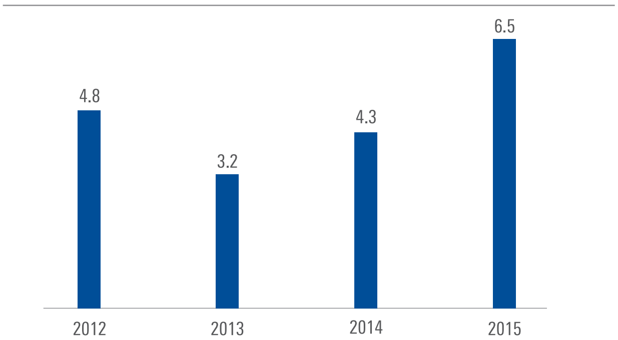
Slate consisting of a strong action-hero, adventure-based franchises: An increase in the number of action-hero and adventure-based franchise films – 'Avengers', 'Jurassic World', 'Fast & Furious', 'Mission Impossible', 'Terminator', 'Spectre' – which is a popular genre in India, has contributed to the growth in collections.

Wider release (e-cinema screens included): The reach of Hollywood films is limited in India due to concerns regarding quality and security, which limits the release of Hollywood films on the Digital Cinema Initiatives (DCI) compliant digital cinema screens only. There are about 1,500 DCI compliant screens in India.[62] However in 2015, 'Fast & Furious 7' and 'Jurassic World', two of the popular franchise films, were released across e-cinema screens as well, taking their individual screen counts to over two thousand – 2,800[63] and 2,108[64] screens, respectively. As a result, each of these films earned more than INR1 billion in India, a feat not achieved by any Hollywood film in India until 2015.[65]

Dubbing in regional languages: Language barrier is another impediment to the popularity of Hollywood. The release of Hollywood films dubbed in regional languages, such as Tamil and Telugu as well, increased their reach in the country in 2015.[66]

On the whole, the appetite for good films which provide a cinematic experience is increasing in India. The growth of Hollywood films in India indicates that films that provide this experience may be accepted by the audience irrespective of the language.

Total BO collection of top 10 Hollywood movies in 2015 (INR billion)



Source: Kinematograph Renters Society

The 10 leading Hollywood films in India (2015)

Titles	Lifetime GBO (INR million)
Fast & Furious 7	1,550
Jurassic World	1,456
The Avengers: Age of Ultron	1,085
Mission Impossible: Rogue Nation	767
Terminator Genisys	329
The Martian	314*
Star Wars: The Force awakens	310
Spectre	294*
Everest	207
Minions	181

Source: Kinematograph Renters Society as received on 25 February 2016

*Still running (as per status received on 25 February 2016). Estimated collections.

62. Industry discussions conducted by KPMG in India
63. The Hindu, 12 April 2015, 'The curious case of Furious 7'
64. The Financial Express, 24 June 2015, 'Irrfan Khan starrer 'Jurassic World' box office collections soar to Rs 100 crore in India',
65. 'Alarm bells in Bollywood as 'Bahubali', Hollywood films reap box-office gold', Reuters India Insight, http://blogs.reuters.com/india/2015/07/28/bollywood-bahubali-hollywood-films-box-office/ accessed on 13 February 2016

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Cable and satellite (C&S)

With a share of 12 per cent, Cable and satellite rights (C&S) rights continued to be the second largest contributor to the overall industry's revenue in 2015. The film revenues from the sale of C&S rights grew by 8.1 per cent to INR15.9 million in 2015.

C&S market has stabilised with respect to Hindi films

C&S can no longer be seen as a bailout medium by production houses as was seen two to three years ago. One of the high grossers this year, 'Bajirao Mastani' (domestic box office collection: INR1.75 billion net) was valued at INR500 million almost comparable to 2014's 'Bang Bang' (domestic box office collection: INR1.81 billion net) getting sold for close to INR450 million.[66] Except for a few A-lister films, many of the C&S deals are being linked to the box office performance of films. A few films that performed well at the box office, such as 'NH10', 'Badlapur' and 'Talvar', suffered depressed rates due to content that was not television friendly.

With the launch of a new film channel by Viacom18, the prices are expected to increase marginally in 2016. The evolution of digital is also expected to bring a different colour to the existing landscape. Currently, the digital rights are largely bundled with the C&S rights. As satellite television broadcasters buy fewer films and at lower prices, the industry may need to assess its ability to monetise available digital platforms. With the evolution of digital as an independent revenue stream, the valuation of C&S rights could swing either way.

Pressure on C&S revenues for regional content due to the lack of demand

The pressure is also being felt in southern India in terms of the market for satellite TV. For the Telugu market, Maa TV and Gemini continued to be main buyers; Zee TV purchased limited content.[67] The penetration of local cable networks, torrent downloads, home videos have affected film viewership on the TV platform. The production boom in Tamil cinema has also created a glut in the market. Only a handful of top-league actors get good TRPs and repeat value. Also, award events are replacing films in prime slots, as they work out to be 25 to 35 per cent lower in cost.[68] Nonetheless, broadcasters continue to invest in acquiring film rights. For instance, Sun Television Network's Sun TV continued to invest close to INR4.5 billion for the acquisition of film rights for satellite broadcast across its various channels.[69 70]

Although the valuation of the satellite rights has gone up for Marathi films owing to the surge in box office collections, the film content duration has reduced across major Marathi general entertainment channels (GECs) over the past four years. Thus, while total number of films has grown from 56 in 2014 to more than 100 in 2015, the satellite demand has remained unchanged - the number of films sold has been almost constant from 17 in 2014 to 20 in 2015.[67] As a result, almost 80 per cent films have remained unsold, up from 65 per cent in 2013. This imbalance between supply and demand is expected to trigger a downward correction in 2016.[71]

For the Bengali market, the C&S market has crashed as there were no takers for films. More than 100 films remained unsold because of lack of serious buyers and no new GEC coming up.[67]

Overseas theatricals

Overseas theatricals witnessed a 11.5 per cent increase from INR8.6 billion in 2014 to INR9.6 billion in 2015, while the total contribution stood at 7 per cent of the total revenue.

2015 additions to the ten leading overseas grossers of all time

Movie	Overseas collection
Bajrangi Bhaijaan	USD29 million[72]
Dilwale	USD25.6 million[72]
Bajirao Mastani	USD14.5 million[72]
Prem Ratan Dhan Payo	USD13 million[73]

66. http://www.koimoi.com/ as accessed on 29 February 2016
67. Industry discussions conducted by KPMG in India
68. The Hindu, 20 June 2015, 'Satellite market goes bust'
69. 'Sun TV Network clarifies Rs 450 crore investment in buying movie rights', Exchange4media, http://www.exchange4media.com/tv/sun-tv-network-clarifies-rs-450-crore-investment-in-buying-movie-rights_61082.html accessed on 2 February 2016
70. Business Standard, 01 August 2015, 'Sun TV to invest Rs 450 cr in buying movie rights Discussion conducted by KPMG in India
71. KPMG in India analysis
72. International Business Times, 23 January 2016, 'Overseas box office collection: 'Dilwale' second highest after 'Bajrangi Bhaijaan'; 'Bajirao Mastani' among top 10'
73. International Business Times, 24 November 2015, ''Prem Ratan Dhan Payo' overseas box office collection: 'PRDP' beats 'Baahubali' lifetime record'

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Films with A-league actors continue to attract overseas audience

Popularity of star-led films continues to drive overseas collections from diaspora markets. Besides, a few smaller content-driven films have also fared better, especially in the non-diaspora markets, contributing to further growth.[74]

Further, certain genres have been identified to work within certain markets. Family dramas such as 'Prem Ratan Dhan Payo' continue to work in the U.K., while the content-rich and intelligent films have found an uptick with the Indian diaspora in the U.S.. However, since these films are consumed through non-theatrical channels, their theatrical contribution is still not significant.[74]

Bollywood formed 85 per cent of the total overseas revenues while Tamil cinema constituted 10 per cent followed by Telugu that comprised most of the remaining 5 per cent.[74]

Diaspora market remains a key contributor to overseas collection

Indian diaspora based in the U.S., Middle East and the U.K. remained the major markets for overseas theatricals, constituting 70 to 75 per cent of total overseas revenues. Overall, the U.S. contributed approximately 33 per cent, the Middle-East also contributed 33 per cent and the rest consisted of the U.K. and the rest of the world. As Indian films have failed to connect with the third generation of the Indian diaspora in the U.K., the U.K. market has shrunk and become comparable to the Australia and New Zealand (ANZ) market in size.[74]

The Middle East emerges as a strong demand centre for Indian films

In 2015 the Middle East market for Indian films grew by 25 to 30 per cent over 2014.[74] The growth of this market is attributed to increase in the number of digitised screens, which in turn is reducing distribution costs and leading to wider releases. Also, the number of screens are growing — the Middle East is adding 25 to 30 screens every six months and is expected to add 150 screens over the next three years.[74] Also, the average revenue per screen is considerably higher in the Middle East. The revenues from 40 screens in the region are comparable to that from 80 to 100 screens in the U.S..[74]

Ancillary revenues

In-cinema advertising

The revenues from in-cinema advertising grew by a healthy 28 per cent over 2014 and are estimated to have reached INR6.27 billion at the end of 2015.[75] Following are a few factors that have driven the growth of in-cinema advertising:

Increase in volume of ad inventory due to digitisation of single screens: Digital cinema with its advantages including: 1) Simultaneous screening without physical prints 2) Broadcast of geo-targeted ads 3) transparent electronic logs 4) reduced impact of reruns on the quality of ads, has established in-cinema as an integral part of media campaigns.[74]

Consolidation of ad inventory: With the consolidation in the multiplex business, brands and agencies now have to liaison with a fewer people in the process. One of the biggest challenges for this market was in terms of capturing audience in single screen theatres especially in smaller markets – it was infeasible for a brand to liaison with approximately 6000 separate entities. Players such as UFO Moviez and Real Image have been capitalising on this opportunity, by aggregating the ad inventory of single screen theatres.[74]

Shift from government to private sector, improving margins for exhibitors: The client mix for in-cinema advertising has seen a gradual change over the years, from a government focused medium - as much as 80 per cent of the advertising revenue was attributed to public sector advertising about three to four years ago - to a focus on local and corporate advertising - the latter alone occupying around 55 per cent of the portfolio.[74] The blockbuster film shows for premium exhibition players are already operating at full inventory levels. The advertisement value is expected to increase as this new media establishes itself.

74. Industry discussions conducted by KPMG in India
75. KPMG in India analysis

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In-cinema advertising is evolving and the share of cinema in the total advertising pie is increasing. Adoption of newer technology has enabled better monitoring, development of a pay per view model and thus, made this media more measurable and reliable. Also brands are exploring newer ways of talking directly to the consumer.

Devang Sampat
Business Head - Strategic Initiatives
Cinepolis India

Media inventory consolidation in recent times, both by digital deployment agents like Real Image / UFO and multiplexes, has seen a resurgence of in-cinema advertising. multiplex chains, which are able to share their footfall data more readily, have already reaped the benefit of this more impactful medium. A large scale move to computerised box office is now in the making for single screens that have suffered unfairly in relative earning potential as a result. With other efforts also under way for audience measurement in all cinemas, the headroom for growth of advertising revenues for single screens is significant and will drive the sector's overall ad-revenue growth going forward.

Arvind Ranganathan
CEO
Real Image

However, despite the growth spurt, cinema advertising is still less than 1 per cent of the total pie of advertising. There are many opportunities for further growth of this industry as mentioned below:

Robust and credible systems for tracking the audience:

A more robust and scientific system that can throw light on viewer demographics, consumption patterns would aid in bringing more investments. Companies are investing in Cinema Audit and Monitoring (CAM) which tracks advertising across the 200 most important screens in India.[76] Interactive Television (ITV), which buys space for advertisement in theatre screens, is working with Rentrak to track real-time box office ticket sales and together they hope to bring a new system of measurement which would enable cinema advertising to go to the next level.[77]

Penetration of in-cinema advertising in single screens:

Currently, the ad duration for a single screen is about three to four minutes per film as against approximately 20 minutes for multiplexes, suggesting potential for ad volume growth in single screens.[78] Also, approximately 500 multiplex screens, which are not owned by any of the big national chains, have comparable advertising potential yet to be explored.

Technology in in-cinema advertising

UFO Moviez India (UFO) has launched UFO Framez, a cloud based platform, to explore the local retail advertisement opportunity. UFO Framez would be an extension to UFO's existing in-cinema advertising. It is expected to enable local businesses to reach out to their audience more effectively and economically. Retail advertisers would be able to create, personalise and launch campaigns on local film screens. UFO would be hiring local sales forces comprising of Direct Sales Associates (DSAs), who would handle the local accounts, setup an advertising campaign instantly (it can go live in as less as six hours) and personalise it with the user-friendly interface guiding them. The interface is designed to meet the essential demands of advertisers such as screen inventory management and campaign management.[79] Thus, simplifying the operations for managing their B2B business.

76. The Economic Times, 5 August 2015, 'On-screen cinema advertising a hit, thanks to multiplexes and aggressive marketing'
77. The Economic Times, 8 July 2015, 'Media research company Rentrak ties up with Interactive Television to collect box-office data'
78. PVR Limited Q1 FY16 Earnings Conference Call, 22 July 2015
79. Industry discussions conducted by KPMG in India

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Music rights

The sale of music rights, even though a small revenue stream, has continued to perform strongly. Music rights are expected to recover on an average about 3 to 4 per cent of the production costs of a film.[80]

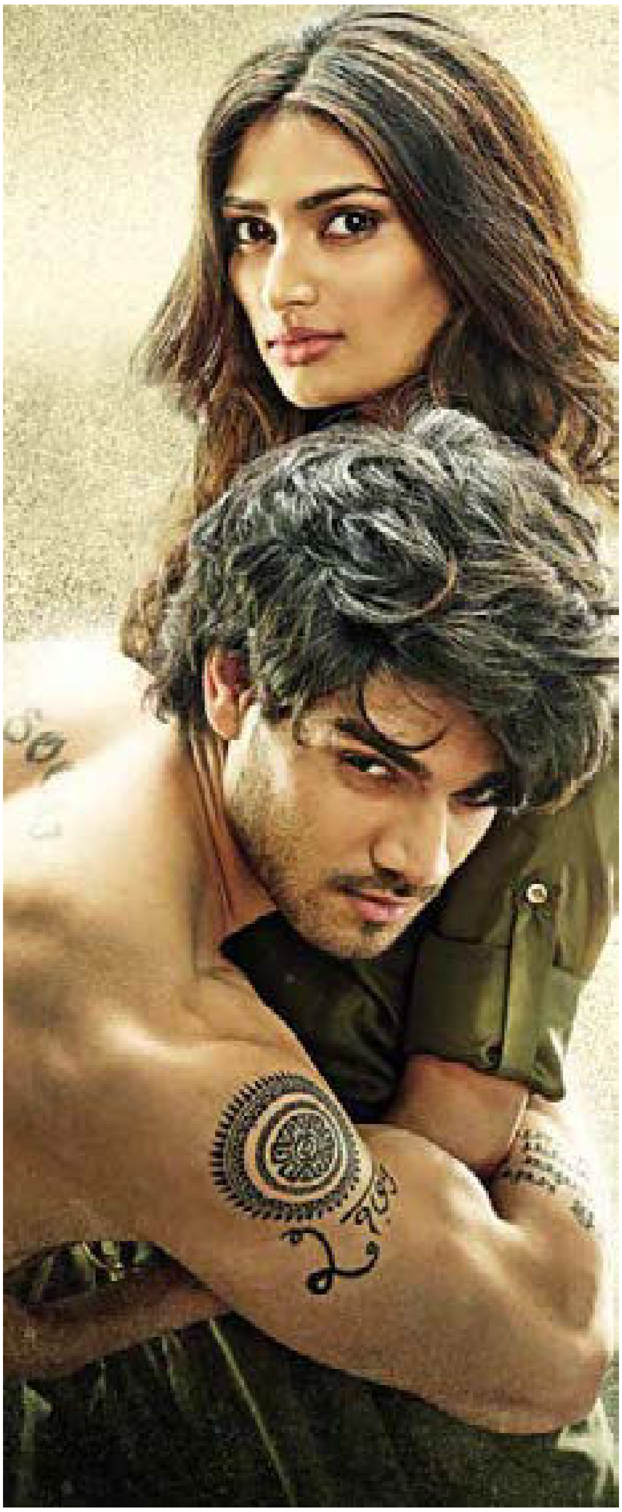
Last year the industry saw the entry of a new player - Zee Music Company (ZMC). There are three main players in the country currently – T-series, Sony Music and ZMC. Besides, production houses such as Eros International and Yash Raj Films (YRF) also have their own music labels.

Music revenues have increased by 10 to 20 per cent for production houses due to the increase in demand. The prices for category-A films have risen to INR150-200 million from INR100-150 million in 2014.[80] Sony Music acquired the music of 'Dilwale' at around INR190 million.[81] The music rights of 'Prem Ratan Dhan Payo' were sold for INR170 million to T- Series.[82] Music rights Category B films were sold for, on an average, about INR50 million.[83]

Caravan Talkies - extending reach of films to media dark areas

'Caravan Talkies' is a movie-on-wheels concept, by UFO Moviez India Pvt. Ltd., wherein sundown non-ticketed shows are played at villages for India's rural population situated in media dark areas. It leverages the company's access to film content, its existing advertiser relationships and digital distribution capabilities to provide a unique platform for advertisers to reach their consumer base in media dark areas.

Caravan Talkies uses vans which display advertisements during the day and act as exhibition centres for free film watching in the evening in designated rural areas on the weekly market day (haat). Each van covers seven haats in a week.[80] There are 90 such vans operational in seven states (Uttar Pradesh, Bihar, Madhya Pradesh, West Bengal, Maharashtra, Odisha and Gujarat). Each film show witnesses 250 to 1,100 footfalls and runs up to 25 minutes of advertisements.[80] The realisation per van is pegged at about INR1 million per year.[84] HUL, Parle, Marico, other FMCG companies and telecom companies are the popular advertisers on this platform.[80]



80. Industry discussions conducted by KPMG in India
81. 'Here Are The Biggest Deals in The History of Indian Cinema!', NDTV, http://www.ndtv.com/india-news/here-are-the-biggest-deals-in-the-history-of-indian-cinema-753798 accessed on 3 February 2016
82. Times of India,24 September 2015, 'Prem Ratan Dhan Payo's music rights sold for a whopping Rs17 crore'
83. KPMG in India analysis
84. UFO Moviez Pvt. Ltd, Analyst Report by Axis Capital, 05 Feb 2016

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Digital: Video On Demand (VOD) services

The on-demand audio and video content services are at the cusp of inflection point in India. An entire ecosystem around such services has emerged, including content providers, aggregators, distribution channels, technology platforms, advertising platforms, payment channels and marketing channels. While the current monetised value of the platform is small, the industry is investing in directing the viewing habits of consumers to legal platforms, away from illegal platforms. Digital revenues constitute less than 5 per cent of the overall domestic theatricals market, but are observing double digit growth.[85]

VOD platforms displacing C&S

Last year saw the broadcast windows shifting for the first time as Eros International, which has adopted a digital-first strategy for its growth, started windowing premieres as part of its marketing initiatives for its VOD platform - ErosNow. It released 'Tanu Weds Manu Returns' on its VOD platform, before its television premiere.[86] A couple of its other films – 'Badlapur', 'NH10', 'Shamitabh', and 'Happy Ending' also premiered on the ErosNow platform before their satellite premiere.[87 88]

"With the multitude of entertainment options that are available and easily accessible today, the Indian audience is becoming much more discerning about its choices. It is looking for experiences that are compelling, engaging and specifically customised to suit individual tastes and preferences."

Dinesh Modi
Group CFO
Eros International Media Ltd.

Intensifying competition

With the entry of newer players such as HOOQ, Hungama Play, Muvizz, Netflix and YuppTV in 2015, there are about 12 major OTT players in the films space now - Hotstar, Spuul, Netflix, Muvizz, Hooq, Eros Now, Box TV, Sony LIV, YuppTV, Ditto TV, Ogle, Hungama Play.[89] While these players are expected to increase their investments, few more new arrivals are also expected in this year - Amazon Prime, Viacom18's Voot and Balaji Telefilms' ALT.[89] As more players are acquiring content in India and globally, the syndication revenues for film libraries are expected to increase.

Entry of subscription-based video on demand (SVOD)-only players in the OTT films landscape

The Indian OTT landscape was dominated by the advertising-based, pay per view and freemium models. However, the entry of Netflix, which follows a subscription-only model, into the Indian market has added a new dimension. Netflix has been launched at a higher price with three packages - INR500 (SD, one device), INR650 (HD viewing, two devices) and INR800 (UHD, four devices), targeting the high-end consumers.[90] This is expected to segment the digital market and make way for the other SVOD players as well.

A few other players such as HOOQ, Hungama Play, YuppTV have also launched subscription-based services.[89] The uptick of these platforms may lead to evolution of newer models in the OTT space.

Newer players to boost the niche films, improve reach in India and beyond

The entry of new OTT players is expected to boost the independent cinema which is currently depressed due to low marketing budgets and paucity of screens.

Netflix has already acquired its first exclusive global licence for an Indian film – 'Brahman Naman' for a reported seven digit figure.[91] Netflix has also bought films such as 'Fandry,' 'Amal', 'Loins of Punjab', 'Kshay' and 'Suleimaani Keeda', which reflect a different sensibility than mainstream Bollywood films. 'Gangs of Wasseypur' was streamed on Netflix as an eight episode series subtitled in English, Spanish, French, Arabic and Chinese, indicating the potential of Indian films seeking an audience beyond the diaspora on the OTT platforms.[92] The previous year also saw the launch of Muvizz.com, an OTT platform dedicated to provide curated titles of content-driven independent films including feature, non-feature, and documentary and short films.[93]

"India is largely an advertising market. In order to convert it into a subscription market, there is a need of strong content - content that is better than that available on television. Technology is only an enabler. We need to use it effectively to understand the consumer profiles; study the consumer behaviour using analytics, and create content accordingly."

Aashish Singh
Vice President - Production
Yash Raj Films

85. KPMG in India analysis
86. Reuters, 16 July 2015, 'Eros International Announces Official Marketing Launch for ErosNow'
87. 'Q&A: Rishika Lulla Singh, CEO, Eros Digital', Screen Daily, http://www.screendaily.com/features/interviews/qa-rishika-lulla-singh-ceo-eros-digital/5097704.article accessed on 4 February 2016
88. Industry discussions conducted by KPMG in India
89. Business India, March 14-27 2016, 'Staying on top'
90. 'Netflix Now in India, Here's How You Get It', Gadgets 360, http://gadgets.ndtv.com/tv/news/netflix-launched-in-india-plans-start-at-rs-500-per-month-786529 accessed on 4 February 2016
91. The Times of India, 31 January 2016, 'How will Q's seven-figure Netflix deal for 'Brahman Naman' help Bengal's cine-trade?'
92. 'Netflix to Stream Indian Epic 'Gangs of Wasseypur' as Series', The Hollywood Reporter, http://www.hollywoodreporter.com/news/netflix-stream-indian-epic-gangs-843526 accessed on 2 February 2016
93. 'Exclusive: Curated video-on-demand site Muvizz raises angel funding', VCCIRCLE, http://www.vccircle.com/news/technology/2015/10/01/exclusive-curated-video-demand-site-muvizz-raises-angel-funding accessed on 5 February 2016

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Opportunities for the Indian film industry

Improving domestic reach by increasing the number of screens

India is one of the largest producers of films – producing 1,000 to 1,500 films (across various languages) every year that is approximately 20 to 30 films every weekend. While not all films may be cinema-worthy, the lack of availability of exhibition infrastructure is a major impediment for many of the films in India. The screen growth has been rather slow compared to the potential demand, with the industry adding only 150 to 200 new screens (gross additions) per year.[94]

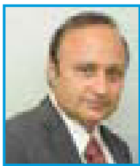
The screen penetration at India stands at 6 per million versus 23 per million in China and 126 per million in the U.S..[95] Also, the biggest Bollywood release of 2015 – 'Bajrangi Bhaijaan', which saw a domestic collection of more than INR3 billion, was viewed across about 4,200[96] screens by merely 2 per cent[94] of the total Indian population. This indicates an immense opportunity for the film industry to tap.

> The film industry in India is yet to exploit its full potential, evidenced by the fact that in India, compared to our population, only a handful are going to theatres to watch movies. In terms of numbers, even a blockbuster film would only have been watched in theatres by perhaps 2 to 3 per cent of India's population.
>
> **Nina Lath Gupta**
> **Managing Director**
> NFDC

Indian exhibition industry needs to revisit the way it looks at its screens. The industry must move away from the traditional classification of single screens and multiplexes and classify themselves as profitable and unprofitable screen operators.

Single screen theatres, with a seating capacity of 500 to 1000 seats and Average Ticket Price (ATP) of INR30 to INR100 depending upon the location of the theater, have become synonymous with low occupancy, low ticket prices and hence poor profitability.[94] Such properties offer a feasible alternative to the tap the opportunity of catering the under-screened audiences. Since the properties already hold exhibition licenses, what remains to be improved is their ability to offer good quality cinema viewing experience.

With metros and tier I cities hitting saturation, multiplex owners had focussed on tier II and tier III cities. While the multiplex chains continue to add screens in the tier II and tier III towns, the pace (100 to 150 such screens added per year) is one-third of the pace at which single screen theatres are closing down. The latter have seen a slow and steady decline from more than 10,000 up to five years ago to about 6,000 currently.[94] Without faster addition of screens, especially in small-towns and rural India where single screens are shutting down fast, growth of the industry seems tough. There is a dire need to reach to at least 20,000 screens in order to do justice to all the films that are produced in the country.[94]



> Although over 2000 world- class multiplex screens have been built in India, over the last ten years, the screen density in the country continues to be exiguous in comparison to the United States and China in the Asia Pacific region. To improve India's screen density, Governments, both at the Central and State level need to back appropriate policy redressal, lower taxes, provide tax holidays for ease of building cinemas across India. This will help attract investment in cinema building and world-class cinema technology, which will improve the movie experience for audiences in addition to helping curb piracy.
>
> **Uday Singh**
> **Managing Director**
> Motion Picture Dist. Association (India) Pvt. Ltd

94. Industry discussions conducted by KPMG in India
95. KPMG in India analysis
96. http://www.erosintl.com/%5CEros-In-News%5CBajrangi-Bhaijaan-smashes-records.aspx as accessed on 04 March 2016

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Screens, occupancy and ticket prices are the main levers for the growth of the film industry. Growth driven by increase in ATP is unsustainable in the long run due to availability of cheaper alternate forms of entertainment. Thus, the opportunity lies in expanding the screen availability and attracting the footfalls. A few approaches that the industry can consider are as follows:

Retrofitting - Converting the single screens to two or three screen multiplexes

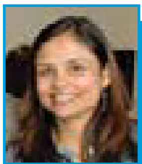
Retrofitting or downsizing the existing single screens into multiple – two or three - screens is one of the cost-effective options for reviving the screen growth. There are approximately 6,000 single screen theatres.

Assuming that 75 per cent of the screens are retrofittable, conversion to the more audience friendly twin-screen multiplexes could unlock revenues worth INR40 to 50 billion for the film industry. Even though the total number of seats may reduce, retrofitting would lead to an increase in the footfalls due content flexibility and the ability of the new facilities to attract family audience rather than the current male dominated audience.

Advantages of retrofitting:

Greater availability of screens for smaller films and regional cinema: With digitisation and reduction in the costs of prints, films are targeting a wider release across as many screens as possible. This is depressing the smaller films and regional content due to the pressure on the screens. Multiplexes, with their feasibility of offering more choices per location, are expected to relieve this pressure.

Higher revenues due to higher footfalls and higher ATPs: Splitting large 1,000 seat theaters into multiple screens can allow greater flexibility in content programming which could have a direct impact on occupancy rates.



One of the biggest challenges with retrofitting is that the rules and regulations regarding theatres and their licenses are quite old and need revision. Also every state has different licensing rules and sometimes they are quite opaque and unclear.

Vineeta Dwivedi
CEO
KSS Digital Cinema Private Limited

Lack of funding and archaic regulations are key challenges

Currently, many of the single screens in the country are in a dilapidated state, especially those in the smaller districts. The theatre owners are not able to invest in renovation because of low revenues. The effects of this are amply visible on the Bengali film industry, which is on a downfall due to lack of good exhibition centres. With conversion to multiple screens, the theatres can also command higher ticket prices, for the better experience offered.

Retrofitting can cost INR4 to INR7.5 million at the low-end and up to INR25 million per screen in the metros.[97] The funding could come from a tax holiday or subsidy or allowing single screen owners to have an extra floor space index that could finance the retrofit.

There exist structural limitations which might not allow conversion of all single screens into multiplexes. Also, the single screens are mostly on a single plot of land, and underground parking, and open areas around are some of the requisites for a multiplex. However, the government's intervention and retrofitting-friendly laws would help ease these challenges.

K Sera Sera miniplex is growing by acquiring single screen theatre and converting them into miniplexes with a new look and feel to the theatres. The company has around 70 screens under various stages of implementation.[97]

Potential solutions for ease of retrofitting:

- Government to extend tax benefits such as a tax holidays for single screen owners retrofitting their properties
- Public private partnership model to be introduced, under which the government may give a grant to the cinema owner to convert his/her theater into a miniplex
- Government could play the role of a moderator and invite external players to invest in the revival plan
- Reconsideration of licensing laws to make them more relevant to current times

97. Industry discussions conducted by KPMG in India

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Single window clearance/simpler laws to start and exit the exhibition business

The policies and laws for starting a new theatre in India are disheartening, even for the bigger players. PVR's five-screen multiplex at Grand Mall in Chennai's Velachery had to wait for almost two years to get the licence to open.[98] The interest costs and the costs of keeping the property fully-staffed in anticipation of the licence and the opportunity costs are extremely discouraging. The government needs to have a single window clearance which is estimated to save five to six months of waiting for the exhibitors [98]. Similarly, the laws for closing a theatre or using it for different purposes during the lean periods need to be relooked at. To summarise, the entry and exit barriers need to be lowered from the regulatory perspective to make exhibition in India an attractive business.

"There is a strong need to create 'no frills' cinema to cater to the needs of common man. As the profile of the customers varies drastically and accordingly the needs of the theatres differ too. A single law cannot possibly work for all kind of cinemas across any state hence needs to be localised. The overall cinema licensing laws across the country in any case are very restrictive and they haven't changed since the British times. These laws need to be relooked at and be brought up to pace with the modern times and be customised according to the context. Worldwide there are two kinds of government policies for cinema - either a market driven policy which promotes the market as is present in the U.S. or a government driven policy to promote the market as in China. We are currently having a government driven policy that only discourages the market."

Kulmeet Makkar
Chief Executive Officer
The Film and Television Producer Guild of India Ltd

98. The Hindu, 26 November 2015, 'PVR Cinemas application for license pending for over 2 years'

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Maharashtra state policy initiatives

Maharashtra has contributed significantly towards the development of the Indian film Industry, both in terms of talent as well as other resources. The state government of Maharashtra has augmented the growth of this sector through several policy initiatives. This has also led to the resurgence of the Marathi industry film industry in the recent times. This also holds lessons for the other states. Some of the favourable policies are as follows:

- The Maharashtra government has made it mandatory for the multiplexes to screen at least 124 shows of Marathi films in a year in the prime time slot, thus providing impetus to Marathi cinema.[99]
- 'Mumbai Next' initiative was launched in 2015 with the objective to transform Mumbai into a global financial and entertainment centre.[100]
- The government is looking at ways to bring down the number of clearances at par with other countries and cities. Presently, filmmakers require approximately 86 permissions for a single shoot in the state of Maharashtra.[101]
- As per the state government's 'Consultation Paper on Tourism Policy- 2016', up to 100 per cent of the entertainment tax levied on the movie tickets would be waived off if the filmmaker spends 75 per cent or more of the total number of dates allotted to shooting and canning the film in Maharashtra. Also, if the filmmaker spends 50 to 74 per cent of the total number of dates allotted to shooting and canning the film in Maharashtra, then 50 per cent waiver would be provided.[102]

The state government's IT/ITES Policy 2015 provides following incentives to VFX/animation industry:

- Animation films produced and released in Maharashtra would be exempted from payment of entertainment tax.[103]
- The films fully converted in Maharashtra from 2D to 3D in stereoscopy and released in the state would be refunded 50 per cent of entertainment tax paid or INR25 million, whichever is lower.[103]
- Live action films releasing in the state which have a minimum of 50 per cent duration of running length created with the help of animation or visual effects completed in Maharashtra would be refunded 50 per cent of entertainment tax paid or INR25 million, whichever is lower.[103]
- Animation films produced in the State would be given a capital subsidy equal to 50 per cent of the cost of film production subject to a ceiling of INR3 million for creative art films, educational, scientific, and mythological and children's films.[103]
- The Maharashtra government provides five-year tax exemption to single-screen theaters under municipal councils and a seven-year tax exemption to those located in rural areas.[104]
- The Maharashtra Tourism Development Corporation (MTDC) has announced a Bollywood tourism plan, which may enable Indian and foreign tourists to take guided tours of film studios and sets while being exposed to a first-hand experience of film shooting.[104]

99. The Indian Express, 10 April 2015, 'Maharashtra govt redefines prime time as noon to 9 pm'
100. Live Mint, 2 Feb 2015, 'Devendra Fadnavis unveils 'Mumbai Next' initiative to boost infrastructure'
101. The Indian Express, 20 Feb 2015, 'State looks at Bollywood to give tourism a boost'
102. Maharashtra Government's 'Consultation Paper on Tourism Policy- 2016'
103. Maharashtra Government IT/ITES Policy Report 2015
104. Made in India: Attracting and incentivising film productions, EY & LA India Film Council Repor

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Franchise model for building screens in tier II – tier III centres

Tier II and tier III centres, with lower screen penetration and lower real-estate costs, are expected to drive the next level of growth in the number of screens. With digitisation, the concerns of piracy and manual hassles have reduced. However, sourcing technology, design and logistics is still a challenge. Theatres in such centres require an investment of about INR35,000 to INR40,000 per seat. For a two to three screen theatre with 350 to 400 seater, it comes to an investment of INR12.5 million to INR15 million, which is discouraging for a medium scale entrepreneur.[105] Leading exhibition players can take a lead and drive growth in these centres by adopting a franchise model.

Bridging the infrastructure gap - building screens the smart way

India is one of the biggest producer of movies - more than 1,500 films are produced annually - a huge number compared to 600 by the U.S. and 90 by China. However, it does not have comparably more screens to screen them. India has fewer than 9,000 screens. To provide at least 25 screens per million population, there is a need of about 20,000 more cinema screens and most of the unmet demand is from the tier III and tier IV towns.

There are two distinct segments in the exhibition landscape – leading megaplexes and premium screens that cater mostly to the metros and tier I cities and non-premium single screen properties which majorly cater to the rural audience. Due to the higher revenue opportunities, screen growth is primarily happening in premium segment through organised players while the need of the hour is that screen growth occurs in the non-premium market.

We need to create a model for the exhibition sector which would engage the non-premium, rural demographic. Since the organised sector cannot or rather would not step into such markets, there is a need to create mini-entrepreneurs and develop this market in a fragmented manner in order to ramp up quickly. With rural incomes growing faster than their urban counterparts, there is a definite set of potential customers waiting for newer experiences, translating into better business prospects for investors.

People are willing to invest in the exhibition business in the rural areas. Becoming a theatre owner escalates one's local status and power in the community and also allows monetisation of real estate assets. However, the lack of technical know-how, hassles of government protocols and permissions and prohibitive costs of logistics deters them from venturing into this business.

Acknowledging this gap, UFO Moviez India (UFO), plans to set up a chain of theatres across India, under the brand name 'Nova Cinemas' (Nova). Nova would follow the franchise model. It would create a one stop solution for the exhibition players through a standardised model both in terms of infrastructure and experience. Standardisation would allow streamlining government approvals and centralising volume procurement of logistics including content, which would bring in economies of scale. The franchises can also leverage UFO's industry eminence to gain access to quality content at favourable terms. The brand name would allow them to command premium advertising rates and significantly enhance their revenues.

This franchise model would enable more entrepreneurs to come on board and create significant job opportunities - on an average, it takes around 12 to 15 persons for running one cinema property; in addition, cinemas have an inherent ability to grow their the ecosystems consisting of shops, hotels, and other footfall dependent businesses, further boosting the employment in these areas.

More theatres would provide a greater boost to the exhibition sector. Also, due to inaccessibility, the current state of exhibition attracts only male audience, the aim is to extend the reach to family audiences and at minimum cost. The need of the hour is to recognise the exhibition industry as an infrastructure business and boost the sector by providing single window clearances, tax holidays and subsidies. Theatres are no longer about films, they have become socio-economic links in India's growth story.

Sanjay Gaikwad
Managing Director
UFO Moviez India Ltd

Unless otherwise noted, all information included in this column/ article was provided by Sanjay Gaikwad. The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG in India

105. Industry discussions conducted by KPMG in India

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Exploring international markets

With the collections from domestic market plateauing, the industry needs to look at newer markets to drive growth. Hollywood derives more than 66 per cent of its collections from the international markets while for India the overseas collections make less than 15 per cent of the total collections. Only a handful of the international markets have a strong local industry, providing scope for the Indian film industry to capture the demand for entertainment. International co-productions could be a possible means of tapping this opportunity.

Having mastered the art of story-telling and the technique of producing good films, Indian production houses may consider producing films for the international markets by collaborating with local studios and talent.

Eros International is considering a similar opportunity in the Chinese market by co-producing Sino-Indian films along with Chinese studios. It has entered into agreements with three major Chinese state-owned film and entertainment companies to promote, co-produce, distribute and unlock value in respective intellectual properties for Sino-Indian films across platforms in both the countries. It is also looking forward to similar collaborations for coproduction in South Korea, Japan and South America.[106]

Opportunities for International collaborations

- Distribution of dubbed movies in international markets
- Coproduction of movies for international markets
- Coproduction of movies that would work in both markets

KAAKA MUTTAI' - a case study

'Kaaka Muttai' (English: The Crow's Egg) is a Tamil comedy-drama film about two slum children whose desire is to taste a pizza. The film has been appreciated for its story and cast performances and won two National Film Awards – 'best children's film' and 'best child artist'

- The strategy was to premiere the film at various film festivals and let the buzz flow into Tamil Nadu prior to its release. 'Kaaka Muttai' has screened at 25 festivals and still counting. Seven of these releases were before the theatrical release in India.
- 'Kaaka Muttai' premiered first on 5 September, 2014, at the 39th Toronto International Film Festival, and was well accepted. The Tamil Nadu theatrical release took place only on 5 June 2015, nine months after its Toronto premiere. By then, the accolades it had won had created a strong demand base in India.
- Post the Toronto Film Festival, the film was strategically sold the film to very strong art house distributors for Japan, South Korea and Australia circuits so that there is significant visibility across the art house platforms around the world.
- Consistent media presence was planned and social buzz was commenced nine months prior to its release to ensure unprecedented buzz for a film of this scale.
- The film was dated just after the national awards, as it had applied for the awards, and was confident of getting acknowledged. The film received two awards, giving it some more momentum before release.
- A 10-day prior release media campaign was undertaken, to ensure that the film was pushed like a big ticket release, through effective use of TV, radio, print and outdoor media.
- The two kids from the film were the face of the campaign along with the producer Dhanush (a popular actor) and did multiple events and TV integrations. This generated good publicity and high visibility throughout the campaign period. Also this ensured that audiences connected with the boys before the release of the film.
- Critics were shown the film three days before release instead of the usual celebrity route.

106. Business Standard, 19 May 2015, 'Eros ties up with 3 Chinese firms for film production'

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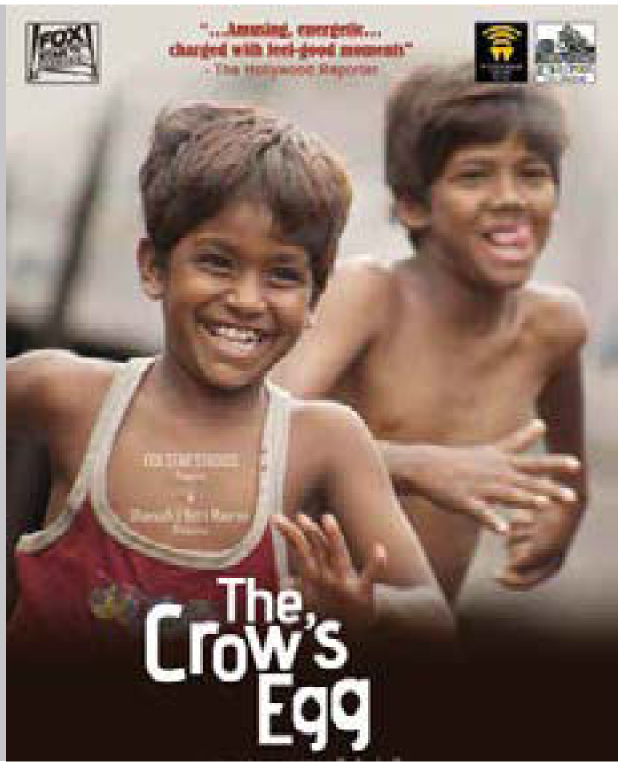
- The film ran on limited screens - around 110 screens in Tamil Nadu, with a preference for mid-size screen, in order to leverage the word of mouth publicity to get a long run at the box office.
- 'Kaaka Muttai' got one of the biggest openings of all time for a non-star cast/small film. It also got noticed because of the box office collections and paved the way recognition in international markets.
- Even for the international release, it was released only in the usual strong Tamil playing centres – Malaysia, Singapore, Sri Lanka and the Middle East.
- It leveraged the Twentieth Century Fox (TCF) distribution network to look at releasing in non – diaspora markets. The film was released in U.K., Taiwan and Hong Kong. Further markets were explored using TCF distribution.



Unlocking digital revenues

Digital is expected to emerge as an independent revenue stream unlike the past when many of the deals have been a part of a bigger bundled deal. The demand for digital content is expected to increase with global players entering the market. The contribution of the digital platform to the total film industry is estimated to be less than 1 per cent even though it varies significantly on a film to film basis. For instance, for a few films the contribution may be as high as 10 per cent of their total revenues. In the coming years, the share of digital revenues is expected to grow significantly on back of double digit growth (upwards of 30 per cent) of the digital channel.[107]

The Indian film landscape is expected to evolve similar to Hollywood to give rise to a polarised slate - consisting of tent pole films at one end and the small budget, content-driven films at the other end. As the audience gets more discerning, the multiplex experience would be reserved for the big budget ones and the smaller films would be consumed via personal devices. In short, the digital penetration would create a more democratic environment for the sector, giving a thrust to the small budget good content films.

"At Rajshri, we have built a large digital content library across multiple genres and are now aggressively localising it in key international languages. The aim is to reach an audience beyond the diaspora. By remaining platform agnostic, retaining IPR and collaborating with everyone across the value chain, we have built a business that is profitable, scalable and de-risked. We are in a sweet spot on the content side but on the platform side, the biggest challenge in India is to build a service that consumers are willing to pay for month-on-month. This means overcoming their unwillingness to pay for content and more importantly, their inability to pay."

Rajat A. Barjatya
Managing Director and CEO
Rajshri Entertainment Private Limited

107. Industry discussions conducted by KPMG in India

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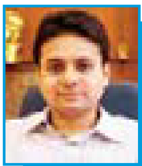

Over a period of time, two distinct categories of movies will arise - the high budget, spectacle films and the low budget, content heavy films of the likes of art house movies. The former would be reserved for theatrical experience while the latter would leverage the digital platforms extensively. The middle rung of movies will continue to exist but the numbers will only decline with time.

Apoorva Mehta
CEO
Dharma Productions Pvt. Ltd

Filmmakers would have to identify the consumer patterns and the context in which their films may be consumed and create the content accordingly. With the evolution of multiple channels of consumption, and not all films following the same pattern of theatrical, TVOD, SVOD and C&S, segmenting and targeting the audience would become more critical than ever, to chart the release strategy of a movie.

More than content, context will start playing an important role. Big data will help the players identify the context – what is the context in which the viewers are consuming the content? This will enable the process of discovery and consumption for the consumers using features such as personalisation and visual search.

Mohit Mehra
Cinema Capital Venture Fund

However, there exist quite a few challenges in the adoption of the digital channels for movie consumption:[108]

- **Quality of viewing:** A consistent good quality internet connection, which is essential for good quality viewing on OTT platforms, is still a challenge in India.
- **Consumers' propensity to pay:** Indian consumers are still not used to paying for content online. Cable is currently very cheap and hence, there is not much incentive for the consumers to pay for entertainment on other platforms. Also, Indian consumers typically are habituated to pay for access but not for content. This would need to change to increase the subscription revenues.
- **Acceptance of long form content on small screens:** Films are characterised by long form content which is experiential. The acceptance of this content on the smaller devices is questionable.
- **Valuation of the digital content:** The valuation of films is typically dependent on their box office collections. New models would have to evolve to price the content for a direct-to-digital release.

Thus, in order to maximise returns from digital platforms, it is important for the digital players to chalk out a scalable model, whereby Indian users can see value in paying for content.

The key to scalability for Digital Media will be the subscription revenue growth. Even though Indians are extremely value conscious, they have been gradually shifting from a free content consumption model to a paid model. Besides, television remains a low ARPU platform and the digital ARPUs are in a way dependent on it. However with digitisation, the television ARPUs are bound to go up that will ultimately boost the digital revenue as well.

Hiren Gada
Director
Shemaroo Entertainment Ltd

108. Industry discussions conducted by KPMG in India

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The Screening Room

The Screening Room is a startup venture backed by Sean Parker (Napster co-founder and Ex-Facebook President) and Prem Akkaraju. The company plans to provide premium day-and-date movie release service wherein major blockbusters would be made available at home on the same day they get released in cinemas.

The service would charge about USD50 per view while providing a 48-hour viewing window for every film to the consumers. Also, consumers would be required to pay USD150 for the set-leading box that would transmit the films. Although day-and-date service for screening major releases, called Prima Cinema already exists in the U.S., it is prohibitively expensive in nature (priced at about USD35,000).[109]

The Screening Room is a service that would work on a revenue-share model and help enhance revenues from premium home video releases by shortening the current theatrical window of 90 days.[109] To exhibitors, the company has proposed a significant share equaling about USD20 of the fee.[109] Also, customers who pay the USD50 would be provided two free tickets to see the movie at a cinema of their choice thus giving the exhibitors the added advantage of profiting from concession sales to those spending on movie.[110] Participating distributors would also get a share of the USD50-per-view proceeds, speculated to be about 20 per cent, before The Screening Room takes its own fee of 10 per cent.[110]

The company has also promised to offer secure anti-piracy technology to protect the rights of stakeholders. This feature is significantly appealing to major studios like Universal, Fox and Sony who have shown interest in The Screening Room as they constantly struggle with global content theft. However, uncertainties around this concept continue to thrive as exhibitors worry about the ultimate impact of the shortened theatrical windows on their sustenance apart from distributors being wary of Screening Room emerging as exclusive content partner.[109,111]

Miniplex – designing progressive offerings to address the gaps in the current market

Given the screen paucity, the short theatrical windows and fast paced lifestyles, the Indian consumers often miss watching the non-blockbuster releases in theatres. Also, the satellite rights of most films go unsold every year as the broadcasters largely focus on the top 40-50 films only. The Indian film entertainment content house, Shemaroo Entertainment Ltd., launched a movie premiere service – Miniplex, with the aim to bridge this gap and improve the reach of the smaller good films. A few key features:

- Service USP: One movie premiere every Friday for the first time on Indian television
- Content: Selectively curated content consisting of small Hindi films with strong content; selective, critically acclaimed regional films having a worldwide appeal also expected to feature in the future
- Convenience: Ad free service delivered over direct-to-home operators like Airtel and Tata Sky; Consumers get to watch a single movie throughout the day at fixed timings
- Cost: Subscription priced at INR60 per month

Thus, the Miniplex service has been designed to explore an underserved segment of consumers looking for good quality content and with the SVOD model, it is expected to induce the habit to pay amongst the Indian audience. While the uptick of this service is yet to be seen, the industry needs to think of more innovative services like these to improve the reach of Indian cinema.

109. 'Studios, Exhibitors Consider Revolutionary Plan for Day-and-Date Movies at Home', Variety, http://variety.com/2016/film/news/studios-exhibitors-consider-revolutionary-plan-for-day-and-date-movies-at-home-exclusive-1201725168/ accessed on 14 March 2016

110. 'Napster founder is making a day-and-date movie release service', Engadget, http://www.engadget.com/2016/03/10/the-screening-room-movies/ accessed on 14 March 2016

111. The Guardian, 10 March 2016, 'Napster founder plans to screen movies at home on day they hit cinemas'

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Developing ancillary revenue streams

There could be multiple ways for monetising the stories long after the films are over. A few of them being:

Film remake rights in different languages: Production houses should focus on building intellectual property and create content that can work across languages. The cumulative value of the films locally adapted in different regional languages is expected to be more than generic content expected to work nationwide.

TV series, comics – building the stories of the individual characters: Successful stories which resonate with the audience can be spun around to create a series for television or online viewing. For instance, historical fiction drama, 'Baahubali: The Beginning', plans to expand its franchise by releasing digital graphic novels later this year. The graphic novel is to be based on the blockbuster film and would unravel stories of the characters which could not be shown in the film.[112]

Merchandising across various product categories: Licensing and merchandising currently constitutes a miniscule portion of the revenues for films. There is immense potential for developing this revenue stream. However, this would need strong story lines and characters that resonate with the audience. This is expected to develop as more franchises get created. While merchandising clicks only for certain genres of films, filmmakers must actively explore innovative ways to associate with the consumers.

Threats to the Indian film industry

The growth of the Indian films industry may face some headwinds due to various technological developments and fast changing consumer behaviour. The industry must take cognisance of these threats:

Lost opportunities due to the inability to add new screens in a timely manner: As discussed earlier, India lags behind on account of screen penetration and lack of infrastructure is leading to a lost revenue opportunity for the industry.[113] This affects the scope of the smaller films to a greater extent. Each meritorious independent film, under marketed or under monetised would be a missed opportunity, not only for that particular film or film maker, but for the entire Indian film industry.

Ticket pricing: Increasing ATPs are dissuading the audience from watching the films in theaters. Regions with low ATP prices have witnessed improved occupancy levels and a boost to film business. For instance, the occupancy levels are very high in the south where the ATP prices are capped. Also, the Marathi film industry experienced a boom in the last year due to low ATP prices. Hence, there is need to rationalise the ATP prices to improve the footfalls.

Online piracy: There is an urgent need for penetration of legal channels of entertainment in the rural areas. Currently, government is focussed on inclusive society initiatives which aim at connecting villages via broadband. This has a potential to incentivise piracy as people would find it much easier to watch movie on their laptops than travel to far off theatres. Hence, there is need for a collective, structured, scientific, multi-pronged and pro-active approach to combat piracy.

Consumer preference shifting to alternate forms of entertainment: TV, IPL, OTT platforms, live entertainment, etc. and other forms of outdoor entertainment such as sports, eating out, etc. may eat into the share of domestic theatricals as an entertainment option.

"The evolution of a digital economy including mobile devices, VoD sites and DTH, has disrupted the film space. Consumers, especially the millenials, are leveraging such devices and platforms to optimise their leisure time by exercising the freedom of choosing their time for viewing and engaging with content as per their convenience. Movie makers need to adapt to these changes by charting out an engagement strategy for their films and accordingly devising the release strategy. Challenges abound for content owners as well as marketers in engaging such an audience that is socially networked, digitally wired and has access to multiple screens."

Vikramjit Roy
Head - Film Facilitation Office
NFDC

112. ''Baahubali' goes beyond the big screen: SS Rajamouli's epic to be launched as graphic novel series', Firstpost, http://www.firstpost.com/bollywood/bahubali-goes-beyond-the-big-screen-ss-rajamoulis-epic-to-be-launched-as-graphic-novel-series-2610662.html accessed on 10 February 2016

113. Industry discussions conducted by KPMG in India

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We are still dependent on a handful of brands and stars to bring in the audiences. Screen penetration is the primary tool that shall help increase access to a larger share of the population. On the structural side, the industry is in urgent need of tax reforms to help the industry stay vibrant. Reforms in the education sector by allowing corporates to enter this space will help the industry in the long run by bringing about qualitative improvements.

Ravi Gupta
Dean and Director
Whistling Woods International

We need reliable data to make policies which would catalyse the realisation of this potential. Currently, there is tremendous opaqueness in cinema revenues and a tendency to obfuscate statistics that is eventually self-defeating. All the developed and most developing markets have mechanisms in place to measure box office revenues and related consumer trends accurately and in near real time. India needs such systems to develop favorable policies for the industry.

Rajkumar Akella
Managing Director - India
Rentrak (now ComScore) - Theatrical

Licensing and regulatory framework: Prohibitory regulatory framework is impeding the growth of Indian cinema. States need to be mandated and encouraged to grant licenses to new cinemas on a fast track basis and also provide for a single window licensing system to cut down the delays of red tape. Incentives to cinemas can range from encouraging financial institutions to extend assistance for building cinema infrastructure, tax holidays, tax breaks, customs duty waiver on cinema equipment, simplification/lowering of taxes, permission to cinemas for mixed use of the land to enhance revenues and to set off losses of lean movie seasons and so on.

Lack of data accuracy and transparency: In spite of the evolution of technology and near 100 per cent digitisation, there is no mechanism in place to measure box office revenues, number of admissions and other consumer trends accurately.[114] Accurate and scientific data is indispensable for state and central governments and even local bodies, to understand the trends, the market gaps, and design strategies and policies accordingly.

Lack of incentives for domestic production: Many countries, including the U.S., Canada, Spain, Australia, U.A.E, the U.K., Italy, Malaysia, Turkey, Mauritius, South Africa, and Ireland have tax credits or cash rebates ranging from 15 per cent to 40 per cent on eligible expenditure for foreign film shootings, besides a single window system to grant permissions for film shoots.[114] Indian films that utilised these incentives have boosted tourism in these countries and added multifold value to their economies. India is losing potential revenue by missing these opportunities. The government needs to draw from the tax models built by these countries and design incentive policies in an expeditious manner.

Lack of talent: A key threat to the growth of the film industry is shortage of talent. There is a need to develop more institutions that impart world class formal training that would help the industry grow in the long run.

With the Indian Film Industry maturing there is significant demand for well trained professionals. What is lacking in India is the mainstreaming of film education akin to that of engineering, medicine & other professions. There is a fervent need to promote specialised training & education in these sectors and both the NSDC (National Skill Development Corporation) and private players have a major role to play. The double digit growth of the film industry should warrant a double digit growth for film education as well.

Rahul Puri
Managing Director
Mukta Arts Limited

114. Industry discussions conducted by KPMG in India

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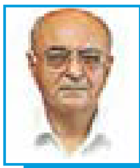
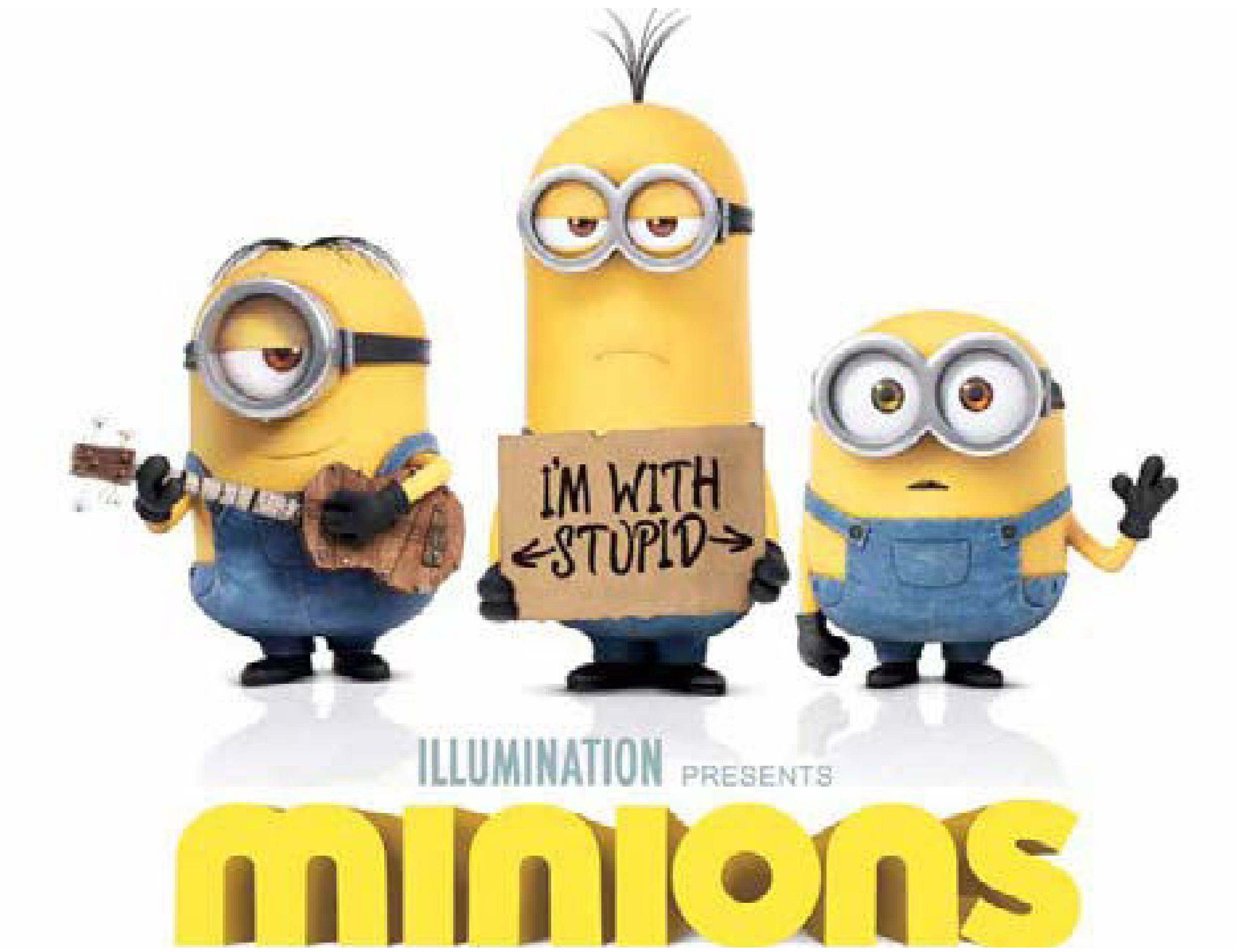
Lack of integration across the value chain and with the government in India: India currently lacks a lobby wing, like the Motion Picture Association of America (MPAA) of Hollywood, which can act as an interface between film industry and government. There is a need of a nodal body that could play a role in formulating policies, facilitating clearances, interface between the industry and the regulators and thus enable smooth functioning of the industry. The body could also be given the responsibility to track performance of new policies and engage continuously with stakeholders from Bollywood as well as regional film industries to sustain the growth momentum and remove any bottlenecks.

Threat from Hollywood to the Indian film industry: As the distribution of Hollywood cinema increases and the number of screens fail to increase, Bollywood and regional cinema face a threat of losing the footfalls to the Hollywood cinemas.



"For the past 5 years, Indian film industry has been wallowing in a small pool of mediocrity. It's time we realise that there are many other leisure alternatives and film is only one mode of mass entertainment. There is an urgent need to develop cinema for other media such as desktop, tablets and other mobile devices & go beyond the diaspora market overseas. If this is not done, then the long walk on the sunset boulevard has begun."

Amit Khanna
Writer, Film Maker, Media Guru



108. Industry discussions conducted by KPMG in India

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Conclusion

The failures and successes of 2015 hold important lessons for the Indian film industry. The year saw quite a few big budget, A-list actor starrer films fail at the box office, while the smaller content-led films emerged successful. Content clearly is indispensable for the success of a movie and it is imperative that the producers take cognisance of the changing tastes of the consumers and reassess their budgets and business models to create profitable films. The audience has become more experimental and open to new concepts, platforms and other sources of entertainment. In these times, the under-penetration of screens and lack of accessibility to good cinema visibly threatens the growth of the industry. The industry needs to look at innovative models for building the infrastructure and alternate sources of revenue streams for monetising the content, and the government needs to revisit the archaic laws to make films more accessible to the audience. The industry is inching closer towards digital as a potential revenue stream, which could disrupt the industry and completely alter its outlook, provided the industry is able to leverage and monetise it aptly.

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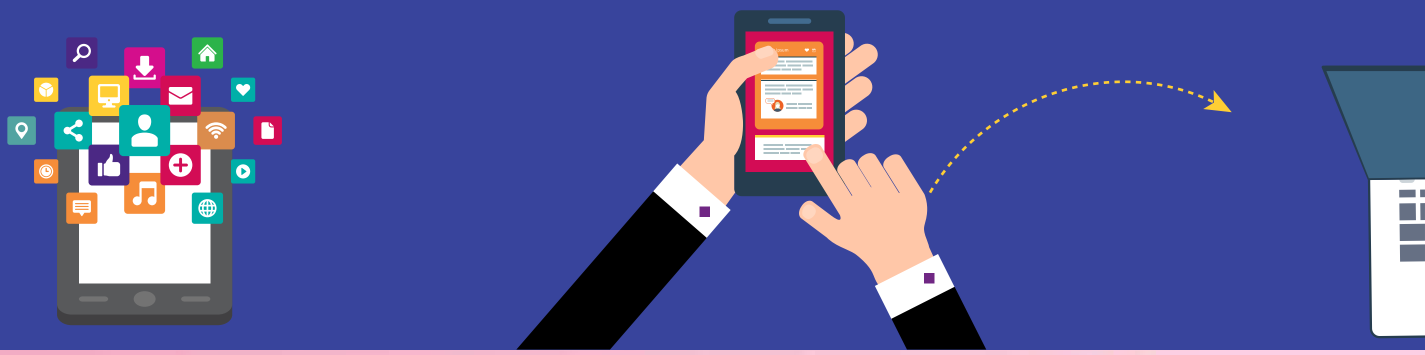

Digital consumption

The second screen soars

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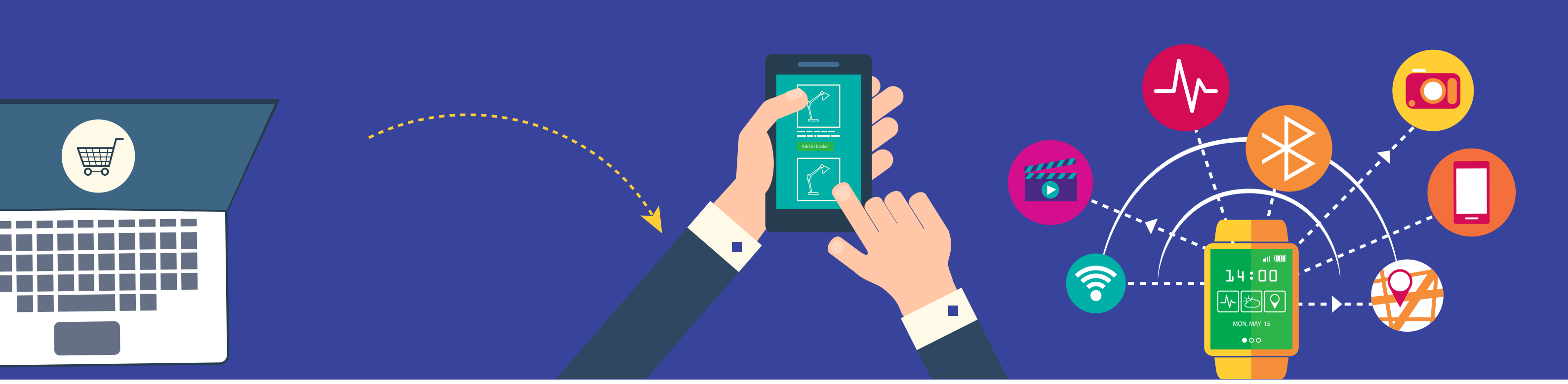


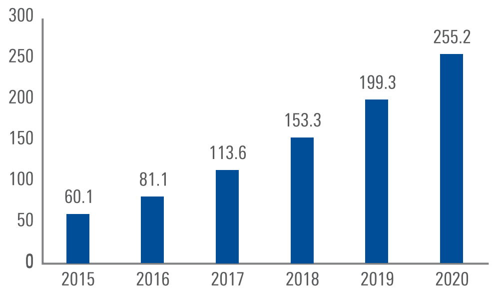
Digital advertisement spend

Digital advertising spending is getting more prominent

In line with the trends seen in digital media across sectors, digital advertisement spend outperformed expectations in 2015, growing almost 38.2 per cent over 2014 to reach INR60 billion[01]. It is expected to cross INR255 billion in 2020 driven by a number of factors including:

- Increasing allocation of budgets to engage customers through the digital medium.
- Shift of traditional companies using digital channels for their businesses operations.
- Continued allocation of spend from e-commerce companies.
- Significant rise in consumption of video on-line, a category that tends to attract much higher CPMs.

Digital advertisement spend (INR billion)

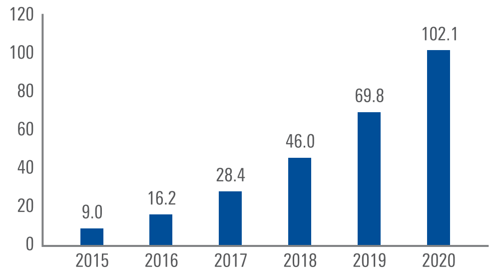


Source: KPMG in India Analysis

- Mobile advertisement spends continue to see significant growth driven by a number of factors: better monetisation put in place by publishers;
- Growing smart phone penetration; and
- Increased consumption of content on mobile.

Mobile advertisement spend in 2015 is estimated to be at INR9 billion and is expected to grow at a CAGR of 62.5 per cent to reach INR102.1 billion in 2020[01].

Mobile advertisement spends (INR billion)



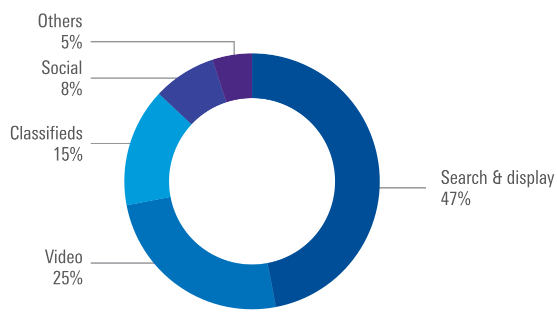
Source: KPMG India Analysis

FMCG and auto sectors are expected to be the largest spenders on overall advertisements in 2016 driven by new product launches and E-commerce shall continue to be a key driver in advertisment growth as the sector builds and players consolidate their market presence in the country[02].

Headroom for growth

Digital advertisement spend per capita in India continues to significantly lag global economies. U.S., China, Japan, Germany and U.K. are the top five spenders on advertising[03]. Even with current growth assumptions India is expected to be about 0.6 per cent of global digital spend in 2015 indicating a significant headroom for growth[01].

Digital advertisement spend by segment 2015



Source: KPMG in India Analysis

01. KPMG in India Analysis
02. KPMG Industry Discussions for the report
03. http://dazeinfo.com/2014/12/15/global-digital-mobile-internet-ad-spending-2015-us-china-lead/

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Analysis of segments

Search and display continues to be largest share of the market mainly driven by volume. Given that this segment is maturing (in relative terms) and continues to see lower CPMs, we expect that this segment will grow slower than the category.

Video moved up the charts, driven by new launches such as Hotstar, much better monetisation across platforms and high CPMs on premium content. This category should continue to see significant growth till 2020 as more and more premium content is monteised on OTT platforms.

Social has begun the process of monetisation relatively recently in India, hence the revenue estimates are not commensurate with the size of the social user base in India. As platform owners get better at monetisation of the Indian audience, the mix should start changing in favour of social advertisement spend over the next few years.

Classifieds continue to be a significant category for digital advertisement spend, however 2015 saw the consolidation of several vertical focused players.

A number of trends will continue to drive growth in this space over the medium term:

- Increased competition among horizontal and vertical focused players like Naukri, Shaadi, OLX and Quikr.
- Roll out of specialist verticals such as automobiles, real estate etc. by horizontal players.
- Continued investment by traditional players like Just Dial in building their online play.

Infoedge's recruitment portal Naukri.com, which is among the largest recruitment portals, has witnessed a growth of 30 per cent in domestic corporate sales in cities like Bengaluru, while non IT markets like Mumbai and Delhi were growing at 16 to 17 per cent per annum. This growth is primarily driven by recovery in the job market, particularly in the IT segment along with addition of new products and services like the Career site manager and referral hiring platform e-hire. The shift towards Mobility continues with Mobile now accounts for 55 per cent of all of Nauki's traffic[04].

Though the real estate market continued to be slow, real estate advertisement business has seen double digit growth on the back of increased customer acquisition spend. For example 99 Acres experiences 13 per cent YOY growth during this period[04].

Advertisment blocking-an ongoing problem

The number of global consumers who have installed advertisement blocking software on their browsers has increased by nearly tenfold to 181 million between 2010 and 2015[05]. While active advertisement blockers account for merely 7 per cent of the total internet population, it is becoming a widely adopted practice by consumers to avoid watching unwanted content while carrying out their daily activities on the web.

The major share of advertisement blocking is faced by desktop computers because the penetration of advertisement blocks is currently far lower in mobile devices as compared to desktop computers.

Experimenting with cross platform advertising

Consumers are increasingly discovering content on both TV and digital devices, which provides marketers with an opportunity to increase the reach efficiency of their campaigns through cross platform advertising particularly using various social platforms.

Due to a rapid adoption of mobile devices, integration of cross devices platform continues to grow at a fast pace. The global cross-platform and mobile advertising market size is estimated to grow from USD25 billion in 2015 to around USD80 billion in 2020[06]. India is increasingly following similar trends with brands leveraging television, print and social media presence to augment campaign effectiveness.

New age companies such as Silverpush have started to build technologies where smart devices are able to recognise users and content being played on TV screens and contextualise ads on the user's smart device based on proximity to the content on the TV screen.

Digital campaigns need to iron out certain challenges

Technology upgrades and innovations have enabled advertisers to reach and effectively engage with their customers. For example, smartphones and tablets, which are already, equipped with accelerometer and gyroscope features, offer wide ranging possibilities including virtual, location-based targeting and interactive customisation.

However, with explosion in both the device ecosystem and advertising formats, monitoring of advertising campaigns is increasingly becoming challenging as the end product's viewability completely depends on the consumer. For example, situations where an advertiser ends up paying in situations wherein the supposed viewer did not actually see the advertisement, like in the case of scrolling down still trouble digital campaigners[07].

04. Infoedge's Quarterly Financial reports 2015-2016
05. http://www.premedianewsletter.com/PreMedia+EN/premedia.html?arid=31
06. http://insights.fb.com/2015/06/18/cross-platform-strategies/
07. http://www.v-net.tv/digital-advertisers-can-plan-and-pay-for-campaigns-based-on-viewability-standards

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Viewability could also become a metric wherein digital marketers would execute their campaigns on the likelihood of the viewership of the advertisements and pay only when the advertisements are indeed viewed. Some other metrics which seem to be appealing to the marketers are in-view rate, in-view time, and universal interaction rate among others[08].

Programmatic buying and selling has been also been impacting the implementation of digital campaigns. Due to limited human interaction, limited information about the quality of inventory and online security related frauds are some of the factors that are causing programmatic to be primarily used to dispose of remnant inventory as supposed to primary inventory as well. However, programmatic brings a unique value proposition for the advertiser and is expected to grow to double digits in the next 12 to 18 months[09].

The future is digital

Digital advertising is expected to continue to be the fastest growing advertising segment for the media industry in the foreseeable future. In the U.K., digital advertising has already outgrown TV advertising, while in the U.S. it is expected that digital advertising will cross this benchmark in the coming year. Currently, in India, digital advertising constitutes about 12.6 per cent of the total advertising market in 2015 and is expected to grow to 26 per cent of the total advertising market by 2020[10]. Increasing second screen consumption, growing mobile internet and device penetration and technology innovations will drive digital advertising growth at a CAGR of 33.5 per cent over the next five years.

Over the top (OTT) video services

Introduction

The OTT video[11] services market in India is primarily driven by changing preferences of viewers towards watching content as per their convenience and individual choices. Given that close to 90 per cent households have a single television set in India[12], watching TV and other content on laptops and smartphones based on individual choices has been a key trigger for increasing adoption and usage of OTT services. Though OTT video consumption has grown tremendously in just a short span there is quite a long way to go, with poor internet bandwidth and high data charges remaining some of the biggest roadblock to growth in online consumption of videos. Improvement in mobile broadband infrastructure, gradual reduction in the cost of internet and increase in smartphone screen sizes are driving consumers to shift their viewing preferences to mobile. Additionally, entry of digital-oriented companies, vertical integration by traditional media and telecommunication companies across the value chain to offer their own OTT services and increasing focus on video by social media platforms are further contributing towards the adoption of OTT video services.

"The video on-demand market in India is at a cusp of a meteoric take-off. The numbers already are substantial, but the next 24 months will drive this up manifold driven by much improved mobile data speeds, reduced data prices, fixed line broadband growth and large OTT services investing heavily on marketing and content. The immediate term opportunity is Advertising led, with digital video advertising expected to become close to USD1bn market by 2020. On the pay side, while the market will be smaller in the short run, the opportunities lie in specialised and sharply targeted subscription services as well as transactional VOD. All this will be aided by much reduced data prices (or bundled data and content packs) as well as digital and mobile wallets as payment modes."

Gaurav Gandhi

Chief Operating Officer

Viacom18 Digital Ventures

08. http://techcrunch.com/2015/07/03/from-remnant-to-riches-what-the-quest-for-premium-inventory-means-for-the-industry/
09. KPMG Industry Discussion
10. KPMG in India Analysis
11. Over-the-top (OTT) refers to video, television, and other services provided over the Internet rather than via a service provider's own dedicated, managed network. OTT is delivered directly from the provider to the viewer using an open Internet/broadband connection, independently of the viewer's Internet service provider (ISP), without the need for carriage negotiations and without any infrastructure investment on the part of the provider.
12. Broadcasters eye digital platforms to enhance viewership in single-TV households, Exchange4Media, http://www.exchange4media.com/tv/broadcasters-eye-digital-platforms-to-enhance-viewership-in-single-tv-households_57214.html accessed on 1 February 2016

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Bandwidth constraints continue; mobile broadband to lead the way

Access to fast internet and high data charges act as some of the biggest roadblocks for growth of online video consumption. Among, Asia Pacific countries surveyed by Akamai in 2015, India had the lowest average broadband speeds of 2.5 Mbps, with penetration of connections with speeds above 4 Mbps also the lowest at 6.9 per cent.[13]

Comparison of broadband speeds with other Asia Pacific countries (2015)

Country/region	Avg. speed in Mbps - 2014	Avg. Speed in Mbps - 2015	Per cent of broadband connections above 4 Mbps (2014)	Per cent of broadband connections above 4 Mbps (2015)
South Korea	25.3	20.5	96%	96%
Hong Kong	16.3	15.8	89%	92%
Japan	15.0	15.0	87%	90%
Singapore	12.2	12.5	83%	87%
Taiwan	9.5	10.1	78%	88%
New Zealand	7.0	8.7	77%	87%
Thailand	6.6	8.2	85%	93%
Australia	6.9	7.8	66%	72%
Malaysia	4.1	4.9	39%	52%
China	3.8	3.7	34%	33%
Indonesia	3.7	3.0	35%	17%
Vietnam	2.5	3.4	14%	31%
Philippines	2.5	2.8	9%	10%
India	2.0	2.5	7%	14%

Source: Akamai, State of the internet report Q3 2015, KPMG in India analysis

13. Akamai, State of the internet report Q3 2015

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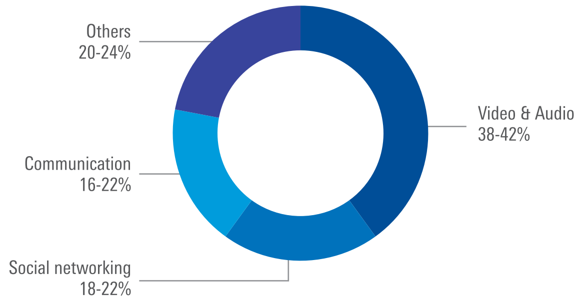
> The shift to digital is happening - the TV ratings system will further accelerate the drive of differentiated content to digital but the key to the speed of change is the speed at which broadband grows in the country.
>
> Mahesh Samat
>
> **Founder & Managing Director**
>
> EPIC Television Networks Private Limited

Mobile traffic share by content category



Source: India Mobile Broadband Index 2016, KPMG in India analysis

While wireline broadband continues to be a constraint, mobile is paving the way for video consumption. Mobile data traffic grew 50 per cent in 2015, driven by 85 per cent surge in 3G data traffic. This growth is largely on the back of surging consumption of videos, with approximately 40 per cent of mobile data traffic being driven by video and audio consumption[14]. Also, 3G data traffic grew faster in B and C category telecom circles in India, compared to Metros and A category circles, indicating that mobile data consumption is no longer a metro / large city phenomenon and is percolating down to tier II and III cities as well[15].

> With the increasing number of smartphones in the country, the focus of the digital space should be mobile as it is soon expected to be the primary device of media consumption. However, people tend to have a high switching habit on mobile platforms given that minimum effort is involved. Hence, the challenge lies in providing content that keeps the audience hooked to the app and website.
>
> Debashish Ghosh
>
> **Chief Executive Officer**
>
> ZEE Digital Convergence Limited

Despite this growth, 3G device penetration in India is still at 32 per cent[16] and of these only 38 per cent have 3G connections, indicating the tremendous growth potential for high speed mobile data growth[16].

Broader adoption of 4G in 2016 is expected to provide further impetus to video consumption on smartphones and mobile networks. The 4G / LTE device ecosystem is also rapidly advancing, with the average selling price of entry-level LTE devices declining from USD140 in 2014 to USD70 in 2015[14] – a trend that is likely to continue.

Currently, short format videos are driving video consumption on mobiles, with majority of the video traffic on mobiles coming from short format videos. As per Vuclip's Global Video Insights 2015, 85 per cent of smartphone users view shorter video content with run time of under ten minutes, while only 33 per cent of smartphone users view long format content on smartphones.[17] However, this is expected to change with consumption of long format videos expected to grow as the internet infrastructure gets better and cheaper. Further growth is almost entirely dependent on how fast the broadband and 4G infrastructure grows in the coming years.

14. Nokia India Mobile Broadband Index 2016
15. India's 'mobile data traffic grew by 50 per cent in 2015,' says Nokia, International Business Times, http://www.ibtimes.co.in/indias-mobile-data-traffic-grew-by-50-per cent-2015-says-nokia-669928 accessed on 20 March 2016
16. 3G, 4G driving data usage: Nokia study, The Hindu Business Line, 8 March 2016
17. 85% viewers in India consume short form video content on smartphones- Vuclip Global Video Insights Report, Exchange4media,http://www.exchange4media.com/digital/85-viewers-in-india-consume-short-form-video-content-on-smartphones–vuclip-global-video-insights-report_62994.html accessed on 14 March 2016

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Competition continues to rise with no single platform gaining critical mass yet

Competition in the digital video space in India continues to intensify with everyone from the traditional media companies (TV broadcasters, TV distributors, film producers, TV content producers) to telcos to international Video on demand (VoD) players to independent digital players vying for a share of the surging online viewership. In addition to the already existing services, there have been several significant OTT platform launches over the past year notably the following:

- Netflix finally launched its subscription video on demand (SVOD) platform in India in January 2016 after much speculation regarding the timing and nature of its launch. Netflix is currently offering three packages for INR500 (single device, SD content), INR650 (2 devices, HD content) and INR800 per month (multiple devices, UHD content).[18]
- Lukup Media, launched its video on demand + Broadband services priced at INR990 per month in 2016[19].
- Hooq, a joint venture of Singtel, Sony Pictures, and Warner Brothers entertainment, was launched as a subscription-only VoD platform in India in May 2015[20].
- Yupp TV, provider for Indian content across the world, launched its internet-based TV steaming service in India in Oct 2015[21].
- Made-for-digital content producer The Viral Fever launched its own platform TVF Play, marking a shift from its YouTube only policy.
- OZee platform from Zee Digital Convergence Ltd (ZDCL), the digital arm of Zee Entertainment Enterprises Ltd (ZEEL) was launched in February 2016. The platform will have content from Zee's TV channels as well as exclusive content from award shows, movie premieres and music concerts[22].
- Vuclip launched its OTT platform Viu in India in March 16, 2016[23].
- Viacom18's free ad-funded VOD platform VOOT is expected to be launched in April 2016. The platform will have content from its existing channels and original content[24].
- Balaji Telefilms' digital subsidiary ALT Digital is expected to launch its own VOD platform soon.

"New players are emerging in the very complex OTT space in India. To be successful it will require bringing together all the elemental parts of content, distribution, payment channels, access and tech to create the ultimate seamless/efficient experience for the user. All this to be delivered at the right price points. It's a tough ask but it will be the determinant which separates the winners from the losers."

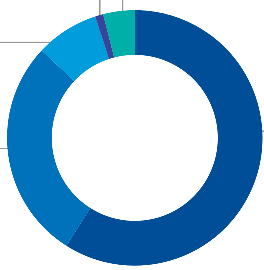
Rajiv Vaidya

Chief Executive Officer

Spuul India

YouTube continues to lead with maximum share of the online video viewership and online video advertising revenues, while other OTT platforms currently occupy only a small portion of this pie. According to Google, YouTube's total viewing duration has grown 80 per cent over the past year in India with ~55 per cent of YouTube's watch time coming from mobile devices and hours of content uploaded from India growing by 90 per cent[25]. On YouTube, entertainment-related content (film, TV and music videos) continue to take the lions share, contributing 90 per cent of viewership on the Top 100 YouTube channels. Education and health-related videos are growing and likely to be the future growth drivers on YouTube[26].

YouTube top 100 channels categories by viewership



Source: Nokia India Mobile Broadband Index 2016, KPMG in India analysis

18. Netflix in India: Here's everything you need to know, The Indian Express, 11 January 2016
19. http://www.lukup.com/buy
20. Getting India Hooq-ed to (Legally) Streaming Movies and TV Shows at Rs. 199 per Month, NDTV, http://gadgets.ndtv.com/tv/features/getting-india-hooqed-to-legally-streaming-movies-and-tv-shows-at-rs-199-per-month-697570 accessed on 14 March 2016
21. OTT service provider YuppTV launches in India, 9 Best Media Info, http://www.bestmediainfo.com/2015/10/ott-service-provider-yupptv-launches-in-india/ accessed on 14 March 2016
22. OZEE, the new video on demand platform by Zee Digital, DNA India, 26 February 2016
23. Vuclip launches VOD service Viu in India, Business Standard, 3 March 2016
24. Viacom18 VOD channel VOOT to launch in April, Rapid TV News, http://www.rapidtvnews.com/2016022641889/viacom18-vod-channel-voot-to-launch-in-april.html#ixzz42obWCCQx accessed on 14 March 2016
25. YouTube Announces "Breakneck Growth" In India, Slate Of New Shows From Local Content Partners, tubefilter, http://www.tubefilter.com/2016/03/17/youtube-announces-breakneck-growth-in-india-slate-of-new-shows-from-local-content-partners/
26. Nokia India Mobile Broadband Index 2016

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Traditional TV and film content on new platforms driving adoption

Traditional TV broadcasters and film producers are currently leveraging the opportunity provided by OTT services by porting existing TV content and movies to digital platforms and launching their own OTT platforms. TV content is available on OTT platforms as Video-on-demand (VOD), Live TV and Catch up TV (specific VOD service where users can watch recent episodes of current TV series for a certain period of days after the original television broadcast). Most TV broadcasters, currently are making available TV content on their platforms with a delay ranging from 15 minutes to one day. GEC content is the most popular genre on OTT platforms as well, with catch up TV being the most common reason for users to view online. Other TV content such as sports and news content are also gaining traction, but largely for live TV streaming, given the nature of content.

In sports especially, given the importance of watching matches live with zero delay, mobile has the potential to become the first screen for sports. For instance, according to TeleWeb Audience Measurement system, in the top six metros of Mumbai, Delhi, Kolkata, Hyderabad, Bengaluru and Chennai, the Star India's platform Hotstar managed to reach ~19 per cent of the TV reach for IPL on Sony channels during April-June 2015.[27] According to The Global Sports Media Consumption Report 2014, online consumption pattern of sports is similar to TV with the top three most followed sports online in India being Cricket (79 per cent), Tennis (47 per cent) and Football (45 per cent). Also consumption of sports via smartphones and laptops/tablets by fans at least once a day stood at 52 per cent and 54 per cent respectively[28]. A considerable section of the population also watched other sports content such as interviews, game highlights, live streaming of games, etc. This has resulted in online rights for events being sold separately from TV rights and digital ads for sports events being sold separately. Apart from sports content generating online advertising revenues, if packaged properly the potential for monetising sports content online via subscription fees is high given that the willingness of sports fans to pay for live sports content online is higher than for viewers of other content online.

For films, the digital rights are currently sold bundled with the TV rights. However, digital is expected to soon emerge as an independent revenue stream. In 2015, as a result of the aggressive initiatives of a few OTT players to build their platforms, a few films experienced a deviation from the traditional windowing - the digital window was shifted before the cable and satellite broadcast (C&S) window. Digital provides a viable solution to the distribution challenges due to low screen penetration, faced especially by the small and independent film producers. Producers are also leveraging the OTT platforms for marketing initiatives. With the entry of multiple players who are trying to build film content (both Hindi and regional) for their OTT platforms, the syndication revenues are expected to increase and digital is expected to emerge as a strong revenue stream for films.

While so far, users have been using OTT video platforms as an extension of their traditional media consumption this is likely to change in the future. With several different platforms vying for eyeballs, content differentiation and user experience are becoming critical to ensure user stickiness.

Digital ecosystem is increasingly becoming fragmented with multitude of choices and experiences adding to the confusion. Content curation and user engagement would be key to differentiation as delivery experience becomes a commodity over time.

Achint Setia

Head - Corporate Strategy and M & A

Viacom18 Media Private Limited

27. Hotstar tops as online source for sports in top 6 metros: TeleWeb, IndianTelevision, http://www.indiantelevision.com/television/tv-channels/viewership/hotstar-tops-as-online-source-for-sports-in-top-6-metros-teleweb-151018 accessed on 14 March 2016
28. Know the fan: The Global Sports Media Consumption Report 2014

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Original video content on OTT platforms has arrived!

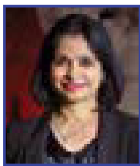
While a majority of videos available online are either re-runs of TV shows or movies or user-generated content, platforms and content creators are beginning to leverage the growing viewership to offer original content for the internet audience. These made-for-digital video offerings are varied – with everything from episodic web series, stand-up comedy, sketches, movie reviews and short films being tested to cater to this growing audience.

While in the past a lot of short format original content have been successful, largely on YouTube, 2015 was a landmark year in which web series and made-for-digital long format content (with run time over 10 minutes) went mainstream[29]. This trend was led by two shows from The Viral Fever (TVF) – Permanent Roommates and Pitchers, the latter especially going on to become hugely popular[30]. Y-Films, the youth content division of YashRaj Films, also had relative success with two web series in 2015 – Man's World and Bang Baaja Baaraat (BBB)[31]. Star India took a slightly different route by tying up with All India Bakchod (AIB) for 20-episode news comedy series (10 in English and 10 in Hindi), with each episode released first on Hotstar, and then aired on TV channels Star World (English) and Star Plus (Hindi)[32].

With traditional TV shows continuing to focus primarily on family dramas during prime time, original web-series offer a lot of potential, especially since the demographics of the online audience in India is different from the traditional TV viewing audience. This is also highlighted in Vuclip's Global Video Insights 2015 report, according to which online video viewers in India value freshness of content as the most important feature with over 65 per cent choosing this as the most important criteria for watching videos online.[33] With their contemporary stories, new-age story telling and fresh actors, these web series have become a hit among their target demographics. Low censorship is another reason why made-for-digital content wins over traditional TV content. Several more original series are in the pipeline as traditional as well as new age content producers climb on to the band wagon.

Encouraged by Netflix's experience of original content helping in gaining loyal subscribers internationally, OTT platforms in India are also planning to use original content to acquire and retain viewers, notably:

- Eros Now has announced plans for six original digital series namely The Clients, Khel, Legacy, Lost, Showtime and Fairytale featuring mainstream Bollywood actors such as Ayushmann Khurrana, Anil Kapoor, Bipasha Basu, Chitrangda Singh, Radhika Apte and Nana Patekar.[34]
- Vuclip has plans for Viu Originals on its OTT platform Viu and has announced a the launch of a cricket comedy chat show series 'What The Duck', to be hosted by Vikram Sathaye and produced and co-created by Fluence.[35]
- ALT Digital from Balaji Telefilms has plans to offer original and curated premium content on its own soon to be launched VOD platform across multiple genres and languages.[36]
- Viacom18's soon-to-be-launched VOOT platform also has plans to have original content from content producers such as Endemol Shine India, Saurabh Tiwari Films, Colosceum Media, Frames Production Company, Sunshine Production, Shakutantalam Telefilms and Bodhi Tree[37].



"The industry is betting on the growth of OTT platforms and digital consumption of content at the backdrop of prolific growth in mobile subscribers and 4G explosion in India. At the heart of any consumption wave is of course compelling content. Offering on a vast repertoire of movies and music plus cool, contemporary original shows that will talk to young India will be critical for success, as we believe that even the 'saas-bahus' no longer want to watch the serials appearing on linear television today. Offline viewing feature can be a proactive strategy to work around the broadband streaming constraints so people can truly watch content when they want it and on the go without being connected to the Internet. The lack of on-demand premium television in India today is the golden land-grab opportunity for OTT players."

Jyoti Deshpande

Group Chief Executive Officer & Managing Director

Eros International

29. Based on industry discussions
30. Who needs television anymore?, The Hindu, 22 Februrary 2016
31. Homegrown online series are changing the way we watch television, Hindustan Times, 1 December 2015
32. With 'On Air with AIB', Star India Claims to Have Hit the Bull's-Eye Online! Here's How, Adage http://www.adageindia.in/digital/with-on-air-with-aib-star-india-claims-to-have-hit-the-bulls-eye-online-heres-how/articleshow/49636618.cms accessed on 26 February 2016
33. 85% viewers in India consume short form video content on smartphones- Vuclip Global Video Insights Report, Exchange4media, http://www.exchange4media.com/digital/85-viewers-in-india-consume-short-form-video-content-on-smartphones--vuclip-global-video-insights-report_62994.html accessed on 14 March 2016
34. ErosNow introduces two-tier subscription for India; spruces up original content pipeline, Television Post, http://www.televisionpost.com/technology/erosnow-introduces-two-tier-subscription-for-india-spruces-up-original-content-pipeline/ accessed on 14 March 2016
35. Vuclip to launch cricket comedy show 'What The Duck' on OTT, IndianTelevision, http://www.indiantelevision.com/iworld/ott-services/vuclip-to-launch-cricket-comedy-show-what-the-duck-on-ott-160304 accessed on 14 March 2016
36. Vuclip launches VOD service Viu in India, Business Standard, 3 March 2016
37. Viacom18 readies for launch of OTT platform, Business Line, 10 March 2016

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Apart from OTT video platforms wanting to showcase original content on their platforms to create exclusivity, there has also been a surge in independent producers generating made-for-digital content, creating sizable loyal audience. Many of them are currently focused on YouTube as a platform but could likely expand to other OTT platforms as they start gaining momentum. Many of these independent content creators are tying up with Multi-Channel Networks (MCNs)[38] who help them with distribution to their content on various video platforms and enable them to monetise their content by providing advertisers reach in the targeted demographic for their brands.

Monetisation through online video advertising

The digital advertising market size in India was around INR60 billion in 2015 and is expected to grow at 33.5 per cent CAGR over the next five years to INR255 billion in 2020, INR12 billion is estimated to be from online video advertising in 2015, and expected to surge to INR67 billion by 2020, growing at 41 per cent annually[39].

YouTube is currently taking the lion's share of video advertising in India, but other OTT video platforms are also gaining traction[40]. Monetisation on a digital platform through advertising revenues is dependent on the platform achieving critical mass, since any advertiser will look at a certain minimum number of impressions to be served before deciding to advertise on the platform. As a result, only few OTT platforms are able to monetise through advertising revenues.

Several OTT platforms of TV broadcasters sell advertising slots through separate digital advertising sales team and not through their TV advertising teams so as to ensure that there is no cannibalisation of TV advertisement revenues. Also, various digital advertisements are sold by in-house dedicated ad sales team rather than through ad networks or through real time bidding. Apart from pure play impression-based video advertising, platforms and advertisers alike are exploring sponsorship and branded content.

Another advantage with digital video advertising versus television advertising media is that everything and everyone is measurable, as opposed to traditional media where advertisers have to depend on the perceived value of audience, based on measurement of a sample size.

"2016 is the year of digital – shift in content consumption other screens is faster than ever. And it is changing the dynamics in the industry – by eliminating the middle man between broadcaster and consumer, for the first time broadcasters have a direct handshake with their viewers. The opportunity this presents to shape content, sharpen advertising and customise product, is unprecedented."

Sanjay Gupta

Chief Operating Officer

Star India Private Limited

Brand stories through serials

Serials like 'Permanent Roommates' by TVF have started to develop customised content around a brand like they did in Season 1 in partnership with Commonfloor and season 2 in partnership with Ola cabs.

Others following suit are 'Alisha-Fashion detective' by Blush which has created content for its 2 seasons with Lakme and Jabong respectively. These serials have found a way of attracting audience through their common story line which does not differ from any real time soap, yet has a very obvious brand proposition draped around it.

Opportunity for SVOD

Subscription VOD (SVOD) has so far not taken off in India[40]. Given that data consumption charges are still very high in India, consumers are paying for internet consumption and not for the content and as a result there is a lack of willingness to pay for content on top of the bandwidth. Even if viewers are willing to pay, they are selective and ready to pay only for content where they see additional value in terms of exclusivity or timing or availability. Hence, for paid versions of OTT services to be successful it is essential to provide differentiated content.

Though 'cord cutting' is a much bandied about term, India is still far away from this phenomenon becoming mainstream, largely due to high cost of bandwidth and low cost of monthly cable subscription prices. For instance, in the U.S., where cord cutting has gained traction, cable TV ARPU is around USD60-100 while Netflix's subscription rates are in the USD8-12 range, which is a significant price difference[41]. Whereas in India, cable TV subscription ARPU is ~USD4, one of the lowest globally and Netflix's basic subscription plan of INR500 per month is similar to the premium DTH/cable TV packs[42]. This combined with the high cost of bandwidth which costs at least INR500 per month for a speed of 2 Mbps, makes the cost of subscribing to Netflix unaffordable for a large segment of the population[42].

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38. MCNs are entities that affiliate with multiple channels on video platforms such as YouTube and offer assistance to the channels in many areas such as product, programming, funding, cross-promotion, partner management, digital rights management, monetisation and audience development.
39. KPMG in India Analysis, Industry Discussions
40. KPMG Industry discussions for the report
41. Will Netflix's entry shake up the Indian OTT market?, TelevisionPost, http://www.televisionpost.com/special-reports/will-netflixs-entry-shake-up-the-indian-ott-market accessed on 26 February 2016
42. KPMG in India's analysis 2016 based on data collected from industry discussions

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Apart from pricing, lack of convenient payment mechanisms is another barrier in getting customers to pay for content online. While on the one hand, low credit card and internet banking penetration makes direct payments inconvenient, telco billing though convenient is unviable for independent OTT streaming services due to the high revenue share asked by mobile operators. Rapid adoption of payment wallets and recharge solutions is expected to change this, making monthly subscription payments as well as per-transaction based micro-payments easier for consumers.

As 4G network launches pick up steam during the year, mobile operators will also be keen to increase consumption of videos on digital platforms, since video will be the driver of network utilisation. Increasing utilisation will be a key focus area for mobile operators given the huge upfront investments made by them in spectrum and network rollout. Hence, there was a possibility of mobile operators partnering with OTT video service providers to either subsidise data charges or OTT services or bundle the two together.

However, as per recent TRAI regulation data service chapter 2016, differential pricing is not allowed on the open internet unless it is on closed systems (intranet). This could result in telcos opting for OTT video streaming apps which are hosted on their own networks. Reliance Jio, the 4G service to be launched by Reliance Industries, already has plans for an OTT streaming service, Jio Play, which will be hosted on its network and provide content exclusively to its own subscribers.[43] Other telcos such as Bharti Airtel, Vodafone and Idea which are also heavily investing in their 4G networks may also come up with similar plans for hosting OTT apps on their own network[44]. This could be a key trigger for OTT video services achieving critical mass given the enormous customer reach, capacity for large scale marketing efforts and payment integration that telcos can bring to the table.

Conclusion

While OTT video is one of the fastest growing services on digital platforms, with everyone from traditional media companies to new-age media companies to telcos betting on online video consumption going mainstream. On the demand side, there is a growing demand for flexibility in terms of type, timing, and place of content consumption. On the supply side, there are a multitude of OTT video services catering to different consumer preferences while declining prices of smartphone and improving mobile broadband infrastructure are removing roadblocks for OTT video consumption.

As content differentiation becomes key in a cluttered landscape, many OTT video platforms are betting on producing and acquiring original content to gain users and build a loyal subscriber base. However, monetisation remains largely advertisement driven and paid models continue to see consumer resistance, given the high cost of bandwidth and low cost of cable television.

43. First look at Reliance Jio Play : Next gen TV services, 100+ Live TV and HD Channels being offered, Telecom Talk Info, http://telecomtalk.info/reliance-jio-play-live-tv-hd-channels/126883/ accessed on 14 March 2016

44. Based on industry discussions

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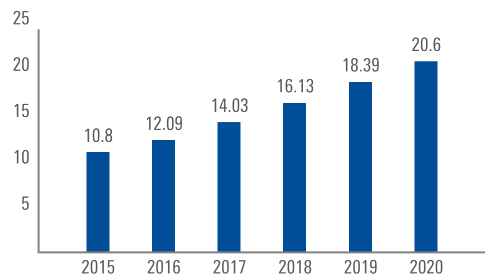
Digital music

The music industry continued its shift to digital consumption in 2015. The market size of the music industry is INR10.8 billion in 2015 and is expected to grow to INR20.6 billion by 2020[55].

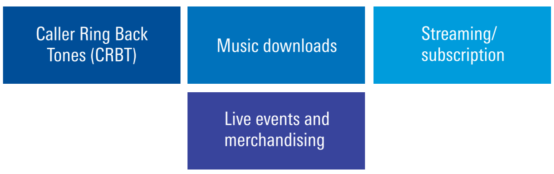
Music market (INR billion)



Source: Industry Discussions and KPMG India Analysis

Digital music now generates revenue of over 55 per cent of the overall size of the music industry in India[56]. Nearly 40 per cent of the music consumed is Bollywood, 30 per cent is Regional, 10 per cent is Classical and Devotional and 20 per cent is the rest of the market[56].

With better 3G coverage and introduction of 4G services, the consumption of digital music is expected to increase significantly over the next few years. However, to ensure incremental revenue generation, the digital music industry has to come up with innovative monetisation models. The revenue streams for digital music industry can be broadly categorised into the following segments:



The rise of streaming services

The year 2015 saw the music streaming services getting strong traction and clearer business models have begun to emerge for these players.

Players like Gaana, Saavan, Hungama, Wynk, Rdio, and Guvera have started to gain increased user traffic on the back of cheaper connectivity, better smartphone penetration and acceptance of freemium models amongst consumers supplemented by high levels of customer acquisition spend.

However, most users are consuming content for free and there has been strong resistance to switching to subscription models. There are an estimated 40 million active consumers in India who stream every month and out of which only about 0.2 million customers are paid subscribers[57].

> The ability to scale content creation and build strong digital media brands that can monetise across various demographics, sub cultures and platforms is what will determine the success of a true blooded digital media company.
>
> Sameer Pitalwalla
> **CEO & Co-Founder**
> Culture Machine

The major streaming players are currently focusing on freemium models primarily comprising the following:

- **Pure Freemium Model** – This model aims at converting free users to paid users with ad free paid models. Spotify makes use of this model where it provides unlimited, ads-enabled free streaming, which generates 9 per cent of their annual revenues. This acts as a gateway for the paid subscription services, which accounts for 91 per cent of the revenues[58].
- **Limited Freemium Model** – In this model, there are restrictions like audio quality, ability to skip songs, availability of certain songs in the free model. For a superior music experience, availability of all tracks and premium functionalities come at an additional cost[58].

55. KPMG India Analysis
56. KPMG Industry Discussion
57. KPMG Industry discussions for the report
58. http://www.billboard.com/articles/business/6859192/battle-subscription-business-models-strengths-weaknesses

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In the last 18 to 24 months the number of users on ad supported/free to the consumer streaming services have grown exponentially in India and will touch close to 100 million users in the next 24 months. However, the challenge will continue to remain on the conversion of free-users to premium/paid users. I firmly believe that the paid consumers will come from the top 20 per cent of the user base and that will more than justify the business from a profitability perspective.

Devraj Sanyal

MD and CEO (South Asia)

Universal Music Group

The next steps for the digital music industry is to hit critical mass of ad supported free monthly users of 100 to 120 million then moving to a consumer paid model when there are sufficient feature differences between free and paid models. Post that there needs to be some sort of consolidation of players – on the content and services side.

Sridhar Subramaniam

President (India and Middle East)

Sony Music

360 degree marketing of music stars

In order to boost their revenues, music companies are increasingly using adjacent revenue streams to hedge their primary business model[59].

For example, music companies are investing in developing 'stars', which enables them not only to monetise their content but earn money through other sources such as merchandising, events, branding. Stars such as Justin Bieber and Badshah allow music companies to increase monetisation by merchandising, branding, and events.

Tiering of content

Traditionally, content owners and distributors have used Windowing as a strategy to reach different audience at different price points to monetise content over a period of time. In a hyper connected world, the time available to monetise premium content has shortened significantly. If it is not available simultaneously on all platforms, then the opportunity is lost as consumers move on to new content or it is pirated and consumed.

In addition to the freemium model, content owners and distributors in the music industry need to take more of an omni-channel approach to monetisation, where new content is released pretty much concurrently on all platforms[59]. The monetisation streams then change over the passage of time as the content evolves from super premium to library to catalogue.

Technology innovations

Over the last few years, consumer preferences have shifted where they expect content on demand on a device of their choice at the cheapest price point possible. For content creators and distributors, to remain relevant in this world, this means covering an increasingly complex ecosystem of connected devices, sophisticated tiering of content and value added personalised experiences. The players in the Indian ecosystem have taken these challenges head on and continue to build innovative features to their products.

For example, Hungama offers customers the service to cache songs in their handsets for a specific duration ranging from 1 day to even 6 months, depending on the plan the customer wishes to choose[60]. Bharti Airtel's Wynk provides different subscription plans for non-Airtel Android and iPhone users and Airtel Android and iPhone users[60]. They recently also launched a data cash back offer of daily morning credit of 50 per cent of data consumed between 12AM and 6AM.

A majority of the population in India is connected wirelessly in India still uses 2G as a favorable medium to access the internet. Reaching out to this target segment taking a different approach wherein content providers need to maintain the balance between content delivery and the bandwidth which would be required to consume it. HUL's award winning 'Kan Khajura Tesan' is one such innovative marketing initiative whereby by giving a missed call, the user can enjoy entertainment at low bandwidths. The entertainment library has 180 million minutes of entertainment and more than 11 million subscribers who have consumed HUL advertisements more than 100 million times[61].

Regional content shall continue to drive the next phase of growth

With the increased penetration of smart phones and internet to rural areas (density of 12.89 per 100 in Q1 2015 compared to 10.66 per 100 in end of 201462), there has been an increase of rural population as potential customers. As a result, most digital music companies in India are looking to develop/invest in regional content library. As per Gaana, regional music witnessed

59. KPMG Industry Discussions for the report
60. http://www.vccircle.com/news/media-entertainment/2015/11/12/music-apps-eye-sound-business
61. https://www.hul.co.in/news/news-and-features/2014/huls-kan-khajura-tesan-wins-3-gold-at-cannes.html
62. TRAI Report 2015

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significant growth in 2015 – 99 per cent in Bengali, 142 per cent in Punjabi and 867 per cent in Telugu[63].

Digital piracy, still a demon that the music industry battles with?

Historically, digital piracy has always been considered a threat by the music industry.

In 2015, a study was conducted to check the effects of online music piracy on sales[64]. Some of the key findings of the study were:

1. File sharing activity has a statistically significant but economically, a modest negative influence on music sales.
2. Artist's popularity played a major role in how big the impact of piracy was on sales.
3. For top-tier artists, piracy caused a decrease in the physical sales, but digital sales did offset this decrease.
4. The mid-tier artists were relatively unaffected by the file sharing whereas music sales for lesser known artists were significantly hurt.

While digital piracy is still a major concern in India, we believe that with the increase in users who stream music vs. who download, over a period of time the impact of piracy in music will decrease. But at the same time, the government has to continue its effort of creating frameworks and policies around piracy for the music and entertainment industry to grow sustainably.

Digital music outlook[65]

App models and related innovations

The year 2015 paved the way for digital music companies in India to showcase their content on the mobile application (app) side which has provided an average user pretty much everything they would be looking for. One such iteration is the ability to work on 2G networks, as a majority of wireless population in India is connected to 2G networks only.

Growing share of regional content

While Bollywood content shall remain the largest contributor to the overall digital music sales, regional content is growing at a fast pace, and will help content producers as well as distributors earn more customers with India's increased drive to increase penetration in the rural areas.

Developing innovative monetisation models

Globally, users still prefer ad-supported content as compared to paid subscription[66]. As the streaming user base grows, the real challenge will be to understand deeper consumer trends for creating insights to monetise these customers at various touch points of their customer journey.

VR and immersive video are a whole new medium and require storytelling to be crafted ground up for them. Monetisation and technology for these are still very early, but the great part is that they use the same device platform, i.e. mobile, and hence consumers are already sampling this content with ease.

Sameer Pitalwalla

CEO & Co-Founder
Culture Machine

Terms like 'innovation' and 'disruption' are loosely used in a ridiculous context by many in the recorded music industry these days- but what is critically inevitable prior to all of that, is for music companies to invest very deeply in internal tracking systems like daily MIS cross platform data analytics/reporting for both digital and publishing, online royalty calculations and interconnecting software, multiformat meta–data management and analytics. Going forward companies who don't get this right will not survive in the digital retail business. Only on top of these nuts and bolts will anything else thrive for growth from both an artistic and commercial viewpoint.

Mandar Thakur

COO
Times Music

63. http://www.televisionpost.com/news/arijit-singh-most-popular-artist-on-gaana-com-in-2015/
64. https://torrentfreak.com/piracy-can-boost-digital-music-sales-research-shows-160121/
65. KPMG Industry Discussions for the report
66. http://www.medianama.com/2016/01/223-outlook16-what-indian-online-music-companies-plan-to-do-in-2016/

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Social media

Active social media users jumped to 143 million in 2014-15, with a marked increase of 100 per cent in rural areas[67]. With an average daily usage of 2 hours and 36 minutes, users spend more time on social networks than on Television[68]. Further, the average social media user in India is considerably younger than the global average, with more than half of the platform's Indian user base aged 23 or younger[69]. This is likely to ensure a sustained user base, at the same time providing significant headroom for growth both demographically and through greater mobile internet penetration and access

Facebook and Whatsapp dominate the social media usage rankings with 53 per cent and 44 per cent usage respectively[69] and continue to be the entry channel for 'digitally progressive' people. Whatsapp is used to send out 42 billion messages daily from India and is the highest photo sharing country in the world.[70]

Mobility will continue to be primary driver for social media usage. Overall, 72 per cent of India's social media users log in via mobile devices, and this proportion will increase[71]. As a result, chat and micro content based platforms have gained a much more important role in users' lives, and therefore in marketers' strategies. This presents an opportunity for internet and mobile companies in India; the company that can claim a disproportionate share of the nation's burgeoning chat app user-base will be best placed to shape broader consumer behaviour and revenues of the industry.

Internet penetration and cost of data remains the key barrier to growth in India. However, the barriers to connectivity and cost of access are expected to be increasingly resolved in India over the medium term, indicating continued growth of social platforms in the country.

Social media – The new CRM tool

We also see more and more social media usage for availing customer support from companies. In 2015, 71 per cent Indians used social media to get a customer response, which was significantly up from 54 per cent in 2012[72].

Major reasons for which Indian consumers use social media on customer service are:

1. Sharing information about service experiences (56 per cent)
2. Asking others about how to get better service (50 per cent)
3. Praising a company for great service experience (47per cent)
4. Seek an actual response from a company about a service issue (47 per cent)[73]

For brands investing money on digital, these key learnings means they will have to invest more time and money in effective listening of customer problems and trying to resolve those rather than diverting social media customer queries to traditional channels such as email or call center.

Long form social content to gain traction in 2016

Social media has been blamed for the rise in use of short term dictionary[74]. But going forward we are likely to see the return of long form content in the form of blogs, since different social sites plan to put these up on the web via variant channels.

Blogging has become a million dollar industry and with ecommerce players using bloggers' words as a mouthpiece, long form content is here to stay.

On social media, Facebook has the note option to display long form content and LinkedIn has a section called 'posts' where long form text can be published. More and more social websites and apps will soon be incorporating these long form writing options.

Social media will define the celebrities of tomorrow

Celebrities are touted as the most engaging on social media. Just three Indian celebrities – Deepika Padukone, Salman Khan and Honey Singh on Facebook, have close to 30 million fans among them, while the largest fan base of any brand in India is just a mere 13 million[75].

Twitter tells a similar tale with close to 19 million followers amongst the top three celebrities each and a mere 2 million followers amongst each of the top three brands[76].

Social media is likely to become the key avenue for recruitment

Quality of hire continues to be a key valuable performance KPI for talent acquisition teams. Most companies are measuring quality of hire with feedback methodology (such as new hire evaluations and hiring manager satisfaction), or a long-term methodology (employee retention)[77].

Looking ahead, there are certain areas that will continue to remain dominant, like social professional networks and sourcing passive candidates. LinkedIn also expects employer branding and employee referral programs to get stronger in 2016 and beyond. The common thread among all of these is the power of relationships – the relationships have with candidates, cross-functional partners, and employees will pave the path to talent acquisition success[78].

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72. http://brandequity.economictimes.indiatimes.com/news/digital/indians-use-social-media-for-feedback-than-japanese-counterparts-study/49369900
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74. http://blog.hubspot.com/marketing/how-internet-changes-language
75. http://www.socialbakers.com/statistics/facebook/pages/total/india/celebrities/
76. http://www.socialbakers.com/statistics/twitter/profiles/india/celebrities/
77. https://business.linkedin.com/talent-solutions/blog/trends-and-research/2015/4-key-recruiting-trends-to-watch-in-2016-infographic
78. https://business.linkedin.com/content/dam/business/talent-solutions/regional/APAC/grt-2016/GRT16_IndiaRecruiting_100415.pdf

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Social media for hyperlocation based businesses

Location based marketing is gaining traction and has been supplemented by growth in ecommerce. Businesses like Myntra, Jabong, etc., give out freebies in exchange for social media realty. With the use of Google Maps, location oriented business has spread to social media.

Users have more interest in connecting with goods and services near them than those located far away. Therefore, social media marketers will continue to keep an eye on locality based marketing better returns.

The threat to privacy and security due to social media

Due to growing social media usage, more users have become victims of phishing and other cybercrimes[79]. Such concerns call for better security in divulging personal information online. Understanding what types of attacks are most common on different social media platforms, and why, can help users identify and defend against malware lurking on them. For example, cyber criminals take advantage of YouTube's video platform to lure users into downloading malicious files[80]. The promise of video game cracks, music videos and sneak-peek movie trailers are popular scams that pique users' interests. Twitter, on the other hand, is the most convenient tool for spammers to push rogue links, especially when spam runs are automated.

Thought provokers for social media in India

Real conversations

Social media is about real interactions and not automatic updates. Many more brands shall realise this and change their strategy to posting content that is authentic and engage their audience in conversations that are real to add more value to their social streams.

The rise of the personal videos

With so many action cameras and easy editing tools available in the market we are going to see people sharing more of their experience through videos and not just through pictures. In addition to this, people shall vie to be the next YouTube or Facebook live sensation by hosting experiences and telling stories about their life, travel, product reviews and various other content that is being consumed by their audience[81].

Social commerce

Consumers started warming up to social commerce in 2015. Surfing can now be transformed into purchase intent. The rolling out of the 'Buy' button on Facebook and Pinterest has the potential to shift the primary objective of social media for Brands from awareness/ engagement to a stronger focus on lead generation[82]. These are going to enhance the role of social media from a for communication platform to a marketing medium.

Instant articles and live streaming

Whether it's discovering information about a breaking news story or an upcoming TV show, an exclusive screening of a movie trailer or celebrities engaging with fans in authentic and meaningful ways, people converse on social media around the things that matter most. They can now do this through Facebook Live and Periscope TV which offers them an opportunity to stream live content. Facebook also works with publishers to integrate articles into their site. All the clicks are counted in the publishers account. Publishers can render their own ads and sell ads thus gaining value from the partnership[83].

Emphasis on visuals

Visually-dominated social media sites, like Instagram and YouTube, shall continue to rise in popularity, along with higher visual content on other social media accounts that will come up in a big way[84]. For example, 50 per cent of daily users on Facebook watch at least one video per day. Mark Zuckerberg, the CEO of Facebook has said that he expects the social network's News Feed to be mostly video in five years[85].

79. http://www.go-gulf.com/blog/cyber-crime/
80. https://www.facebook.com/DasomPartners/posts/1660384364197804
81. KPMG Industry Discussions for the report
82. Socialsamosa.com
83. https://developers.facebook.com/docs/instant-articles/faq
84. KPMG Industry Discussions for the report
85. http://www.cxotoday.com/story/6-ways-social-media-can-be-a-game-changer-in-2016/

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> Publishers, media entities, actors, sportspeople, journalists and other public figures use Facebook not just to connect with their followers but to authentically engage with their communities around the world. We recently launched Facebook Live, which enables people to share their experiences and perspectives in real time, with the people who matter to them - whether they're someone who wants to broadcast to friends and family or a public figure who wants to connect with fans. With Facebook Live videos people are getting the real deal - unedited, authentic, and instant with a surprise element and a valuable sense of community. People have a growing appetite for creating, posting and interacting with live videos on Facebook, in fact on an average people watch a live video more than three times longer compared to when it is not live.

Saurabh Doshi

Head – Media Partnerships

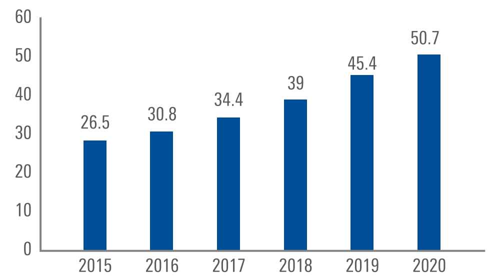
Facebook, India

Gaming

The Indian digital gaming market will see a steady growth

The Indian digital gaming market is likely to grow at a CAGR of 13.8 per cent growth from INR26.5 billion in 2015 to INR50.7 billion in 2020.[86] The Indian story is aided by mobile traffic growing by 50 per cent in 2015 and 85 per cent surge in 3G data traffic.[87]

Gaming growth in India (INR billion)



Source: KPMG India Analysis

Gaming through mobility

As with other digital segments, the Indian market is mainly a mobile phenomenon, with console gaming restricted to a small SEC A segment.

The mobile gaming market is primarily advertisement driven, but in-app purchases and paid upgrades are gradually gaining traction. Both Apple and Google are expected to reduce their in- app purchase pricing tiers to approximately INR10. This is expected to further enhance monetisation in this segment over the next few years[88].

Indian mobile-game market is expected to grow from USD200 million today to USD3 billion by 2019[89]. Indian companies are also getting ready for what they forecast as a huge surge for gaming content due to increased smartphone penetration and a growing internet subscriber base which was 331.5 million[90].

Console gaming has not been able to replicate global success in India

Globally, over half a billion people worldwide play video and computer games on a daily basis, cumulating some three billion hours of video games played per week[91]. League of Legends was the most popular computer game as 2015 closed out grabbing 22.92 per cent market share which was a significant rise overs other popular games like Counter Strike and World of Warcraft that had between 5 to 6 per cent market share globally[92].

The two largest console makers have been going head to head in this business for some time now, with Sony having sold over 35.4 million consoles of PS4 since its launch in 2013 which nearly double of what Microsoft managed with its Xbox one[93].

86. KPMG in India analysis
87. Nokia India Mobile Broadband Index 2016
88. http://venturebeat.com/2015/12/06/seven-mobile-game-trends-to-watch-for-in-2016/
89. http://venturebeat.com/2015/12/25/the-deanbeat-predictions-for-the-game-industry-in-2016/
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However, console gaming has seen a limited market given its high price points and cost of games. While the audience for both mobile and gaming consoles remains very different, mobile gamers have been the focus of the industry simply due to increasing smart phone adoption. The PC and digital TV market is expected to shrink over the next few years as Mobile takes over as the main gaming destination for casual gamers.

Innovation in monetisation

Google Play recently introduced carrier billing which lets users charge purchases in Google Play directly to their phone bill and with the simplicity of a one click payment system and the mass market appeal of a smart phone Google Play is revolutionising the way user can access quality content[94].

Some challenges and opportunities for the gaming sector

The battle for real estate

In this time of intense competition between apps, companies are trying to be occupy the heart share and the mind share of users to stay relevant so that they can increase usage. According to a report on Business Insider, the cost-per-install on iOS soared 59 per cent year over year in October 2014, while the cost to retain a loyal user - defined as a user who opens the app at least three times in a two-week period was up 33 per cent year over year. Quettra finds that for a retailer, the Android app losses 77 per cent daily active users within the first three days of install, Flipkart, Snapdeal, Myntra, have an average retention drop of 64 per cent, 73 per cent, 69 per cent, and 80 per cent respectively in the first 3 days[95].

Soft monetisation

Instead of 'milking the whales,' the industry is gradually moving to monetisation strategies that collect a little money from a large number of players[96]. As consumption of mobile gaming in India increases, advertisers are likely to continue to deliver most sophisticated ads/branded content into this ecosystem to continue to engage the customers.Last year Games2win estimated that customers spend over a 1 billion minutes on their gaming products[97].

Casual gaming

Gaming is becoming more casual, with users playing not just one game but multiple games in the same day each from different genres. Women are playing more games in India and being the number one game is not as important as having a pipe line of games that keep the users engaged.

Explosion of Virtual Reality (VR)

VR is the most awaited and expected wearable technology integration for avid gamers. Google's Cardboard is becoming popular.

The affordability of Cardboard, and better internet connectivity was the key reason for Cardboard's acceptance in Indian markets. 2016 is expected to see the entry of the three big virtual headsets. Playstation VR for Playstation 4, Oculus Rift for the PC and the HTC Vive. However only time will tell if these can cause a huge shift in consumption.

The market is relatively small, but startups are expected to flock to VR and augmented reality. Nvidia states that there might be close to 600 companies working on VR. Presence Capital recently announced a USD10 million fund to invest in VR startups[98].

"The Indian consumer is increasingly aware of new entertainment platforms and formats, including Virtual Reality. New formats like these will let content producers create immersive experiences, giving their users the chance to explore the impossible. We will also see more licensed and branded properties in the mix, as many games based on popular film franchises, celebrities and cartoons have found breakthrough success.

For monetisation, we see video ads playing a large role, especially as smartphone penetration increases and mobile internet connectivity improves. The growth of mobile wallets may also open up new avenues for in-app monetisation. The industry must continue to innovate, to meet evolving customer demands with new genres, formats and experiences."

Sameer Ganapathy

Head Interactive

Disney India

94. https://support.google.com/googleplay/answer/2651410?hl=en-IN
95. http://customerclick.in/2015/12/21/app-loyalty-a-new-challenge/
96. http://www.pocketgamer.biz/comment-and-opinion/62583/7-mobile-gaming-trends-to-help-you-get-rich-in-2016/entry/3/
97. http://therodinhoods.com/forum/topics/the-opportunity-of-gaming-rodinhood-at-kotak-s-global-investor-co?xg_source=msg_mes_network
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Radio

Phased growth

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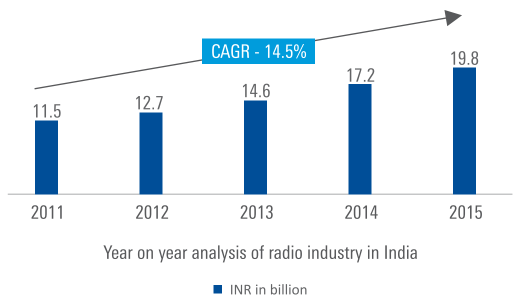
Round up of the year 2015

In this age of technological disruptions, radio continues to hold its ground – at least for now. 2015 started well with healthy ad spends. The completion of the Stage I of the Phase III auctions, migration of existing operators from Phase II to Phase III and the announcement of the hike in the foreign direct investment (FDI) cap for FM radio brought much cheer to the industry. Companies spent approximately INR10.56 billion to acquire 91 new stations[01] and will spend INR39.33 billion as they migrate their existing 243 stations to Phase III in 2015[01].

Stage I of Phase III rollout fortifies the government's commitment to see FM radio proliferate to more than 85 per cent of India – reaching newer cities and audiences. On the completion of Phase III, FM Radio would reach smaller towns and cities providing quality entertainment to audiences and enable marketers to penetrate a larger part of the country. India is expected to see 839 additional radio channels in 227 new cities, most of them being tier-II and tier-III cities[02]. Despite some key contentious issues of high reserve prices for the auctions, high license fees, the 15 per cent[03] limit on the total number of frequencies, etc., continue – the industry is resilient.

Size of the radio industry



Source: KPMG in India industry discussion and analysis

The radio industry is enjoying a steady CAGR (2011-2015) of 14.5 per cent and grew by an estimated 15.1 per cent in 2015 - to reach revenue of INR19.8 billion[04]. Growth has been driven by both - volume enhancement in tier-II and tier-III cities and an overall increase in ad rates. Radio players across the country have been able to hike ad rates[04]. For e.g. 92.7 big fm hiked the ad rates by 30-35 per cent,[05] Red FM 93.5 increased ad rates by 35 per cent[06]. Apart from these stations, Radio One[07], 94.3 MY FM[08] and Fever 104 FM[09] also hiked rates by 20 per cent.

The sluggish economy in 2013 and stringent market conditions had compelled companies to look at internal efficiencies – this had created a strong base for profitability[04]. Real growth in 2015 is estimated to be higher, since 2014 included the impetus given to the industry by the general elections. The positive economic climate has also given a shot in the arm to the sector. Similar to last year, the radio industry continues to have robust growth, and this without Phase III[04].

Radio's share in the overall media and entertainment industry pie continues at approximately 4 per cent of the total advertisement market size.[04]

As expected, e-commerce companies have emerged as big spenders in 2015 in radio[04]. Internet start-up companies have been aggressive in their communication with high emphasis on tactical promotions and on customising their offers for local and regional markets. E-commerce brands with high expenditure seek uniqueness and contextualisation in communication and content differentiation to standout. Radio has the potential to provide this very effectively and efficiently. Other sectors like automobile, retail, consumer durables, financial services etc. also continue to drive growth in this segment. Falling interest rates have supported promotional activity by real estate companies, although the sector continued to be challenged in 2015. In fact, many of the radio players we spoke to, agreed that e-commerce would continue to remain a major contributor to ad revenues in the coming years[04].

It is estimated that approximately 10 per cent of radio advertising comes from the government and political parties. Radio is now integral part of marketing plans and marketers are acknowledging this fact[10].

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01. First Batch FM Phase III Auction Results, Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016
02. Citywise Non-refundable one time migration fees (NOTMF), Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016.
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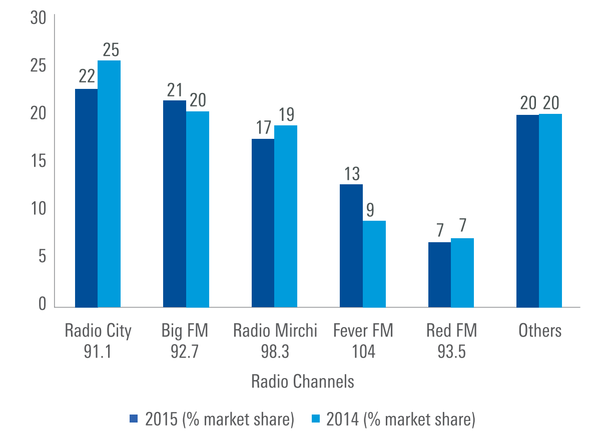
Content differentiation and innovation has contributed to the strong performance for some players. Red FM 93.5 came up with horror shows ('Ek Kahani Aisi Bhi') across 25 cities, which, the Company claims has altered the TV viewing pattern in that its 9p.m. to 10 p.m. time slot[11]. The show has received more than 1 lac views on its YouTube channel[12]. Many radio stations aired various initiatives for social causes of health, environment, for example, 92.7 big fm created awareness about dangers of smoking and consuming tobacco[13], 94.3 MY FM aired shows to create a stress- free environment at workplaces[14] while Red FM ran campaigns to create awareness about noise pollution[15].

Large brands continue to dominate the medium and the shift in the focus from nationwide brand building to more local brand building continues to be slow [16].

According to the Radio Audio Measurement Survey covering four metros – Bengaluru, Mumbai, Kolkata and Delhi the comparisons in percentage shares between 2014 and 2015[17] are as follows:

Citywise rankings - Bengaluru



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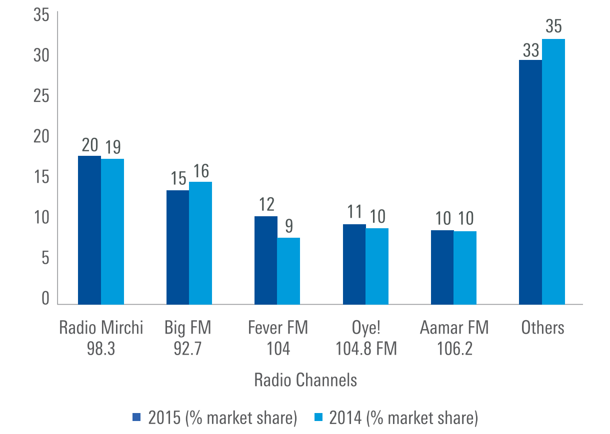
Citywise rankings - Kolkata



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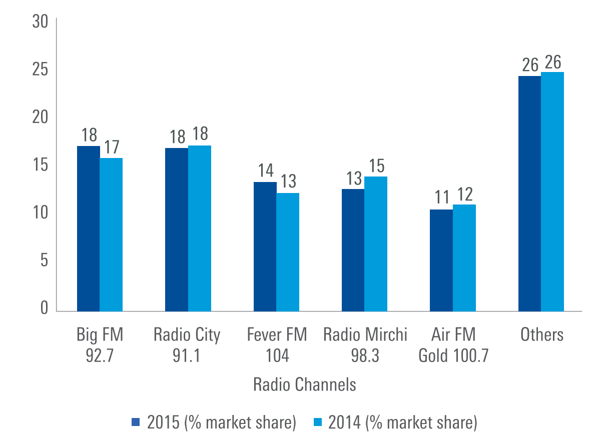
Citywise rankings - Mumbai



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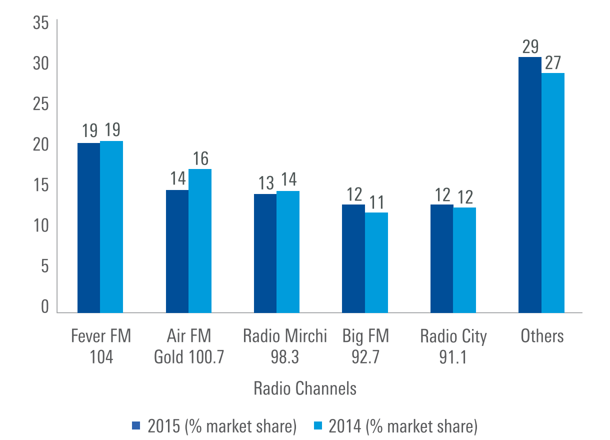
Citywise rankings - Delhi



Source: Radio and Online Service, RAM report. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

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Challenges continue to hound the industry with smaller and standalone stations feeling the pressure of rising cost structures, measurement, higher license fees, royalty fee issues and the rising threat of the digital media eating into the radio ad budget pie[18].

While 2015 was a good year for the radio industry, we will see further growth and newer formats originating this year largely due to the expansion into the third round of licensing. The volume of business is expected to pick up particularly in the tier-II and tier-III markets, however the metros will see consolidation. The challenges remain lazy media planning where focused media like radio is not paired with targeted creative executions.

Sanjay Prabhu

Managing Director

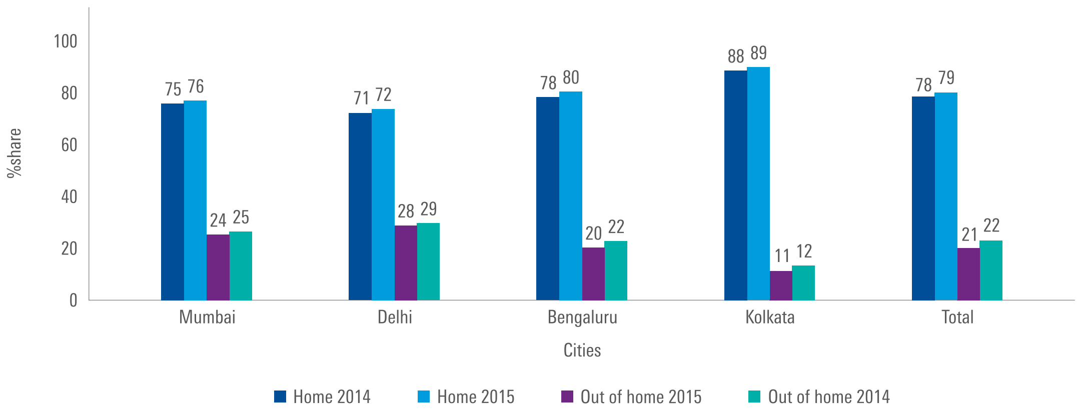
Indigo 919

Listenership trends in 2015

The share of listeners tuning on to radio from home continue to increase. According to the Radio Audio Measurement Survey covering four metros – Mumbai, Delhi, Kolkata and Bengaluru, the share of listeners tuning in to radio from home increased from 77.7 per cent in 2014 to 79.1 per cent in 2015[19].

This shift has been largely consistent across the four metros.

Home Listenership versus out of home



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Time spent listening to the radio

In 2015, the time spent on radio continued to increase, even if marginally, in all metros except Delhi. Bengaluru continued to maintain its top spot as the metro having the highest radio listenership with listeners spending more than 23 hours (1,413 minutes) a week tuned in to the radio. Kolkata followed Bengaluru with 16 hours (959 minutes) a week. Delhi and Mumbai had listeners tuning in to radio for approximately 14-15 hours (833-857 minutes) a week. The average time spent on the radio by listeners continued to skew more towards the weekends[20].

Time spent listening to the radio

Time spent on the radio (average weekly minutes)	Weekdays		Saturdays		Sundays		Week	
Major metros	2015	2014	2015	2014	2015	2014	2015	2014
Delhi	574	614	129	130	138	139	833	891
Mumbai	591	567	132	134	128	127	857	821
Bengaluru	990	953	211	212	201	204	1413	1358
Kolkata	648	624	154	157	155	151	959	929

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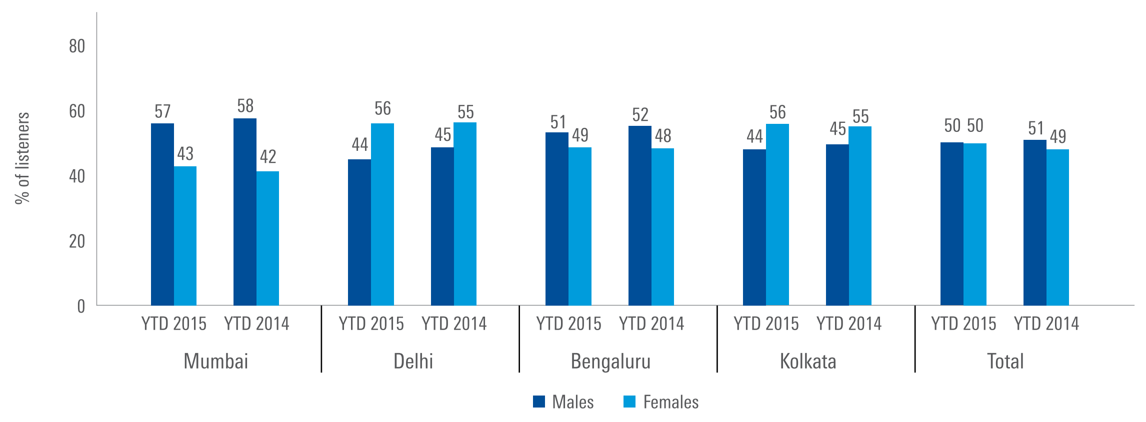
Male versus female listeners



Source: Radio and Online Service, RAM report. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

Profile of radio listeners in India

In 2015, male and female listeners spent almost an equal time on radio in the four metros taken together, with male listenership decreasing marginally from 51.1 per cent in 2014 to 49.9 per cent in 2015. Delhi continued to have the highest male listenership with 57.1 per cent, while the female listenership was the highest in Mumbai with 56.1 per cent[21]. People aged between 12-34 years continue to be primary listeners of radio.

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Industry consolidation

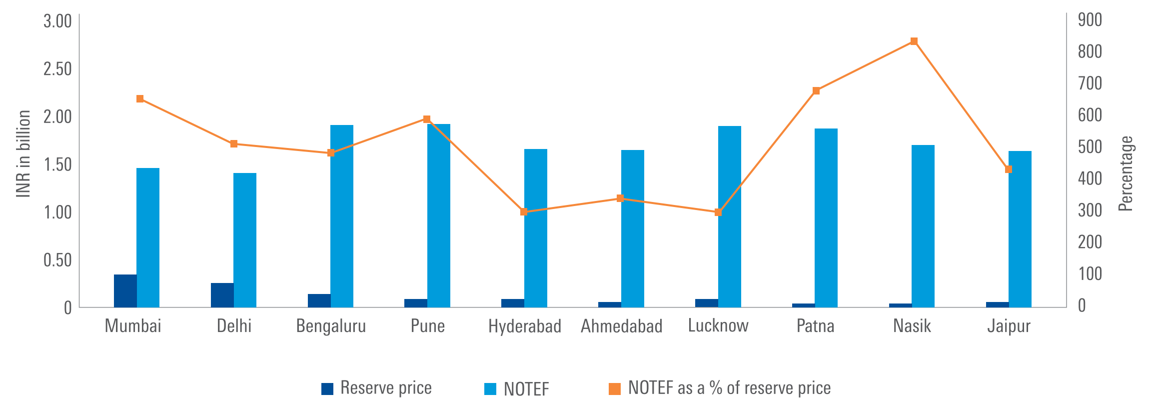
Last year saw two mergers namely Jagran Prakashan's (Music Broadcast Pvt Ltd) acquisition of Radio City[22] and Entertainment Network India Limited's (ENIL) acquisition of TV Today Group's Oye FM in early 2015[23]. Jagran Prakashan has received approval from the ministry of information and broadcasting for the acquisition, adding 20 existing channels of Radio City to its kitty. For Jagran Prakashan, the acquisition complements their print, outdoor, activation and digital business and consolidates its position in the media industry. In case of ENIL, the acquisition seems like a strategic fit to strengthen its presence in the north and it's position in metros with overlapping stations.

In the case of ENIL's acquisition of Oye FM, regulatory approval was received for four channels in the cities of Amritsar, Jodhpur, Patiala and Shimla[24]. Approval for three other channels in the cities of Mumbai, Kolkata and Delhi of Oye FM was rejected by the ministry due to the overlap with Radio Mirchi's existing operations[24]. The matter is still in Court[24].

FMisation of the country

Stage I of Phase III FM Radio auctions have been the costliest in the history of the FM industry. INR5.22 billion was paid for stations in Mumbai, Delhi and Bengaluru alone[25]. The Non-refundable One Time Entry Fee (NOTEF) of INR10.55 billion[25] along with Non-refundable One-Time Migration Fee (NOTMF) payable of INR39.33 billion[27] is much higher than what was spent for the earlier Phase I and II.

Phase III auctions - analysis of NOTEF versus reserve price



Source: KPMG in India discussion and analysis

The high prices paid by companies clearly indicate that investors are bullish on radio for e.g. HT Media (Fever 104 FM) paid INR1.69 billion for the Delhi frequency (almost 30 per cent higher than the original reserve price) and INR1.22 billion for the Mumbai frequency alone[25].

Similarly, ENIL (Radio Mirchi) bought the Bengaluru frequency for INR1.09 billion, by paying significantly more than the reserve price[25] and also acquired the Mumbai frequency for INR1.22 billion.[25]

22. Jagran Prakashan completes acquisition of Radio City, moneycontrol, June 2015, http://www.moneycontrol.com/news/business/jagran-prakashan-completes-acquisitionradio-city_1407301.html, 18 March 2016
23. ENIL rebrands Oye FM's Amritsar and Patiala stations as Radio Mirchi, Television post,12 December 2015, http://www.televisionpost.com/printradio/enil-rebrands-oye-fms-amritsar-and-patiala-stations-as-radio-mirchi/, 18 March 2016.
24. I&B Ministry approves ENIL acquisition of four Oye FM stations, radioandmusic, 22 July 2015, http://www.radioandmusic.com/biz/regulators/ib-ministry/151030-ib-ministry-approves-enil-acquisition-four-oye#, 16 March 2016
25. First Batch FM Phase III Auction Results, Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016

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At the closure of the e-auction, out of the 135 channels put up for auction in the first batch, 97 channels were allotted across 56 cities with a cumulative bid price of INR11.57 billion against the aggregate reserve price of about INR4.60 billion, thereby surpassing the cumulative reserve price of the corresponding 97 channels by INR6.97 billion or 151.5 per cent. Thirty eight channels remained unsold in 22 cities. Of the 97 channels allotted, 6 are currently pending regulatory clearances[26].

Out of the 38 channels, no bids were received in the 13 cities having 26 channels and partial bids were received in nine cities with 12 channels remaining unsold. High reserve prices, as well as a cap that restricts broadcasters from bidding for more than 15 per cent of the available channels were some of the reasons for the lukewarm response in these cities[26].

While the new channels are expected to 'Go Live' by Q3 2016[27], industry players we interviewed are concerned that the high cost will impact the overall profitability of the industry. So far HT Media has announced the launch of its second radio station, Radio Nasha 107.2 FM, in Delhi[28].

Radio is perhaps the best medium to reach the audience in tier-II and tier-III. The smaller the town, the better live local radio entertainment will be -- as the literacy rate drops so print loses its edge, digital does not engage in local regional language, television is not live, in such cities, radio will be a boon.

The increased penetration of broadband enabled smartphones and mobiles phone, have fuelled the consumption and penetration of Radio manifold. It has added further to the relevance of the medium. With the Phase III Batch I stations going live in mid-2016. We are hopeful that remaining Phase III auctions will be completed in 2016 thus making radio a PAN India medium. Radio should register about 15 per cent growth in 2015 and we expect radio advertising share to grow to about 8 to 10 per cent of the total advertising market in next couple of years.

Migration fees due to be collected in instalments instead of one time, waiver of service tax and custom duty for import of broadcasting equipment and resolution of the Music royalty issue are the key recommendations.

Harrish M Bhatia

Chief Executive Officer

94.3 MY FM

2015 Phase III radio auctions

Phase III auctions began in July 2015, a full four years after the policy was announced.[29] Delay was in part due to the government finalising the finer nuances of the policy.

Auctions were proposed in two stages – with the first stage expected to cover 69 existing cities and 135 frequencies and second stage to cover the balance 227 cities and 704 licenses[29].

"Think Global. Engage Local." This is the rally cry for new age Marketers. Today, only commercial radio is best placed to deliver this. For the last few years, commercial radio has commanded a high share of the mobile device viz. listening on the go, especially among young adults. With the recent exponential growth in smart phones, only commercial radio has the unique advantage of being able to offer marketers a frictionless ability to integrate an analogue message into a digital platform (e.g. on 'hearing' the ad, trigger an online search instantly) and realise the marketing paradigm. Commercial radio's ability to generate live/real time content, throughout the day, in local languages across 300+ markets (post the next batch of auctions) should significantly expand its share of ad spends from current levels.

N. Subramanian

Group CFO

Entertainment Network India Ltd.

26. First Batch FM Phase III Auction Results, Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016
27. KPMG in India industry discussion and analysis
28. HT Media launches Radio Nasha in Delhi, Livemint, 10 March 2016 http://www.livemint.com/Consumer/YcU3Y34BdTgjtFF8ujtFuO/HT-Media-launches-Radio-Nasha-in-Delhi.html, 18 March 2016
29. Notice for Auction, Ministry of Information and Broadcasting, July 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016

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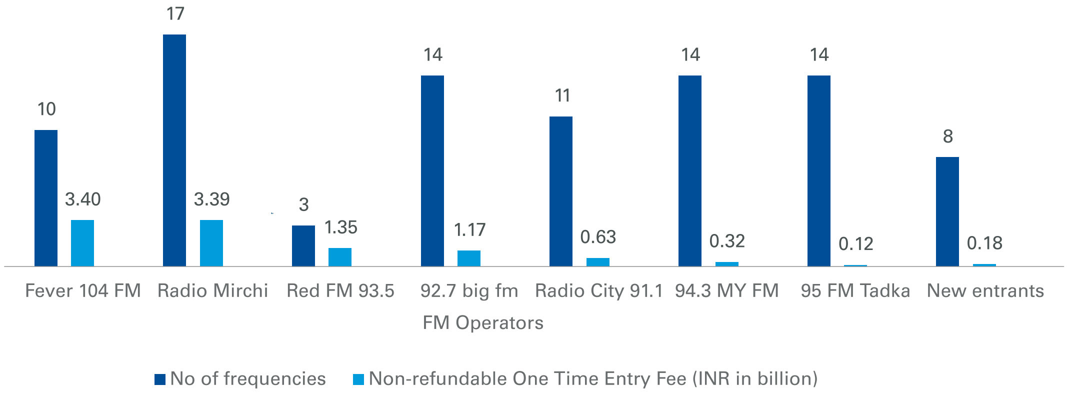
Operator-wise auction results[30]

Phase III auctions



Source: KPMG in India industry discussion and analysis. Note: The above excludes 6 frequencies which are currently awaiting regulatory clearances

The auctions themselves ran 125 rounds and lasted 32 days and had on offer 135 channels in 69 cities[31]. That itself is a testimony to the complexities involved.

No dates have been announced for the second stage of Phase III so far.

Government needs to look at the nuances from Stage I of Phase III auctions and also consider participants feedback in formulating guidelines for the next phase of auctions.

Migration to Phase III[32]

Soon after the auction, the ministry notified the NOTMF to be paid for migrating from Phase II to Phase III for the existing two hundred forty three channels based on the migration formula as suggested by TRAI. These were later approved by the government[32]. Companies are expected to spend approximately INR39.33 billion[32].

Operators in Mumbai will pay the highest migration fee compared to the others, which is INR0.37 billion, followed by Delhi, for which the migration fee is INR0.33 billion. The migration fee for Bengaluru is as high as INR0.22 billion due to higher bidding. Thirteen other cities had a migration fee of above INR0.10 billion – these include Chennai, Ahmedabad, Hyderabad, Lucknow, Pune, Coimbatore, Cochin, Indore, Patna, Vadodara, Vishakhapatnam, Chandigarh and Nashik. Among other cities, 47 had migration fees ranging from INR0.01 billion to INR0.10 billion. In cities with no bids, renewal premiums were higher. For instance, for Coimbatore, which received no bids, the renewal price was INR0.16 billion. In contrast, it was INR0.13 billion in Indore, a city which saw healthy bidding[32].

Due to the high bid costs, the annual license fee by radio broadcasters, determined at higher of 2.5 per cent of the highest bid received in each city or 4 per cent of revenue[32], is expected to increase substantially for operators whose license fees until now was based on revenues.

The migrating stations will enjoy the license for 15 years as against 10 years in phase II[32].

Phase-3 policy has two components a) the migration of Phase II stations for a fresh period of 15 years and b) the new stations acquired via the auction process. The migration policy has made the core radio business profitable by keeping migration fees relatively reasonable. Auctions have been very onerous for broadcasters, and I think those who have bid irrationally will cause shareholder value depletion. But those who have bid sensibly will be able to grow rapidly and profitably.

Prashant Panday

Managing Director and CEO

Entertainment Network India Ltd.

30. Analysis by KPMG in India
31. First Batch FM Phase III Auction Results, Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016
32. Citywise Non-refundable one time migration fees (NOTMF), Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016.

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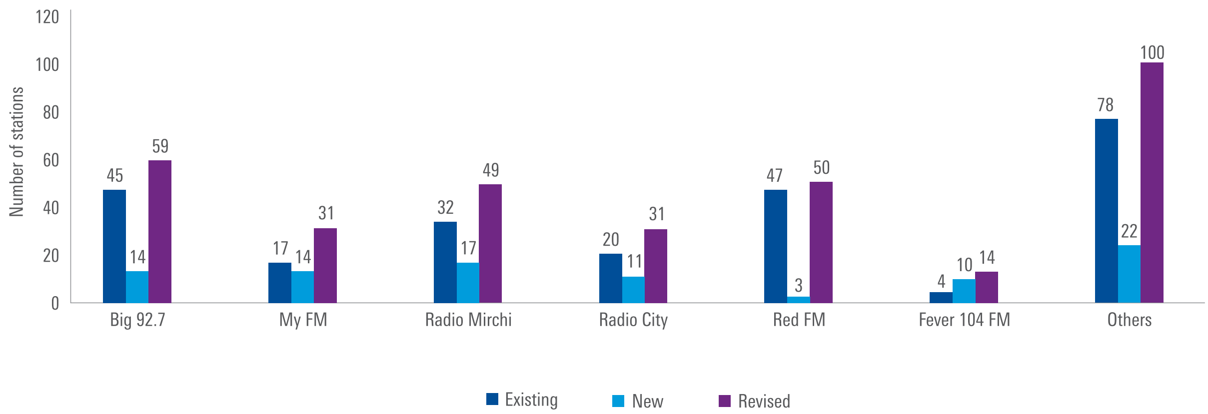
Spotlight on some of the large players in Indian radio

Performance breakup of some of the larger players



Source: KPMG in India industry discussion and analysis. Note: The above excludes 6 frequencies which are currently awaiting regulatory clearances

HT Media which until recently, had just four stations in the metros of Delhi, Mumbai, Kolkata and Bengaluru under the Fever 104 FM brand, has emerged in a big way in the first batch of FM Phase III auctions. It outspent rivals to win ten licenses at INR3.40 billion, including INR1.69 billion for the sole available frequency in Delhi and INR1.22 billion for Mumbai[33]. The auction wins could help the radio network cement its position in many new cities quickly.

ENIL, which operates its FM radio business under the Radio Mirchi brand was the second largest spender at INR3.39 billion[33]. It pocketed the maximum number of frequencies with seventeen channels. As a result, the total number of stations will go up from thirty two to forty nine (excluding the four Oye FM stations already approved for acquisition). It picked up the single frequency in Bengaluru for INR1.09 billion[33]. Radio Mirchi became the only player to acquire a third frequency in the city of Hyderabad[33].

Due to regulatory approvals, the frequencies acquired by Sun TV, South Asia FM and Kal Radio were not revealed[34]. Thus, only the results of Sun TV's associate companies Digital Radio Broadcasting (Mumbai) and Digital Radio Broadcasting (Delhi), which operate Red FM Mumbai and Delhi respectively, were revealed. While Digital Radio Broadcasting Mumbai won a channel in Mumbai for INR1.22 billion, its Delhi counterpart won two frequencies in Jodhpur and Srinagar for a total of INR0.12 billion[33].

Reliance Broadcast Network, operates the biggest network, 92.7 big fm in terms of frequencies. The network spent INR1.17 billion to acquire fourteen frequencies spread across the country. With 45 stations already in operation, Big FM will now be a 59-station network, retaining its top position in terms of channels operated[33].

Music Broadcast Pvt Ltd, which operates Radio City, remained focused on tier-II markets and acquired eleven frequencies in the auctions to the tune of INR0.63 billion.[33]

Among the other players, DB Corp, which operates 94.3 MY FM, emerged strong by winning fourteen frequencies for INR0.32 billion acquiring smaller cities. Rajasthan Patrika, which operates 95 FM Tadka, also won fourteen frequencies by spending INR0.12 billion. Being counted as among the differentiated players, Next Radio Ltd., which operates Radio One, did not win a single frequency[33].

The new entrants were Abhijit Realtors and Infraventures, Sarthak Films, Renderlive Films and Entertainment, Abir Buildcon and Odisha Television who acquired a total of seven stations. Existing player Matrubhumi Printing and Publishing also participated and picked up one station in Kozhikode[33].

33. First Batch FM Phase III Auction Results, Ministry of Information and Broadcasting, September 2015, http://mib.nic.in/linksthird.aspx, 12 March 2016

34. Sun Group moves Madras High Court for participation in FM Phase-III auction, The Economic Times, 21 July 2015, http://articles.economictimes.indiatimes.com/2015-07-21/news/64683110_1_sun-group-fm-phase-security-clearance, 18 March 2016

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"Radio like digital forms a small part of the Media and Entertainment industry. Large brands continue to dominate this media platform. Globally, Radio is considered a local medium but in India, national advertisers continue to command much higher share. This trend should change, once media companies having knowledge of local audiences and strong foot hold in local markets operate the Radio stations in these markets . Broadcast of news whenever allowed by the government will be high point for this industry."

R K Agrawal

Chief Financial Officer

Jagran Prakashan

"There are unnecessary restrictions placed by government policy on FM radio. For example, there are caps on how many radio stations a broadcaster can operate in a single city, as well as nationally. There are restrictions on selling more than 51 per cent of equity imposed on the promoter for a period of three years. This restricts the extent of M&A activity that would normally happen in any vibrant industry. Then there are discriminatory restrictions on FM broadcasters which stop them from offering news. Such a restriction exists only on radio. No other medium needs any approvals from the government for doing news. And lastly, the Reserve Fees in radio are just too high. And with limited supply of frequencies, this leads to very high auction fees. This is the single biggest danger to FM broadcasters who will suffer from the high auction fees."

Prashant Panday

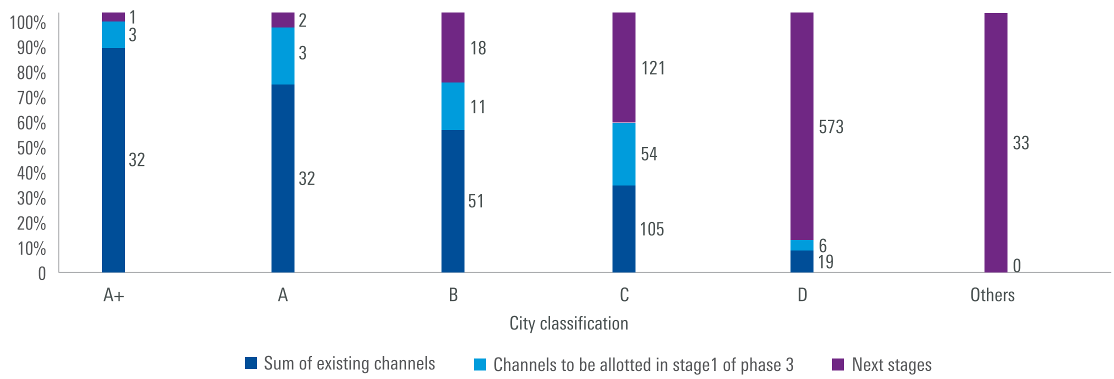
Managing Director and CEO

Entertainment Network India Ltd.

Geographical expansion of FM radio in India

Phase III is likely to see players looking for expansion in tier-II and tier-III cities. A large number of channels being auction in stage 2 of Phase III are in this category.

Geographical expansion of FM radio in India



Source: KPMG in India industry discussion and analysis

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Recommendations for an enhanced regulatory environment for the sector

While the current Phase III auctions have been successful in terms of the bidding amounts and the frequencies sold, the industry is at an inflexion point. The government needs to provide impetus to the industry in the form of tax reforms and policy reforms. Some key areas of suggestions:

Ownership and corporate structure

- Restriction on ownership of licenses with regards to 40 per cent of total channels in a city and all channels allotted in the country to 15 per cent.

  The cap on ownership be removed to enable national players and strong regional players to consolidate operations, thereby bringing in not only economies of scale to the industry, but also wider reach to the grass root levels.

- Lock-in period of three years for the largest Indian Shareholder from the date on which all the channels allotted to the company holding permission stand operationalised

  New allotments to the existing radio broadcasters should be waived off if they have already served this lock-in in the previous auction phases.

- Foreign Investment in Radio Broadcast: Akin to TV Broadcast licenses, Radio broadcast license should be split iby news and non-news broadcasting channels. There should be parity in FDI policy between various media platforms and hence the FDI limit in Radio Broadcasting Companies currently raised by 26 per cent to 49 per cent should be raised to:

  - 100 per cent for stations broadcasting non-news and current affairs, and
  - 74 per cent for stations broadcasting news and current affairs.

Operations

- **Restrictions on sourcing of news and current affairs**

  It should be considered as the primary medium of dissemination of information at national and local level which will assist in formation of opinions and better awareness amongst the listeners.

- **Single window for operationalisation permissions**

  Operationalisation of a Radio station requires permission from different authorities of ministry of Information and Broadcasting, the entire process of taking permission from different branches of same authority is quite cumbersome for the Radio Broadcasters. We recommend defining a time frame and formulating a single window with respect to the operationalisation permission.

- **Delay in the constitution of the Copyright Board**

  It's surprising that almost four years have elapsed and till date the Copyright Board has not been reconstituted. Hence, this unreasonable delay in reconstitution of the Copyright Board has led to chaos in the industry and has caused unnecessary delay in adjudication of the current and long pending issues.

- **Channel spacing**

  Channel spacing be reduced gradually from current 800 KHz to 200 KHz in line with the Global average for countries like United States, United Kingdom and Singapore, this will help in doubling the number of frequencies in A/A+ category cities, increased spectrum utilisation and greater employment opportunities.

- **High license fee**

  Annual license fee payable is the lower of 2.5 per cent of the bid amount or 4 per cent of revenue. Due to the high Non-refundable One Time Entry Fee/Non-refundable One-Time Migration Fee the base amount has increased significantly. This will increase the cost for many operators and will put increased pressure on smaller and regional players.

Debt funding

- **'Priority Sector' Status**

  Taking cognisance of the Phase III expansion of FM radio, the radio industry should be considered under the 'priority sector' so that bank lending to the sector can qualify under the priority sector spending rules.

- **External Commercial Borrowings**

  Phase III of privatisation of FM radio broadcasting would require a huge amount of capital for the industry players to get the spectrum and upgrade their broadcasting system. This investment would be having long gestation period and realisation of this expenditure in terms of increased revenue for the Radio broadcasters would take time, to make this transition, the radio industry, like the telecom sector, should be allowed to raise debt in the form of

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External Commercial Borrowing, which will reduce capital burden on players and allow Phase III to be successful.

Taxation

- **Tax Holiday period**

  In the light of recent increased outflow for the licenses in the Phase III auctions, the ambiguity around the revenue model, it is recommended that the government provides impetus to the radio industry in the form of tax holiday period for new investments

- **Custom Duty**

  This phase III of FM radio privatisation would require high end equipment and result into huge cash outflow for the FM broadcasting industry stakeholders. So, it is recommended to reduce custom duty on capital equipment for Radio broadcasting to 4 per cent.

- **Service Tax/GST levy on Advertisement**

  Advertisement on radio is liable to Service Tax levy. Radio competes with newspaper at local level. There is no levy of service tax on advertisement in newspaper. It is recommended to remove service tax on advertisement in Radio to provide level playing field to it.

Auction process

- **Auction Rules for auction activity requirements**

  We believe that the current rules leave a lot of room for gaming, parking and artificial rate increase, AAR should be increased in an accelerated manner to avoid this.

- **Reserve Pricing**

  It is recommended that the reserve price be based on product of Gross State Domestic Product, listenership and Gross revenue instead of the current bid price model.

  Surrogate manner of Reserve Price may prove harmful for the industry. Hence, it is recommended to keep Reserve price at a nominal level and let e-auction help in price discovery.

- **Payment timelines**

  Instead of payment of entire fees upfront, the successful bidders should be allowed to pay in a staggered manner over the period of license.

Industry landscape

The industry landscape has remained unchanged with All India Radio (AIR), being the public broadcaster, Private FM channels operating in 86 cities, community radio and digital radio. The newer entrant is the proliferation of internet radio stations.

All India Radio (AIR)

AIR is one of the largest media organisations of world and operates 262 radio stations - making it accessible to almost 92 per cent of the country. It broadcasts in 23 languages and 146 dialects, offering services to India's socio-economically and culturally diverse population. The External Services Division's programmes are broadcast in 11 Indian languages and six foreign languages reaching 100 countries. AIR broadcasts in three tiers- National, Regional and Local each catering to different audience.[35]

The Regional channels which form the middle tier of the AIR broadcast system are operated in regional languages. The 116 regional channels are operated in 29 states and 6 union territories catering services to the socially, economically and culturally diverse population.[35]

86 local channels are operated in FM mode. The FM Mode operates in two forms- FM Rainbow and FM Gold. Together they have 206 FM Transmitters covering 24.94 per cent of area and 36.85 per cent of the population. FM Rainbow is transmitted through 15 radio stations and FM Gold operates only in the four metros – Delhi, Mumbai, Chennai and Kolkata.[36]

Vividh Bharati, since its inception has been a great source of entertainment for the listeners. The entertainment programmes in various formats of film music, skits and short plays broadcasts 24 hours countrywide. It operates with a wide network of 37 centres and some local centres reaching up to 97 per cent of population. Vividh Bharati is launched in the FM mode in the metros.[36]

Asheesh Chatterjee

Chief Financial Officer

Reliance Broadcast Network Ltd.

Unless otherwise noted, all information included in this column/article was provided by Asheesh Chatterjee. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India

35. Growth and Development, All India Radio, http://allindiaradio.gov.in/Profile/Growth%20and%20Development/Pages/default.aspx, 18 March 2016

36. Arun Jaitley launches AIR's Vividh Bharti channel on FM modes zeenews.india.com, 14 April 2015,18 March 2016'

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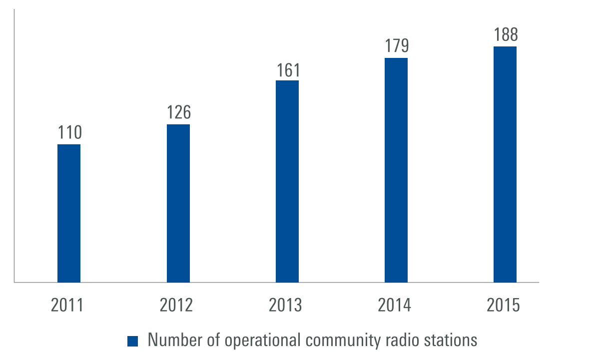
Community radio

Community radio in India serves as a medium to disseminate information regarding community related issues. The number of community radio stations has increased after the community radio guidelines were announced in 2006. The number of operational community radio stations stands at 188, as per the figures for the year 2015[37].

Community radio



Source: Community Radio, All India Radio, http://allindiaradio.gov.in/Profile/Community%20radio/Pages/default.aspx, 18 March 2016

Internet radio: A potential threat to terrestrial radio

Internet penetration in India has increased substantially, piggybacking on phenomenal growth in the smartphone user base and availability of high speed internet.

With 331.5 million internet users already, and with projections of that number doubling in a few years, the potential growth opportunity for internet radio is huge[38]. With broadband access poised to expand in the country through 4G, internet radio can also enter rural areas.

Smartphones have changed the way an individual consumes content and internet radio is no exception. 25 per cent of mobile users use a smartphone now, up from 20 per cent of the users just six months earlier[39]. The smartphones' boom poses an opportunity as well as a challenge. They give more consumers an opportunity to listen to radio on the go, but simultaneously expand the scope for competitor services as well.

Internet radio consists of several players – online versions of existing radio stations along with a wide variety of online streaming services like Apple Music, Wynk, Gaana, Saavn, Guvera, and Hungama, the industry seems to have drawn wide interest from tech giants like Apple to Telecom majors like Airtel (Wynk) to PE investor-backed like Saavn.[40]

Multiple problems continue to plague internet radio, internet connectivity continues to be average in tier-II and tier-III cities though this is expected to change in the next two years.[41] The high cost of data in the country, the lack of support from advertisers due to a low user base, and subscription based models still not popular in the country - all are factors that have strained growth for internet radio. In addition, there are challenges around copyright, music license and royalties.[42] Terrestrial radio does not view streaming as a substantial threat to their business model for this reason.[42]

Internet radio remains on the cusp of exponential growth however, it will have to wait for India's telecom ecosystem to evolve. Meanwhile, individual companies will continue to struggle for a business model. When the sector does have a foundation of high bandwidth and a critical mass of users, it will likely form an existential threat to terrestrial radio.

" Broadband penetration will surely increase music streaming. But how much impact this has on FM radio revenues/listenership remains to be seen. In the last 10 years, streaming music has exploded in the West, but FM radio has held on strongly. I think the same could repeat in India as well. However, we look at the internet as a source of opportunity. To grow our radio brands beyond FM and make them available to the whole wide world. "

Prashant Panday

Managing Director and CEO

Entertainment Network India Ltd.

Key trends

Content differentiation continues to take centre stage

India's radio stations continue to focus on film based music for the most part in order to appeal to the broadest possible audience.[42] There is, however, some programming to differentiate stations. Some examples are:

37. Community Radio, All India Radio, http://allindiaradio.gov.in/Profile/Community%20radio/Pages/default.aspx, 18 March 2016
38. The Great Race, The Economist, 5 March 2016, http://www.economist.com/news/briefing/21693921-next-15-years-india-will-see-more-people-come-online-any-other-country-e-commerce?zid=291&ah=906e69ad01d2ee51960100b7fa502595, 18 March 2016
39. The Future of Internet Radio, Streaming Media, 15 October 2015, http://www.streamingmedia.com/Articles/ReadArticle.aspx?ArticleID=65318&PageNum=5, 18 March 2016
40. Analysis by KPMG in India
41. The Great Race, The Economist, 5 March 2016, http://www.economist.com/news/briefing/21693921-next-15-years-india-will-see-more-people-come-online-any-other-country-e-commerce?zid=291&ah=906e69ad01d2ee51960100b7fa502595, 18 March 2016
42. Industry discussions conducted by KPMG in India
43. RJ Malishka and rapper Divine to kick-off RED FM's digital concert, RandMbiz, 17 February 2016, http://www.radioandmusic.com/biz/radio/private-fm-stations/160217-rj-malishka-and-rapper-divine-kick-red-fms#, 18 March 2016
44. 92.7 Big FM to launch 92.7-hour RJ marathon, Greater Kashmir, 24 January 2016,http://www.greaterkashmir.com/news/business/story/207690.html, 18 March 2016

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Music based content

- **Red Live Unplugged[43]**

  The show featured three hours of original music and interaction with a rapper - Vivian Fernandes. The Live concert could also be accessed through YouTube and Facebook, thereby broadening the reach of Radio.

- **India Shares, India Cares – 92.7 big fm[44]**

  92.7 big fm, launched an RJ Marathon for 92.7 hours. The programme hosted by RJ Nasir was on air for a marathon 92.7 hours, round-the-clock, talking to listeners about social issues and prosperity of Kashmir. To make the program more-lively, the listeners could even walk straight to the radio station's studios for a live chitchat with the RJ. In the cross country programme[45], RJ Rakshitha, associated with the 92.7 Mangalore, extended the Marathon to 106 hours, for a cause involving child education where the participating Telco donated data minutes[45].

- **U.P. ki Kahaniyan with Neelesh Misra**

  The show is aimed at bringing out positive and inspiring stories from the state of Uttar Pradesh. Award-winning storyteller, Neelesh Misra, popular for his show 'Yaadon ka Idiot Box' will be hosting the programme[46].

Non-music based content has also emerged as a key trend

- **Radio reality shows**

  94.3 MY FM launched 'Paiso Ka Ped' reality show which aimed at taking radio out of the studio and interacting with the listeners personally. The winner walked away with a prize of INRfive lakhs, competing with 30 shortlisted candidates out of 1500 registrations. This campaign was one of the first of its kind, thus taking brand advertising to a next level[47].

- **Horror shows**

  The flagship horror show 'Ek Kahani Aisi Bhi' launched by Red FM. This was aired in 25 cities across the country which, the Company claims has altered the TV viewing pattern in its time slot[48] A book was also released containing series of horror stories aired during the show.

- **Social-cause based content**

  Radio stations came up with various initiatives and campaigns around the year supporting various social issues. They created awareness about some of the common issues of health, cleanliness and security. In association with Corporates, NGOs and celebrities, they devised programmes appealing to listeners addressing the social issues and building a responsible and aware society. Some examples are:

Social-cause based content

Programme	Radio station	Content of the show
Sutta Chhod De Yaar[49]	Big FM	On the eve of 'World No Tobacco Day', created awareness about dangers of smoking and consuming tobacco. Participants were tested on various challenges of resolution to quit tobacco.
Dawat-E-Music[50]	94.3 My FM	The campaign aimed at creating a stress free environment at corporate workplaces and educational institutes. The campaign targeted at corporate houses and it indeed created a lot of buzz in the sector across the city of Bhopal.
Nature hai toh Future hai[51]	Radio City	The initiative promoted the idea of nature conservation. The FM radio team engaged the residents in various cities in cleaning their societies, managing waste and plant trees.
#SayNoToRoadRage[52]	Radio Mirchi	The campaign aimed at creating awareness about the need for the security and surveillance systems in the country. It tried to reinforce the fact that security is not just a sporadic need but an urban necessity.
#Superwoman[53]	Radio One	The initiative in association with actress Vidya Balan talked about women in India who plays multiple roles successfully making them Superwoman. The campaign was run in seven cities throughout the country.
Don't be Horny[54]	Red FM	The campaign aimed at curbing the problem of noise pollution caused by honking of horns in association with the Mumbai Traffic Police.

45. 106 hours non-stop RJ Marathon! 92.7 Big FM sets a new Benchmark, Readoo, 01 February 2016, http://www.readoo.in/2016/02/106-hours-rj-marathon-92-7-big-fm-sets-a-new-benchmark, 18 March 2016
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Event-based content in the form of activities and campaigns

Radio stations engaged in different activities and campaigns with sports forming an integral part of them. 92.7 big fm was the exclusive partner for ICC Cricket World Cup 2015[55]. Akashvani got the exclusive broadcast rights for the commentary of the same[56]. IPL teams and Pro Wrestling league were partnered by various radio stations[57]. Red FM in association with Gautam Gambhir Foundation supported the Indian ice Hockey team to compete at 2015 Challenge Cup of Asia, Kuwait[58]. The radio channels continued their associations in the events for greater brand visibility and awareness.

Support for natural disaster victims was garnered by multiple stations[59]

Radio stations came forward to lend their support in every way possible for two natural disasters which shocked India and its neighbour Nepal. Red FM and Nepal's Radio Kantipur came together with an initiative 'Bajao for a cause' urging listeners to donate their one day's salary for the Nepal earthquake relief fund and extend help for the victims[60]. Radio stations went all out and helped the Chennai flood victims by informing them about the shelter places, helpline numbers and minute-to-minute updates on the situation. Big FM collected essentials like food, water and clothes to provide to the flood victims[61].

On-ground activation

On ground activation continues to be used by Radio operators. Advertisers look at this as a better way to engage with customers. Most large radio operators have their own activation team[59].

Network programming

Network programming is used by broadcasters where they create a single piece of content for stations across the country. These programmes are aired in different cities with minor variations to add local flavour, but the main theme and content remains the same. This reduces the overall cost of operations and gives profits an upward push. With the new channels being added after the Phase III auctions, this method of programming could prove to be real boost for the revenue considering the companies have already made huge investments[59].

Others

Radio Mirchi has joined hands with Delhi International Airport (P) Limited (DIAL) for setting up a 24x7 custom-produced airport radio. Radio Mirchi and DIAL have launched MIRCHI T3, co-curated by Radio Mirchi and the music trio-Shankar, Ehsaan & Loy. MIRCHI T3 is India's first airport radio that seeks to transform and enhance the travel experience of passengers at T3 IGI Airport[62].

Radio City 91.1 FM has launched a specialised creative client solutions agency called AudaCITY. The company hopes it will be a one stop shop for creative solutions that brands would need to advertise on radio[63].

"The next phase of FM Radio growth will be fuelled by consolidation and emergence of strong national and regional players. While increase in reach and inventory will provide a level playing field with other traditional mediums, improvement in Radio audience measurement, investments behind content, brand, differentiation and technology will be required to reap the benefits offered by economies of scale."

Asheesh Chatterjee

Chief Financial Officer

Reliance Broadcast Network Ltd.

55. Big FM is exclusive partner for 'ICC Cricket World Cup 2015, RandMbiz, 03 February 2015, http://www.radioandmusic.com/biz/radio/private-fm-stations/big-fm-exclusive-partner-icc-cricket-world-cup-2015-150203, 18 March 2016
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57. Big FM becomes official radio partner for Pro Wrestling League, RandMbiz, 01 December 2015, http://www.radioandmusic.com/biz/radio/private-fm-stations/151201-big-fm-becomes-official-radio-partner-pro, 18 March 2016
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60. Red FM and Nepal's radio station Radio Kantipur coming together for the first time, RandMbiz, 06 May 2015, http://www.radioandmusic.com/biz/radio/programming/red-fm-and-nepals-radio-station-radio-kantipur-coming-together-first-time-150506, 18 March 2016.
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63. Radio City launches creative client solutions agency AudaCITY, exchange4media, 21 January 2016, http://www.exchange4media.com/radio/radio-city-launches-creative-client-solutions-agency-audacity_63078.html#sthash.WIqevIBn.dpuf,18 March 2016

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Key challenges the radio industry faces in India

Measuring the stations' reach accurately continues to be a challenge

Measurement continues to be a challenge for the industry, making it difficult for stations catering to niche audiences to convince advertisers of their reach. Considering the huge investments being made by operators in Phase III – there is a need to build a robust mechanism. This is an area where internet radio could be a clear differentiator for advertisers.

Need to relax the restrictions around the holding structure

On a national level, an entity can hold not more than 15 per cent of all channels allotted in the Country excluding channels located in Jammu and Kashmir, North Eastern States and island territories. Further operators can run/ own not more than 40 per cent of the total channels in a city subject to a minimum of three different operators in the city.

Lastly, there is a cap on Lock-in period of three years for largest Indian shareholder. This is detrimental to the prospects of M&A as companies as not allowed to change ownership pattern for prescribed period.

Need for the establishment of a Copyright Board

Previously radio operators were required to pay a 'needle hour' royalty to music companies. Pursuant to the Copyright Amendments on 21 June, 2012, the erstwhile Copyright Board was dissolved in order to reconstitute the same as per the amended provisions of the new Copyright Act. It is unfortunate that almost 3.5 years have elapsed and till date the Copyright Board has not been reconstituted. This delay in the reconstitution of the Copyright Board has led to the unnecessary delay in adjudication of the long pending issues.

The Copyright Rules envisages publication of tariffs that would be payable by a person for the exploitation of the content. The landmark judgment dated August 25, 2010 passed by the old Copyright Board specified that the royalty rate be fixed at 1 per cent of the net revenue. However, due to the non-functioning of the Copyright Board, the tariffs have not been published.

The amendments have introduced a new right in favour of broadcasters i.e. 'Statutory License', which applies to all broadcasters. However, till date the procedural aspects of availing the benefits of statutory licensing by the radio broadcasters are still not framed. It is therefore suggested that the Copyright Board is constituted at the earliest.

"We have grown by 13 per cent during CY15 over CY14. With new stations launching in the next 12 months, I think listenership will grow. We see growth gathering pace soon and expect it to be between 18-20 per cent in the next 5 years."

Prashant Panday

Managing Director and CEO

Entertainment Network India Ltd.

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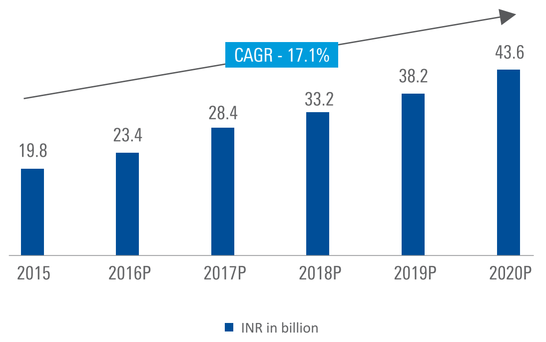
Looking forward

There's plenty of scope for a greater reach for FM radio, as currently its reach has been as compared to TV and Print which have a national footprint. With the commencement of Phase III, we expect the radio industry to grow robustly and outpace the growth of the overall advertising industry in the coming years. With a forecasted CAGR of 17.1 per cent till 2020, industry revenues are expected to double by 2020[64]. Radio's share of the overall pie is estimated to continue at approximately 4 per cent[64].

Growth may also surpass our expected growth rate as and when Phase III is rolled out entirely.

Projected size of the Radio Industry



Source: KPMG in India industry discussion and analysis

The key drivers of growth are:

Increase in the listener base - New stations in existing cities and proliferation of private radio to smaller cities are likely to increase the listener base. The rationale for some players to obtain a second station in the existing cities is to curate new content and attract non-listeners, thereby increasing the current listener base. Industry pundits we interviewed are confident that advertisers will soon follow. The current radio listeners are estimated at 110 million to 120 million in India which is only a fraction of the overall population[64]. In more developed countries like the U.S. and U.K., the listener base is significantly high of their respective populations. While socio-economic trends in India are changing, there is a huge growth opportunity.

Increase in inventory - We expect new stations to be operational by Q3 of 2016[64]. Average inventory utilisation is currently high indicating that operators can choose advertisers based on ERs. This impacts regional advertisers with smaller budgets who move to other local mediums. By creating additional inventory, Phase III is likely to provide an opportunity for local advertisers to reach out to their target audience in a cost-efficient manner. Radio could also compete more effectively with TV and Print.

Favourable macro-economic conditions – The Union Budget for the fiscal 2016-2017 sends out clear indications that India is pacing itself for stronger growth, stability and sustained development. India is projected to achieve a GDP growth rate of 7.75 per cent in FY17, inflation is finally relenting according to the RBI projection of 5 per cent for FY17 and USD350 billion of foreign reserves further point to India's improving fortification against external volatilities. The Finance Minister's decision to stick to the 3.5 per cent fiscal deficit target could result in lower yields on government bonds, which could in turn lead to a reduction in borrowing costs for businesses – this can make it easier for radio companies to fund their growth[64].

Emergence of new companies and categories - E-commerce has been a key growth driver, as it penetrates to tier-II and tier-III cities, we see the spend increasing in these cities. Initiatives by the government such as Make in India and Start-up India can further contribute to growth. A likely revival in Auto with the launch of several new models in 2016, in telecom with the launch of 4G and continued strength in FMCG. Also, increasing advertising from government and political parties as they become more sophisticated about communication will also add to growth.

Increase in wallet share - With an increase in the depth of penetration in existing cities and the addition of new frequencies, we see spends on radio growing from a current wallet share of about 4 per cent to about 6 per cent overall. Today in developed countries such as the U.S. and U.K., radio's wallet share is estimated between 7 per cent to 10 per cent[64]. Spending by government and political parties in India has also been increasing consistently.

The other key drivers that can propel the growth of the industry are the release of spectrum, conducive regulation, increased focus on enhancing engagement and the development of a robust listenership measurement methodology.

So while FY2015 has been a good year for the radio industry, we expect the future to be brighter for the industry and its ecosystem.

64. KPMG in India industry discussion and analysis

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Animation, VFX and post-production

Rendering success

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Overview

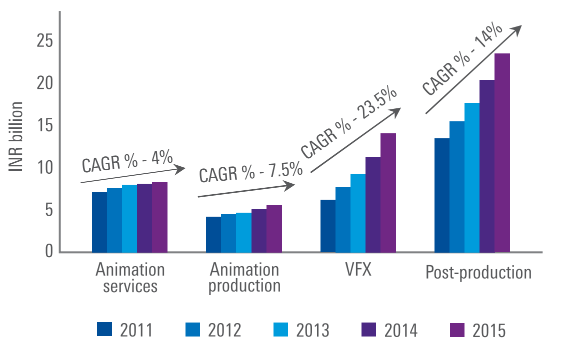
INR in billion

Segments	2011	2012	2013	2014	2015	CAGR % 2011 – 2015	Growth in 2015
Animation services	7.1	7.6	8.0	8.1	8.3	4.0%	2.5%
Animation production	4.2	4.5	4.7	5.1	5.6	7.5%	9.8%
VFX	6.2	7.7	9.3	11.3	14.4	23.5%	27.4%
Post-production	13.5	15.5	17.7	20.4	22.8	14.0%	11.8%
Total	**31.0**	**35.3**	**39.7**	**44.9**	**51.1**	**13.3%**	**13.8%**

Source: KPMG in India analysis and discussions

The year 2015 could turn out to be a cusp year for the Indian animation and VFX industry. The year saw the release of probably one of the biggest hits of the Indian film industry, 'Baahubali – The Beginning', not only a movie which is considered to have cost INR3,000 million but importantly, a movie where INR850 million were spent on VFX only.[01] On the animation front, traditional broadcasting channels increased their content mix to include more locally made content. Studios now look beyond traditional mediums such as theatrical release and television to showcase their content and use digital platforms such as YouTube, Netflix and others. These are important indicators that Now is the time for the India Story to be played out.

Size of Animation, VFX and Post production industry in India



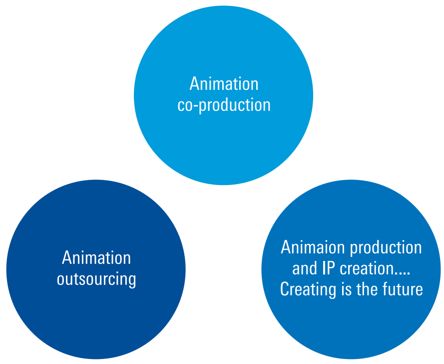
Year on year compartive analysis with CAGR % for the period 2011 to 2015
Overall CAGR % 2011-2015 : 13.3%

Source: KPMG in India analysis and discussion

Indian animation industry…moving up the value chain

Today, India has nearly 300 animation, 40 VFX and 85 game development studios with more than 15,000 professionals working for them.[02] These studios have experienced a mix of content production, outsourced animation services and collaborative animation services. Over the last decade, the Indian animation industry has moved up the value chain from a traditional outsourcing model to creating its own intellectual property and co-productions. While the Indian animation industry witnessed no major box office releases during the year, short films such as 'Chhaya','Fateline' and 'Chakravyuha' won appreciation locally as well as internationally. Also, 2015 saw a larger intake of local content by the kids' entertainment channels including the regional players. However, despite the push towards local content, Indian animation studios continue to be vital partners to animation studios across the globe for outsourcing and co-production work.

Animation business models in India



Source: KPMG in India analysis and discussion

01. 15-lesser-known-facts-about-bahubali,http://www.indiatvnews.com/entertainment/bollywood/15-lesser-known-facts-about-bahubali-22525.html dated 10 July 2015 accessed on 22 February 2016
02. Industry discussion conducted by KPMG in India

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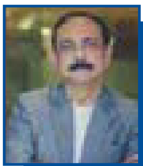
Content production and IP creation…. Creating is the future

Evolution of content production and Intellectual Property (IP) creation as a segment of Indian animation industry over the past few years has passed by without much attention; however, government initiatives like 'Make in India' and 'Digital India' have provided a renewed focus to the industry and garnered interest of all industry professionals, from animation studios to broadcasters. Animation studios now look to own and co-produce content, depicting a move from traditional outsourcing model. For long-term growth and sustainability, studios should create content and IPs, which can enable them to generate higher revenues and profitability. This can also help them create characters and themes that have a longer shelf life and can be monetised through various avenues, including merchandising. This approach has worked well overseas with studios such as Disney; few Indian Studios have also seen success eg. with 'Chhota Bheem' and 'Motu Patlu'.[03] Over the last few years, one of the most noted shift among audiences too has been an increasing penchant towards local characters and stories, be it films, television or digital mediums such as YouTube. With the advent of smartphones and the impending thrust towards a digital ecosystem including broadband and 4G rollout, content will be a key resource.



"The last decade in the global animation industry has helped prove true potential of the Indian industry. It's now time for us to graduate to the next 'Intellectual Property (IP)'. Content creation is the next big milestone and the industry eagerly awaits to see a successful animation property originating out of India."

A K Madhavan

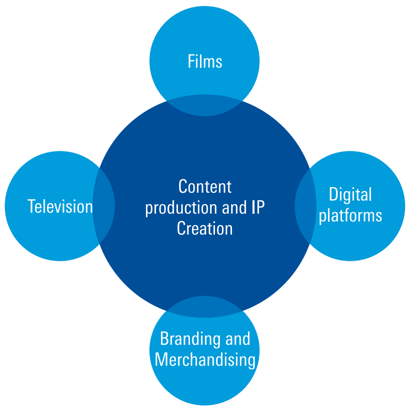
Founder and CEO
Assemblage Entertainment

"Animation is the only medium that transports children into an imaginary world allowing them to build lasting bonds with their favourite characters. Over time the popularity and affinity with our local characters has grown leading to a large number of local IPs being created. These winning IPs have led to the birth of an entire ecosystem (digital, experiential, consumer products, licensing and on-ground) thereby creating new revenue opportunities within the genre. A notable trend in Indian animation is that homegrown IP's have begun to make international inroads and will continue to make their mark overseas."

Nina Elavia Jaipiria

EVP and Business Head, Kids Cluster
Viacom 18

Content production and ip creation distribution platforms



Source: KPMG in India analysis and discussion

03. Industry discussion conducted by KPMG in India

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Animation films

Indian animated movies with production budget and box office collections in 2015 and 2014

2015 movies	Studio	Budget	Box office collection - net	2014 movies	Studio	Budget	Box office collection – net[05]
No major theatrical releases during the year				Mighty Raju Rio Calling	Green Gold Animation[04]	50	11
				Kochadaiiyaan (all languages)	Accel Animation studios in association with foreign studios[06]	1,250	810
				Chaar Sahibzaade	iREALITIES[04]	200	332

There were no major theatrical releases during 2015. Despite the box office success of films such as the 'Chhota Bheem' series and 'Chaar Sahibzaade', producers are hesitant to take this segment to the next level. Short films such as 'Sanjay's Super team', 'Chhaya', 'Chakravyuha' and 'Fateline' were able to break several myths regarding Indian animation content. Firstly, the accusation that Indian animation content is 'only for kids' saw a change with 'Fateline' where animation was used to create social awareness on serious issues such as child labour, right to information (RTI), etc. Secondly, the accusation that Indian animation is stuck in mythological mode which cannot transcend boundaries took a beating with the recently Oscar nominated short film 'Sanjay's Super team' where Indian mythological characters are an important aspect of the story. Few successes of Indian animation short films could be seen as first moves of acceptance of Indian animation content globally.

Name	Key highlights	Major achievements
Sanjay's Super team[07]	A short film directed by Indian American director Sanjay Patel tells the story of a young Indian boy who feels conflicted by the modern world and Hindu traditions of his family; it follows the daydream of the boy, bored with his father's religious meditation, and imagines Hindu Gods as superheroes.	Produced by Pixar was nominated for Oscar 2016 in Best Animated Short film category.
Chhaya[08]	Debanjan Nandy's animation film based on the concept of the emotional bond of an old man with the shadow of his wife.	Bagged the first prize in the animation category of the international competition.
Fateline[09]	Made by Eeksauras, the film is based on a young child labourer who is determined to break free from the bonds that hold him down.	The film won India's first award at France's International Animation Film Festival Annecy Cristal Award in the Commissioned Film Category out of 199 films selected for the official selection.
Chakravyuha[10] (The Vicious Circle)	An animation film by filmmaker Dhvani Desai, shows the struggles of four characters from different regions of India and throws light on how RTI can be used to fight corruption.	The film was the only one from Asia selected for screening at the Holland Animation Film Festival. Also, the film had been voted the most popular film at the Mumbai International Film Festival.

04. www.beekays.com
05. for box office collections: www.funrahi.com
06. www.indianmoviestats.com/lfilm/kollywood-2014/kochadaiyaan.htmll
07. Oscars 2016: Indian-American director's 'Sanjay's Super Team' nominated in animation shorts category (http://www.ibnlive.com/news/movies/oscars-2016-indian-american-directors-sanjays-super-team-nominated-in-animation-shorts-category-1189937.html) dated 14 January 2016 accessed on 25 February 2016
08. 'Chhaya' wins the Best Animated Film Award at the 14th MIFF (http://www.animationxpress.com/index.php/latest-news/chhaya-wins-the-best-animated-film-award-at-the-14th-miff) dated 4 February 2016 accessed on 25 February 2016
09. Eeksaurus bags first ever award for India at Annecy (http://www.indiantelevision.com/mam/media-and-advertising/ad-campaigns/eeksaurus-bags-first-ever-award-for-india-at-annecy-150630) dated 30 June 2015 accessed on 25 February 2016
10. Animation film on RTI in Holland Animation Film Festival (http://www.indiantelevision.com/television/tv-shows/animation/animation-film-on-rti-in-holland-animation-film-festival-150319) dated 19 March 2015 accessed on 25 February 2016

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Further, the Indian animation films are now being made in many regional languages, for instance, the yet to be released Bhasinsoft's 'Slick Rick' is touted as Karnataka's first 3D animation film.[11] Also, 'Abotani', a six and a half minute short film conveys the story of the culture of Arunachal Pradesh stressing on the traditional customs and folk culture.[12]

Globally, more than seven of the top 100 grossing movies at the box office in 2015 were animated movies.[13] Over the years, performance of animation movies like 'Kung Fu Panda', 'How to Train Your Dragon 2', 'Rio 2', 'Minions' etc. indicates that the potential market for animated films in India is yet to be fully realised.

Box office collection in India for international animation movies in 2015 and 2014[13]

Movie	Year	Gross collection (in INR millions)	Movie	Year	Gross collection
Minions	2015	173	How to Train Your Dragon 2	2014	169
Inside out	2015	94	Rio 2	2014	144
Hotel Transylvania 2	2015	44	Big Hero 6	2014	30
Home	2015	34	The LEGO Movie	2014	16
The Good Dinosaur	2015	30	Planes: Fire & Rescue	2014	9
The SpongeBob Movie: Sponge Out of Water	2015	12	Mr. Peabody & Sherman	2014	9
			Penguins of Madagascar	2014	97

Source: www.boxofficemojo.com; gross collection (in USD) converted for 2015@ 1USD= INR65.9 and 2014 @ 1USD = INR 60.9.

11. (timesofindia.indiatimes.com/tech/computing/Rickshawdriverisheroof3Danimationfilm/articleshow/) dated 17 October 2015 accessed on 26 February 2016
12. Arunachal Pradesh gets its first animated feature : 'Abotani' http://www.animationxpress.com/index.php/latest-news/arunachal-pradesh-gets-its-first-animated-feature-abotani dated 27 October 2015 accessed on 26 February 2016
13. www.boxofficemojo.com – Top 100 2015 box office collection

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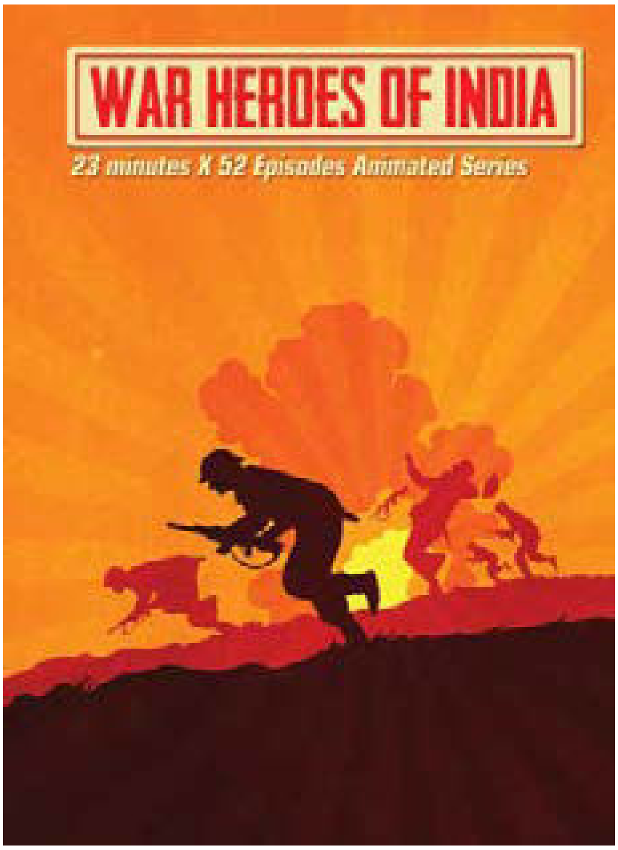
Animation on Indian television, driving the ratings

Demand for locally produced animation shows continued to grow in 2015. While shows like 'Chhota Bheem' and 'Motu Patlu' continue to do well, new shows like 'Shiva', 'Bandbudh Aur Budbak' and 'Pyaar Mohabbat Happy Lucky' were launched during the year - 'Shiva' in fact on its launch in December 2015 became one of the most watched shows.[14] The trend of 'made for television' films continued with 'Chhota Bheem: Dinosaur World', 'Pakdam Pakdai-Doggy Don Vs Billiman,' among others. Kids channels continue to invest heavily with new show launches and extensive on ground activities, marketing campaigns. With shows like 'Chhoti Anandi', Amitabh Bachchan's animation series 'Astra force', ScreenYug's 'Mary Kom Jr' and 'War Heroes of India', Graphiti's 'YOM' around the corner, the industry is in for exciting times ahead.[15]

Till a few years back, broadcasters were largely dependent on imported content bought from studios across the world. This model had two major advantages - firstly, as these shows were successful, the broadcasters were more certain about their acceptability and they were only required to rework the content in terms of dubbing and editing. Secondly, cost arbitrage i.e. cost of importing a show is much less than producing one and considering the disparity between the viewership and advertising mix for the kids genre, importing is considered to be a more profitable model.[15]



"At an initial stage of starting an animation channel, the life cycle of animation production being long, demands of cash flows to sustain through the entire process have to be met. In such a scenario, acquiring overseas content license becomes more feasible as opposed to local content production which is costlier."

Subhadarshi Tripathy

Chief content officer
Living Network

Today, the mix of local to imported content is seeing a shift. Broadcasters now realise that locally made content, though costlier, has great potential in the long run as seen in successful series of 'Chhota Bheem', 'Motu Patlu' and few others.[15] Also, audiences, especially those outside metros, are more inclined towards locally made content and characters based on familiar elements, dialect and lifestyle. Local content has the potential and in some ways is proving to be the game changer for the kids genre and has defined the way kids channels have evolved in India.

14. Nickelodeon's 'Shiva' is highest rated kids show in India http://www.indiantelevision.com/television/tv-channels/kids/nickelodeon-s-shiva-is-highest-rated-kids-show-in-india-151213 dated 13 December 2015 accessed on 26 February 2016
15. Industry discussion conducted by KPMG in India

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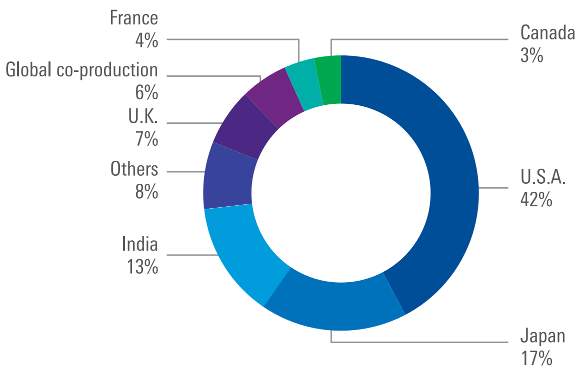
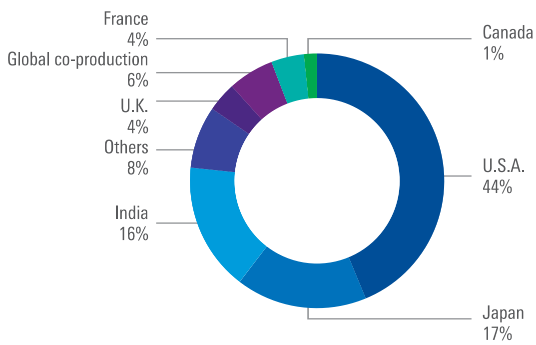
> In the recent past there has been a stark shift to local content production. Earlier the broadcasters showed local content very sparsely. But since the last few years there is an overwhelming demand for ethnic content by the broadcasters and the audience. The digital world is opening up remarkably thereby providing immense opportunities to content producers gradually eliminating gatekeepers.
>
> P.Jaya Kumar
> **CEO**
> Toonz Media Group

Countrywise animated shows on Indian TV - 2014



Countrywise animated shows on Indian TV 2015



Source: KPMG in India analysis and discussion

Note: Others include China, Denmark, Australia, Italy, Ireland, Germany, France, Mexico, Portugal, Pakistan, Malaysia, Argentina, Singapore and Spain. 2. Global Co-production are various co-productions animation work between Canada, U.S.A., Ireland, U.K., Sweden, France, U.S.A., Australia and Belgium. 3. India includes four co-productions between India and other countries

In 2015, animation content from countries such as U.S.A., Japan, U.K., France, Canada, etc. continued to entertain the Indian audience. The content imported from U.S.A. had the largest share, followed by Japan. However, local content has seen a shift as it contributes approximately 16 per cent of the total shows (third largest contributor) from 13 per cent in 2014.[16]

As per the Broadcast Audience Research Council, India (BARC), most viewed top 10 shows – kids genre were mostly locally made shows with the exception of 'Doraemon'; 'Motu Patlu' was most viewed show during the period.[17]

16. KPMG in India analysis and discussion
17. Copyright © 2016 Broadcast Audience Research Council India. All rights reserved. Reproduction of any matter published in this report, in part or whole, in any language or format, or derivative work, without the express written permission of BARC India is strictly prohibited and will be liable for legal action.

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Weekly BARC rankings for top shows in kids genre

Rank	Description	Channel	Impressions´000 {Av(Wg)}
1	Motu Patlu in Alien World	NICK	479.89
2	Motu Patlu Kungfu Kings	NICK	458.91
3	Oggy and the Cockroaches Indiawaale	Cartoon Network	435.71
4	Chhota Bheem : Coco Mera Dost	Pogo TV	402.12
5	Doraemon Nobitaland	Disney Channel	374.26
6	Pogovengers	Pogo TV	373.47
7	Kris Aur Shahrukh Ki Dilwale Bollywood Class	Cartoon Network	366.75
8	Chhota Bheem and the Curse of Damyaan	Pogo TV	349.39
9	Chhota Bheem : Battle Of Heroes	Pogo TV	344.62
10	Chhota Bheem Ki Baazi	Pogo TV	340.51

Weekly BARC rankings for top channels in kids genre

Rank	Channel	Impressions´000 {Av(Wg)}
1	NICK	142.45
2	Pogo TV	128.74
3	Cartoon Network	111.40
4	Hungama	81.04
5	Disney Channel	68.45
6	Sonic Nickelodeon	29.88
7	Discovery Kids	13.55
8	Disney XD	12.47
9	NICK Junior	6.17
10	Disney Junior	4.14
11	Toonami	0.59

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Target Group: All 4-8

Market: All India

Period: Week 41, 2015 to Week 7, 2016

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Television is probably one of the largest consumer of animation content created in India, though other mediums such as films and online broadcasting are also picking up. Kids genre accounted for 5.6 per cent viewership over the period Week 41, 2015 to Week 7, 2016.[18] Although there are examples that audiences are more inclined towards local content, however, for broadcasters it also depends on the overall cost mix and their long-term strategy for the channel. Thus, local to imported content split varies from broadcaster to broadcaster, the range can be anything between 30:70 to 50:50.[19] The audience generally does not view a show based on its making but elements such as entertainment value, theme, reliability of character and dialect.

Cost to the broadcaster of a locally made show is one of the important factors, considering that there is an advertisement cap of 12 minutes and disparity between viewership and ad sales can be a possible hindrance. Today depending on genre, number of advertising brands may vary within the range of 700 to 1,000 but in case of kids genre, the count was only around 200 plus which has grown by approximately 25 per cent and now stands at 270 plus.[20] Overall, ad rates have remained constant in past few years and have increased by only approximately 11 per cent; however, in case of kids channels, ad rates have increased by 20 per cent to 28 per cent depending on the channel - this growth is driven by unconventional brands not necessarily targeted at children.[20] For Pogo and Cartoon Network, unconventional advertisers now contribute 55 per cent of ad revenues, for Disney its 50 per cent and for Nickelodeon 45 per cent comes from non-kids brands.[20] The prime time on kids channels is from 12 noon to 5 p.m. and because of single TV per home concept in several homes in India, these channels are viewed by other family members also and thus a lot of brands are realising the potential of this segment[20]. FMCG companies are already using kid's channels to promote soaps, shampoos, detergents and other non-kids brands.[20] The brands that were first to come in were insurance and auto brands[20]. This genre is now witnessing significant traction from Canon, HP, Thomas Cook, Berger, Tata Tea, Wagh Bakri, Danone, Maruti, Micromax and a whole new avenue has opened up on the back of e-commerce websites like Flipkart and Snapdeal.[20] Channels are now pushing the boundary beyond the traditional Free Commercial Time (FCT) deals to facilitate advertisers through various custom-made brand associations. Given that a lot of shows are now being produced locally, product placement is an emerging opportunity.

The industry has long been waiting for an impetus from the Government of India which can give the locally made content the desired push; something which governments of other countries producing major animation content are providing. For instance, in China, animation production studios get part of the cost reimbursed from the government, exclusive time slots are reserved for locally made shows and others.[21] Also, Japan, Malaysia and Canada give tax rebates for locally made shows.[19]

18. Copyright © 2016 Broadcast Audience Research Council India. All rights reserved. Reproduction of any matter published in this report, in part or whole, in any language or format, or derivative work, without the express written permission of BARC India is strictly prohibited and will be liable for legal action. TG: All 4+, Market: All India, Period: Wk 41, 2015 to Wk 7, 2016.
19. Industry discussion conducted by KPMG in India
20. Kids' TV channels struggling for business find salvation in ads aimed at parents http://articles.economictimes.indiatimes.com/2015-08-05/news/65243721_1_ad-rates-kids-channels-unconventional-advertisers dated 5 August 2015 accessed on 27 February 2016
21. China's animation industry tries to find its feet http://www.chinaeconomicreview.com/one-frame-time dated 26 January 2015 accessed on 27 February 2016

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Animation on digital platforms

Today digital medium or the so called third medium or new media has earned good recognition to broadcast quality content. While the Indian government's thrust on digital medium through the initiative 'Digital India' has brought the medium to the centre stage, many start-ups and entrepreneurs in the animation sector for the past few years were successfully using these platforms. Use of digital platforms has many advantages: first, they are less regulated in terms of censorship. Second, a studio can explore various genres without any prejudice in terms of acceptability. Third, there are no restrictions on amount of content or channels a studio can have. Fourth, the content can be easily accessed on variety of mediums such as mobiles, tablets, etc. And finally, on these platforms large amount of content is being uploaded every second and content can gain popularity and go viral every minute.

Despite several positive factors for digital platforms, it has two major challenges - many areas in India lack decent internet connectivity and thus, these platforms are not readily available to all and, studios may find it difficult to monetise the content on these platforms.

Recent focus of the Indian government on digital technology can in future years increase the reach of internet and it's connectivity. Many animation studios have started monetising content on digital platforms mainly through revenue share with the platform (e.g. YouTube) and through sponsorship.

Top subscribed animation channels on YouTube

Rank	Channel name	Number of views
5	ChuChu TV Kids Songs	3,430,400
10	CVS 3D Rhymes	2,164,056
25	Videogyan 3D Rhymes - Nursery Rhymes & Kids Songs	1,016,429
50	HooplaKidz TV	526,572
52	Finger Family Songs	516,482
65	eDewcate	438,468
68	ChuChuTV Surprise	435,771
74	MagicBox English Kids Channel	410,079
90	Shudh Desi Endings	331,166

Top viewed animation content on YouTube

Rank	Channel	Number of views
2	NICK	3,924,413,675
6	Pogo TV	2,572,316,603
11	Cartoon Network	1,154,024,879
19	Hungama	723,331,379
34	Disney Channel	479,259,869
42	Sonic Nickelodeon	393,117,964
52	Discovery Kids	342,354,229
77	Disney XD	253,613,942
85	NICK Junior	242,372,801
93	Disney Junior	223,042,134

Source: Social Blade: Top 100 YouTubers in India by Most Viewed and Most Subscribed http://socialblade.com/youtube/top/country/in/mostsubscribed accessed on 27 February 2016

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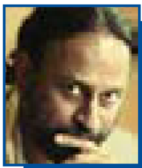
The content creators who were turned down by content commissioners have found a new hope in the form of internet broadcasting. Content has become the king in true sense once again for these creators, as the control moved to the more generous online platform. The shift has already begun and is here to stay. The music industry which was pronounced dead a few years back is anticipating its revival through online streaming. A content creator is no longer dependent on the otherwise traditional methods of productions, distribution, first point of release etc. The content creator is set free to express his or her vision. This is a screen era, and one will get noticed if one creates good content. The question is about the change, if you do not change you will perish.

Anand Pandey

Co-founder and Director
ScreenYug Creations Pvt. Ltd.



Netflix will drive content change, but what's interesting is to see how Indian market reacts to its subscription based model as the Indian market is used to free content. However at present, the challenge is to educate people and inform them about its content.

Ketan Mehta

Chairman and Promoter
Maya Digital

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Animation branding and licensing & merchandising

Licensing and Merchandising (L&M) is a sizeable business globally, the Walt Disney Company is probably the largest character licensor in the world[22]. India's L&M industry is making its presence felt and is poised to grow significantly in the coming years. Industry experts estimate that the Indian L&M market is currently projected at approximately INR30,000 to 35,000 million and is growing at more than 12 per cent year-on-year[23] With issues such as the ad cap on advertising, there is a limit to which channels can grow their revenue and this is being looked at as an additional stream of revenue for channels. The L&M business has two models, one where IPs are not owned by the channel and they acquire rights for a particular tenure while paying royalty to the IP owner. Second, TV broadcasters create their own brands and hence own the IP rights enabling them to create consumer products and distribute it themselves[22]. Today many broadcasters such as Viacom18, Disney India and Turner International are successfully turning towards this model[23]. Viacom18's consumer products division currently boasts a range of 800 products across various categories which include brand IPs that are network owned and non-network owned and they have been monetising their own IP brands such as 'Motu', 'Patlu', 'Ninja Hattori'.[23] In terms of growth, Viacom18 expects the consumer products division to grow from 500+ Shop Keeping Units ('SKU') to 2,000+ SKUs, more than 1 million products in the market and a footprint of more than 10,000 in distribution and retail platforms.[23] Flipkart has tied up with Viacom 18 for the licensing of three of their largest brands 'Teenage Mutant Ninja Turtles', 'Spongebob Squarepants' and 'Peanuts' for sellers[23]. Disney India on the other hand has many IPs which have been internationally built over the years by the parent company and these brands today have become larger than life brands such as Disney's Mickey & Friends and Princesses, Marvel's The Avengers, Spider-Man and Star Wars[23]. Disney India offers a product range that cuts across ages and gender through more than 3000 SKUs.[23] Another broadcaster Turner India, which like Viacom18 has leveraged the use of its own IPs as well as the one's they have acquired, has capitalised on the popularity of Chhota Bheem[23]. Besides broadcasters, many other merchandising companies acquire rights from the brands internationally, eg. Dream Theatre had recently acquired the rights (product licensing as well as content rights) for popular kid's property Pokemon[23]. The popularity of certain characters extends beyond TV screens to products, such as back-to-school products, accessories, toys, collectibles, clothing, footwear, bags and much more. Currently, L&M contributes mere 10 to 15 per cent[22] of the overall business revenues; however, this segment is poised to grow further in the coming years.

The factors contributing to the growth of L&M segment are as under:

- **Popularity of e-commerce players in India coupled with attractive discounts on products:** E-commerce this year has been a significant catalyst to licensing growth, roughly contributing to half the business and this is expected to grow further.[23]
- **Rising popularity of locally produced characters:** Major broadcasters have hosts of characters which are popular, enabling broadcasters and studios to successfully monetise them.
- **Branding and multi point contact with audience:** Broadcasters have realised that in order to effectively monetise a character/show, they have to put in significant efforts towards brand building activities such as on ground events, online games using characters, online and offline competitions, among others. For instance, Cartoon Network celebrated the birthday of Kris from the 'Roll No. 21' series.[24] Nickelodeon carried out ground promotions on Children's day where their favourite characters interacted with children in Delhi and Kolkata. Kids in Kolkata got a chance to meet 'Motu Patlu' and engage at the carnival with loads of games. The entire City Centre mall was given the look of Furfurinagar and kids got a chance to win 'Motu Patlu' merchandise.[24]

22. Industry discussion conducted by KPMG in India
23. TV channels eye the Rs 3,500 crore licensing and merchandising industry http://www.exchange4media.com/tv/tv-channels-eye-the-rs-3500-crore-licensing-and-merchandising-industry_58658.html dated 2 January 2015 accessed on 27 February 2016
24. No kidding! Kid's TV channels get serious about Diwali http://www.indiantelevision.com/television/tv-channels/kids/kids-channels-bid-to-rake-in-the-moolah-with-new-diwali-launches-and-extensive-promotional-activities-151114 dated 14 November 2015 accessed on 28 February 2016

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Animation characters with strong brand values can be used for successful partnership with other brands, products and movies. The trend of partnership and collaboration with other brands is on an upsurge. Many product brands from FMCG, auto, insurance and others are proactively using characters like ‘Chhota Bheem’, ‘Motu Patlu’, ‘Kris’, etc for marketing campaigns. Some examples of such collaboration are as below:

Cartoon Network and Pogo go filmy with Shah Rukh Khan's 'Dilwale'[25]	Dilwale team was seen in three new TV specials created especially for kids. Kris Aur Shah Rukh Ki Dilwale Bollywood Class, Oggy Ki Birthday Party - Dilwale Style and Bheem Aur Dilwale
Motu Patlu joins Yellow Diamond Rings' club[26]	Yellow Diamond Rings makers decided to launch three flavours of corn rings and they joined hands with Nickelodeon’s Motu Patlu to use their images on their packets and also bought the rights to design their freebies.
Chhota Bheem and Parle girl spotted together![26]	Parle G joined hands with Chhota Bheem wherein a picture of Chhota Bheem graced the packet alongside the Parle girl. Also, every piece of biscuit, instead of the brand’s name, now has some popular cartoon characters engraved on it including Chhota Bheem.
Domino’s tempts kids with Ninja Hattori[26]	Domino’s India at launch of its sub-brand Junior’s Joy Box joined hands with Ninja Hattori. This campaign got kids busy building their Ninja collection, while parents treated them to a Domino’s meal.
Kinder Joy packed with Disney surprises[26]	Ferrero India have procured the license of The Disney Princess and Marvel’s - The Avengers' characters from Disney India to design their toys. The pink pack of Kinder Joy was accompanied with one of the seven Disney princesses.

India’s animation L&M business despite several positive factors, faces key challenges that they need to overcome in order to realise their full potential. Firstly, India is a diverse country, having multiple choices and preferences which would differ in terms of characters, type and size of merchandise. Secondly, there is no special law in India to deal with any issues related to character licensing. Hence, any concern is dealt with by taking into consideration trademarks, copyrights and common law principles. Thirdly, piracy is a serious challenge that has crept into character licensing too.

Animation branding and L&M as a segment is currently under-exploited. This segment, if effectively and efficiently tapped, can become an important part of long-term growth strategy of broadcasters and studios.

25. Cartoon Network & Pogo go filmy with Shah Rukh Khan’s ‘Dilwale’ http://www.indiantelevision.com/television/tv-channels/kids/cartoon-network-pogo-go-filmy-with-shah-rukh-khan-s-dilwale-151210 dated 10 December 2015 accessed on 28 February 2016.

26. www.premiafaqs.com/Licensing accessed on 28 February 2016.

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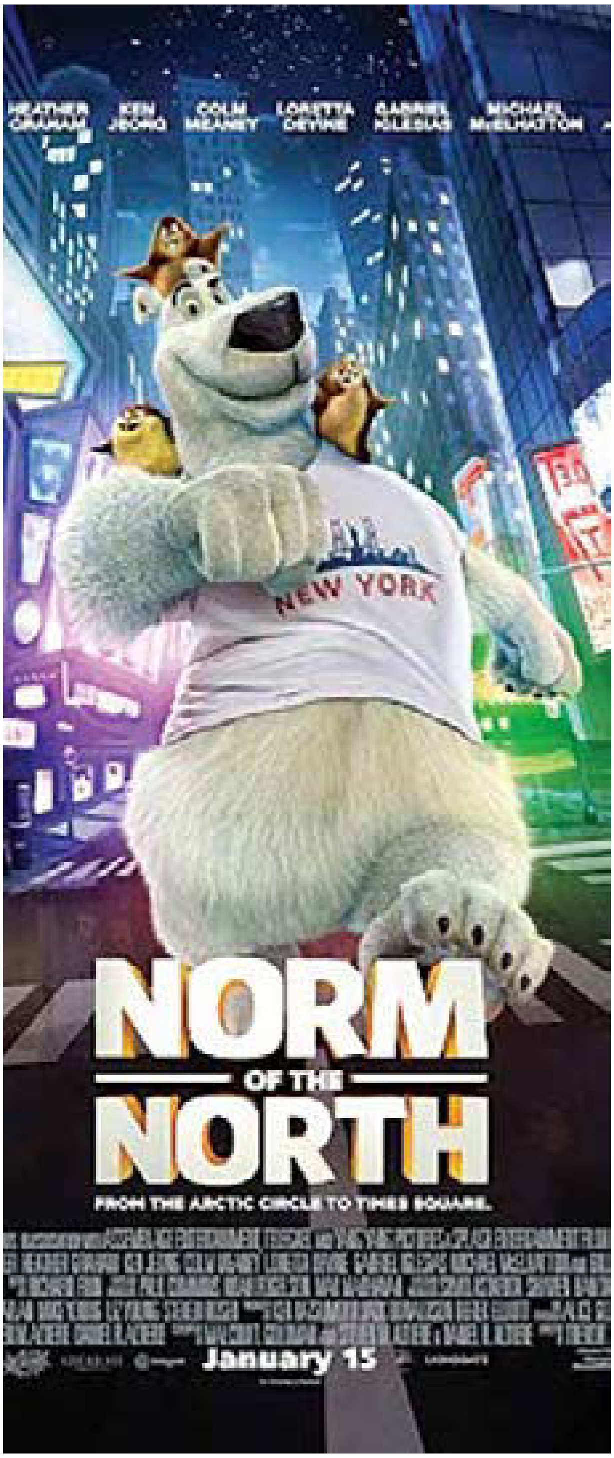
Outsourced animation services

According to a recent study, about 90 per cent of all American television animation is produced in Asia.[27] The pre-production is done in the United States or other European countries, after which, the package is sent to Asia for production. The work is sent back to the U.S.A. or other headquarter countries for post-production. Typical for an Indian animation studio, outsourcing work from countries across the world is the first step as outsourcing animation has led to the creating and nurturing of a local industry; as the infrastructure is built up, equipment is put into place and skills are transferred. Also, the model is less risky compared to making its own content as the studios either get paid based on efforts on a time and material basis or on a fixed fees basis for the project. However, over the last few years, Indian studios are competing with other Asian and far east countries like China, Malaysia, Philippines and Thailand for outsourcing work[27]. Despite increased competition, Indian studios continue to be an important strategic partner for its global counterparts. A young Indian studio Assemblage, for example, worked on the films 'Norm of the North' and 'Blinky Bill-The Movie', production of which was entirely done in India[28]. Also, few studios continued to deliver high-quality work for many Hollywood animation top grossers such as'Shaun The Sheep'.



Collaborative animation services (co-production)

Co-productions are collaborative efforts between studios in India and abroad with different core competencies who leverage on each other's expertise while sharing Intellectual Property Rights (IPRs) and revenues. The focus of Indian studios entering into such strategic alliances is to establish a presence in the global animation market. The key attraction of a treaty of co-production is that it qualifies as a national production in each of the partner nation and can access benefits that are available to the local film and television industry in each country. The co-production agreements seek to achieve economic, cultural and diplomatic goals and benefits accruing from such agreements include tax concessions, government financial assistance, and inclusion in domestic television broadcast quotas.

27. Animation: Ushering in a Digital Era http://www.broadcastandcablesat.co.in/animation-ushering-in-a-digital-era.html accessed on 29 February 2016
28. Assemblage readies maiden animation film 'Blinky Bill' http://www.animationxpress.com/index.php/latest-news/assemblage-readies-maiden-animation-film-blinky-bill dated 25 August 2015 accessed on 29 February 2016

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In 2015, India signed co-production treaties with South Korea.[29] India already has similar agreements with China, Brazil, New Zealand, and in Europe with Italy, Poland, France, Germany, Spain and the U.K. During the current year, Assemblage Entertainment completed its first full-length animated feature co-production titled 'Blinky Bill The Movie', with the Computer Graphics Imaging (CGI) being co-produced out of its studio in Mumbai.,[30] and another studio, Digitales Studios entered into a multi project deal with U.S. based Splash Entertainment for the Lionsgate franchise Alpha and Omega to be produced by Splash.[31] DQ Entertainment and Method Animation, U.K. have joined hands to co-produce TV series '5 & IT'.[32] Sphere Origins (the original production house behind Balika Vadhu), animation studio HopMotion and Colors (General Entertainment Channels (GEC) which currently airs Balika Vadhu) have joined hands to produce new animated show 'Chhoti Anandi'.[33] Artha Animation is working with South African company My Child TV in developing a new 2D animation series called 'My Child'.[34] Toonz Animation signed a deal with Gummybear International Inc which sees Toonz and Gummybear International, owners of the globally-recognised Gummy Bear (aka Gummibär) IP, extend the brand into entertainment and merchandising. The companies have already won a commission from YouTube for an initial 39 x 7' episodes which Toonz will produce out of its studio in India.[35] DQ Entertainment will be co-producing the third season of 'The Jungle Book' along with France's Ellipsanime and will be supported and co-produced by ZDFE, Germany; ZDFTV, Germany and PIWI (Canal+), France.[36] Though there are few shows and movies which were co-produced in India, the overall potential of this segment remains untapped.

"We are glad that the Indo-Canadian co-production treaty was signed last year along with a couple of more which will help add more value to what Indian animation studios bring to the table in global animation production. However, authorities need to simplify process operationalisation and implementation in actual business world and that must gain momentum and be a transparent process. 'Make in India' has always been a big push for us in this Sector especially in International TV and Direct to Home Animation Production. If we are able to bring to the table some tax incentives, cash flow incentives, then co-production will prosper."

RK Chand

Co-Founder, Director of Busines Development
Digitales Studios

29. India – S. Korea join hands for co-productions in broadcasting, animationIndia - S. Korea join hands for co-productions in broadcasting, animationIndia - S. Korea join hands for co-productions in broadcasting, animation http://timesofindia.indiatimes.com/tv/trade-news/hindi/India-S-Korea-join-hands-for-co-productions-in-broadcasting-animation/articleshow/47344492.cms dated 19 May 2015 accessed on 29 February 2016
30. Assemblage readies maiden animation film 'Blinky Bill' http://www.animationxpress.com/index.php/latest-news/assemblage-readies-maiden-animation-film-blinky-bill dated 25 August 2015 accessed on 29 February 2016
31. US based Splash Entertainment finds a partner in India's Digitales Studios for 'Alpha and Omega' revival http://www.animationxpress.com/index.php/latest-news/us-based-splash-entertainment-finds-a-partner-in-indias-digitales-studios-for-alpha-and-omega-revival dated7 October 2015 accessed on 29 February 2016
32. DQ Entertainment spurts on plan to co-produce animated TV series http://www.business-standard.com/article/news-cm/dq-entertainment-spurts-on-plan-to-co-produce-animated-tv-series-115100700915_1.html dated 7 October 2015 accessed on 29 February 2016
33. Colors to launch animated show 'Chhoti Anandi' http://www.animationxpress.com/index.php/latest-news/colors-to-launch-animated-show-chhoti-anandi dated 1 January 2016 accessed on 29 February 2016
34. India's Artha Animation collaborates with South African based My Child TV for new 2D animation series, 'My Child' http://www.animationxpress.com/index.php/interviews/indias-artha-animation-collaborates-with-south-african-based-my-child-tv-for-new-2d-animation-series-my-child dated 23 September 2015 accessed on 29 February 2016
35. Toonz Animation and Gummybear International ink a deal for digitization of content http://www.animationxpress.com/index.php/latest-news/toonz-animation-and-gummybear-international-ink-a-deal-for-digitisation-of-content dated 9 December 2015 accessed on 29 February 2016
36. DQ Entertainment to co-produce 'The Jungle Book' season 3 with Ellipsanime http://www.animationxpress.com/index.php/latest-news/dqe-to-co-produce-the-jungle-book-season-3-with-ellipsanime dated 10 October 2015 accessed on 29 February 2016

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Potential challenges[37]

Animation education and skilled workforce

As Local IP creation and high end outsourcing work for Western studios are expected to be key drivers of growth for the Animation, Visual Effects, Gaming, and Comics (AVGC) sector, majority of the incremental employment is expected to be in pre-production and marketing with highly skilled job roles such as storyboarding, content creation, design, planning and promotion.

The AVGC Education landscape in India is dominated by training institutes offering short term certificate/diploma courses (65 per cent of the overall intake capacity). Most of these are lacking in the quality of programmes inputs (infrastructure, teaching resources etc.) and outputs (quality of students graduating). The existing AVGC education also needs to shift focus from the IT tools towards the design and creative aspects of content creation to generate professionals who could work on the high-value adding segments of pre-production, storyboarding etc.

In the absence of adequate supply of talent, industry stakeholders have expressed finding highly skilled professionals as a major challenge to sustain growth. Many companies in the sector hire regular graduate students at the entry level who are expected to learn on the job. A lot of production houses in television, films, animation have in-house training schools, but they lead to creation of a captive talent pool and do not benefit the industry at large. Due to the lack of a formal and credible training ecosystem, an option available is that of unregulated training providers – who lack quality, teach an outdated curriculum and are mostly ill-equipped to handle demands of the industry.

Animation is not a quick and easy process

The perception that animation is a computerised process which can be completed quickly needs to change. The process is much more complicated, involving a complete visualisation of the campaign and a process of storytelling that needs to be worked out before production can be commenced. While short films can take anywhere between a few months to a year to produce, the genre needs more time and labour.

Lack of funding

Despite a vast talented and potential pool, India does not produce a high percentage of animation films globally as it lacks funding unlike western film makers. The industry demands an initial high investment and this poses a major setback as most investors are taken aback by the numbers game.

37. KPMG in India analysis and discussions

Insufficient government support

The industry would benefit considerably from government support through measures such as reservation of a certain number of hours of domestically produced content on channels, 'must-carry' clause for kid's channels and tax benefits and treaties. Indian animation players lack government support that encourages growth of animation when compared to competing nations such as China, Japan, Canada, Malaysia, U.K., U.S. etc. either through favourable policies or tax rebates and grants.

Intellectual Property protection

Outsourcers have always been concerned with the protection of their IP in India as we have failed to take stern action against IP infringement. The IP policy needs to be strengthened and companies operating in the outsourcing sphere need to take stringent steps to protect clients' IP rights.

"This past year some interesting developments have taken place in the AVGC sector.

All the kids channels in India have upped their investment in local productions and moving forward I see this trend continuing as this investment is already paying rich dividends. This will help the industry grow.

The Maharashtra State has also recognised the potential of not just Animation but the entire Animation, Visual Effects and Gaming sector. The new IT/ITES is amongst the most progressive policies announced by any state government.

However I believe that we need to see a National Policy on Kids media with a framework for funding of local kids content. Lack of government initiative in India versus benefits provided by other countries is an opportunity lost for us. Overseas animation markets are turning out to be more attractive destination than India for outsourcing work with the advantage of many government driven grants and incentives. This is one area that needs work and we will continue to lobby for this."

Munjal Shroff

Director
Graphiti Multimedia

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A number of State Governments have taken cognisance of the lack of quality training facilities and recognised the strategic importance of investing in this sector given its employment generation potential in the coming years.

- The Karnataka Government has come up with initiatives in the Karnataka AVGC Policy including setting up a Centre of Excellence for promoting AVGC education in the State, setting up Digital Art Centres to implement digital art and animation curriculum in select Fine Art schools across Karnataka.
- The Maharashtra Government has also come up with a number of provisions in its IT/ITeS policy to promote the AVGC sector including attracting global companies, focussing on legal framework for Intellectual Property creation and protection, programme to train the trainer and setting up a Centre of Excellence with state-of-the-art facilities.
- The Telengana Government is also actively promoting the AVGC sector eg. the announcement of the incubation centre IMAGE (Innovation in Multimedia, Animation, Gaming and Entertainment) in Hyderabad.

The Central Government through the Ministry of Information and Broadcasting and the Media and Entertainment Skills Council is in the process of setting up a National Centre of Excellence in the AVGC sector. The National Centre of Excellence is expected to impart world class education and also foster an environment of research and entrepreneurship in the AVGC sector.

Considering the AVGC sector is largely led by the private sector in India, the different Governments have proposed Public Private Partnership (PPP) models for promoting quality AVGC education. A model which involves private educational institutions of repute operating the Centres of Excellence with financial assistance form the Government is proposed. State Governments have also proposed to involve private educational institutions in setting up Digital Art Centres in Fine Arts schools to implement the digital art curriculum.

With the right support from the different States and the Central Government, the outlook for AVGC education and skilling in India is positive. Rigorous and persistent efforts towards implementation from all stakeholders would result in AVGC industry in India emerging as a major global hub.

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Point of view: India Needs a Kids Content Act

Television has been in India for the past 50 odd years. For the previous generation it was a friend. They saw it rise and they grew with it. For the current generation, it's been all about nostalgia and a lot about being their go-to element in times of need for entertainment. However, for the generation that's still learning how to walk and talk, it's a medium that will show them how the world they have been born in, functions. While the formal school education, home schooling and natural learnings can go on in the present form, it is critical in today's world to know what the present generation kids are exposed to, what content outside the formal structure are they consuming and how it is impacting their behavioural pattern.

Television is their cartoon friend who wishes them a good morning every day. It is their lunch time buddy who shows them what a superhero can do. It's their snack time parent who will join them in their pranks. And it's their bed time grandparent who will narrate stories and make them believe that the world is a beautiful place.

So what do we want our kids to learn from television and films? We want them to learn everything we did, everything our parents and grandparents did, and everything that will help them grow as honest, truthful and virtuous youth of the nation.

And this makes programming for children's television an even more responsible job. It's imperative that our kids grow up with the same values of patriotism and in an equally culturally rich environment as we did. Creating sensible and responsible children's programming in India is a social revolution of bringing back the sense of pride for our country in every youngster across the nation. It is an effort to instill our roots in them so that we create socially responsible citizens, and the process starts when they are young.

To give you a deeper insight, the total number of kids' channels in India is approximately 18 including regional languages. It represents around 3 per cent of total available number of channels in India. Viewership share of kids' genres is 7.3 per cent, much after Hindi GEC, News Channels and Hindi movies. What India really needs is an exclusive kids' public broadcasting channel with a focus on animated content for kids and focus on content creation with rich Indian stories, culture and heritage.

How can we dream of building a strong nation when the content value system of today's Indian kids is being influenced by inadequate policy and funding? Even more so when we have entered the ever evolving digital content era.

What we lack

- A quota/reservation for locally created content
- Promotion of responsible programming, especially animated content
- Free access to kids' content in cable dark areas
- Emphasis on entertainment with education and vice-versa
- Promotion of cross-fertilization of diversified Indian cultures
- Exposure for kids to our rich heritage of art, music, mythology and customs
- Increased awareness and tolerance to our cultural diversity

Till these voids are not filled, our kids may not be able to understand and appreciate the cultural diversity of India due to erosion of sense of belonging. It is utterly essential that we remain true in our journey of creating 'Ek Bharat, Shreshtha Bharat' with an even more serious approach to ensure the right development of our kids. It is good to have the youngest population but it is a greater responsibility to ensure that the nurturing of this population is also in the right direction. A good quality kids' content through public broadcasting will lay a firm foundation.

What we need

We need to have a strong action-oriented approach to solve a problem that has direct correlation with preserving our culture and tradition.

We need a "KIDS CONTENT ACT" in India that will address the existing gaps, formulate and enable strong policy driven measures to ameliorate television programming content for kids in India, even revive the Children Film culture for Saturday and Sunday mornings as well as have digital gaming and digital content for kids in the present day context.

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Our recommendations for the Kids Content Act

- **Mandatory local animation content:** In India, Animation, VFX, Gaming and Comics are probably the only industries where demand for manpower is more than supply. It is estimated that India has about 300 animation, 40 VFX and 85 game development studios employing thousands of techno-creative professionals. If the Information and Broadcasting (I&B) Ministry can take measures and formulate policies in the right direction for kid's content on television, theatrical, gaming, comics and digital, the kids in our country will get a healthy environment of education as well as entertainment. It can also meet the Government's objective of employment generation in the creative and artistic sector which has been neglected for a long time. It will also give a great boost to the studios and skills in India to retain work and creative jobs in India.

- So a start could be a 50 per cent quota of mandatory local animation content on the networks with an aim to reach 70 per cent over the next three years and special protection for theaters and entertainment tax waiver for kids' movies on weekends. This will help create a substantial library of Indian animated content that can travel globally and spread awareness about Indian culture and heritage.

- **Setting up of AVGC co-production fund under CFSI:** Establishing strong libraries and restoring forms of art, culture and creative styles will need immense support from I&B Ministry, more specifically, the Children's Film Society, India (CFSI).

  Intellectual properties originating out of India can be co-produced/co-funded by CFSI for the next 10 years. This fund can be divided into 3 separate heads:

  - Co-production fund'
  - 'Content idea-story incubation fund'
  - 'Marketing, Distribution and promotion budget'

  India can then probably boast of over 300 co-productions and shows within India in the next 10 years. Kids TV and kids movies from India would emerge a true leader in the digital content economy generating jobs for over 4-5 lakh creative, techno-creative and artistic talent of the country.

  The CFSI can recover this investment by keeping public broadcasting rights in India through Doordarshan and worldwide terrestrial rights of all these properties. CFSI can become the sole programming arm for kids content for public broadcasting on free-to-air Doordarshan network in India. The producer/content creators can probably retain the pay TV rights, Licensing and Merchandising, Gaming and digital rights.

- **Creation of DD Kids:** We strongly believe that Prasar Bharati can play a pivotal role in our endeavors of revolutionising kids programming in India. What is required is an exclusive kid's channel for Doordarshan with a focus on animated and live content for kids.

The best way to do this is to start a DD Kids channel.

With its unmatched penetration in comparison to the cable and satellite channels, a digital terrestrial free-to-air public broadcasting DD Kids channel will surely position itself as a differentiator and forerunner. Quality kids' programming will also generate more viewership and thus attract even more brands for advertisement. With its wide foot print and reach, the Doordarshan Kids Channel with the right kind of programming for kids will be able to lead the way and create a path for nation building just as other countries like U.S.A., Canada, China have public broadcasting services for nurturing kids and preparing them for the future. Under the right to education through television, we can provide education as well as entertainment to the kids till the age of 12 till the last mile in India, that too in all regional languages.

This is probably the only way to strengthen the kids content industry and bring about sustainability, stability and growth to the artist community and other stake holders in the industry. CFSI can operate on similar lines and manage the fund and act as a de-facto producer of DD Kids content, partnering with the local producers. The programmes produced should be translated into regional languages so that they can be aired on the regional channels of Doordarshan as well.

- **Signing co-production treaties:** This will help the Indian government to sign the co-production treaties with all the relevant countries interested in creating kids content in a big way. The Co-production treaties have become an important instrument for countries to access global markets and know-how.

- **Creation of Creative Content Division:** For India to be better poised to get into co-production treaties and many new age partnerships with all international stake holders, we need to create a stronger identity when it comes to producing quality content.

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- The Films Division under I&B Ministry, while playing its part, has the potential to operate on a much larger scale. It is recommended that the Films Division be renamed as the Creative Content Division at the centre and the state levels.
- Films, TV, Animation, Radio, Gaming, Comics, Online, Social Media and Mobile and all forms of content creation must be brought under this division. This will bring focus in these areas in terms of long term vision and effective policies that will enable the creative, social, cultural, heritage, entertainment and content industry of India to flourish in the right path.
- Along with this, in the era of digital and social media boom, we must grab the opportunity to remodel, relook and give a facelift to the Films Division, empowering it with the new proposed identity by changing its institutional design and positioning. Majority of the countries in Asia Pacific have aligned their policies and initiatives to support the digital content creation industry while enforcing the ethics and safeguarding the cultural fabric of their countries, thereby enabling a conducive environment of morality, culture and technology.
- The formation of Creative-Content- Division and establishing its working under the I&B ministry will be a landmark step in Indian history and enable restoration and re-positioning effort of Indian ethics and values.
- The Creative Content Division will help immensely to facilitate the kids content co-productions will all the foreign countries that India has signed the audio-visual co-production treaties. It will become the single point contact for overseas studios and Indian studios to create kids content using the co-production treaties.
- **Corporate Social Responsibility (CSR) for Kids content:** Creating sensible and responsible children programming in India is a social revolution of bringing back the pride for our country to every youngster across the nation. It is an effort to instil our roots in them so that we create socially responsible citizens, and the process starts when they are young. What can be a more "appropriate" reason to seek the enormous resource that Corporate India can provide through CSR towards supporting Kids Programming? We need a legal initiative from Government to provide a legitimate platform that it deserves. An approval from the Ministry of Corporate Affairs towards classifying "Kids Programming" officially eligible for CSR funding will provide the much needed stimulus in this endeavor.
- **Age group for TV Ratings:** While we implement the above measures, we need to track our progress. Currently, the TV ratings available in India are only from the age of 4 years and above. It is therefore required that the ratings start from the age of 2 years as the pre-school market in India is too huge to be ignored. In the absence of these ratings, we are losing the revenue and content attention at the extremely important pre-school level.

The Kids Content Act of India

We strongly believe that the future of this nation deserves to know every bit about this nation's culture, heritage and values before it gets lost and eroded with time. Animated, gaming and comics content has an everlasting shelf life; one needs to make an effort to create the right content, preserve and monetise the same for centuries to come. We need to preserve our roots and we need to shape our kids in a way that they become the exponents of India in the future – an India that is a land of rich and unique cultures, languages, music and history. The Kids Content Act for India will not only help save the cultural values but also impart right education and values to the upcoming generations- making them responsible global citizens.

We need to secure our future by securing our past.

And it's only possible if we act now.

Ashish S K

Founder, Punnaryug Artvision Pvt Ltd and Chairman FICCI-AVGC

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Animation technology trends that are expected to dominate the future

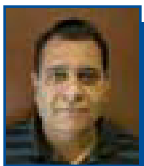
Not only is the use of animation across a range of media channels, from applications (apps) to advertising, websites to music videos increasing, but the distinctive lines between live action and animation are also blurring, as shown in some of the movies in 2015 namely 'Hotel Transyvlvania 2', 'Alvin and the Chipmunks:The Road Chip' and the more recently 'Deadpool', which depended as much on the believability of their animated/motion captured characters as much as the 'real actors'.[38]

Some of the notable trends mostly likely to dominate the future are:

Use of 3D printing

The stop-motion animation segment is undergoing a revolution because of 3D printing.[39] Traditionally, stop-motion animation is sort of slow motion puppetry. An animator takes a figure made of clay and a wire and moves it a bit in every frame, giving the appearance of movement when the film is played at 24 frames per second. State-of-the-art 3D printers are developing prototypes, which are then being used for creating a stop-motion video. 'Chase Me', the world's first 3D Printed film required its moving components to be separately printed out on a 3D printer.[40]

Colour 3D printing can help generate millions of facial expressions for the characters which stop-motion and CGI experts use. Industry players believe that 3D printing is going to be an invaluable tool to stop-motion animators, who will be able to leverage its possibilities to create bigger, better and more complex animations.



"3D Printing has amped up the animation, film and gaming industry by virtue of facilitating a physical creation of highly detailed, lifelike characters, sets, gadgets, etc. A new breed of smaller and faster 3D Printers will be targeting the Design and Animation studios. Nonetheless, material science needs to be understood behind 3D printing."

Milind Bhavsar

Director

Trigyasa 3D Technologies Pvt. Ltd.

The rise of Non Photorealistic Rendering (NPR)

Non-Photorealistic Rendering (NPR) is an area of computer graphics that focusses on enabling a wide variety of expressive styles for digital art. In contrast to traditional computer graphics, which has focussed on photorealism, NPR is inspired by artistic styles such as painting, drawing, technical illustration, and animated cartoons.

Animation professionals rely more and more on NPR rather than CG animator. They use 3D software to create an impressionistic animation that's similar to hand-drawn media. One of the best example of this trend is the animated movie 'Wall and Chains'.[39] Part of the reason for this trend is that the animation tools have become so advanced that photo real CGI is now more straightforward to acquire.

38. KPMG in India analysis and discussion
39. 5 new animation trends for 2015 that will change everything http://www.creativebloq.com/3d/animation-trends-2015, dated 11 December 2014 accessed on 2 March 2016.
40. Chase Me: The world's first 3D printed film is a wonderful piece of artwork. http://www.creativeboom.com/chasemetheworldsfirst3dprintedfilmisawonderfulpieceofartwork/13/ dated 17 April 2015 accessed on 2 March 2016

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Projection mapping

Projection mapping is a projection technology used to turn objects, often irregularly shaped, into a display surface for video projection. These objects may be complex industrial landscapes, such as buildings, small indoor objects or theatrical stages. By using specialised software, a two or three-dimensional object is spatially mapped on the virtual programme which mimics the real environment it is to be projected on. The software can interact with a projector to fit any desired image onto the surface of that object.

This technique is used by artists and advertisers alike who can add extra dimensions, optical illusions, and notions of movement onto previously static objects. The video is commonly combined with, or triggered by, audio to create an audio-visual narrative. One of the examples of its use in 2015 was the use of the Sydney Opera House by 20 different animation studios worldwide to create a living mural.[41]

Merging with reality-Augmented Reality (AR) and Virtual Reality (VR)

VR and AR are emerging as important tools for technology companies, content providers and animation/VFX players, and are slowly starting to change the rules of the narrative engagements. Although there exists a clear distinction between the two, these two terms are often inadvertently used interchangeably.

- VR is an immersive computer-simulated reality that can replicate an environment, simulating a physical existence and interaction in different places, be it in the real world or hypothetical in nature.
- AR blends virtual reality and real life. Using this technology, developers are able to generate images inside applications that merge with subject in the real world.

While smart phones continue to be the major consumption device for VR, largely due to its affordability, dedicated VR headsets are also being rolled out into mainstream viewership. Further, since VR involves streaming heavy content and high processing power, telecom and smartphone players are also working towards improving network infrastructure and handset processing capabilities in order to make VR a smooth experience.

Emerging VR/AR solutions[42]

AR - Microsoft HoloLens

The HoloLens is a holographic, augmented reality headset consisting of holographic lenses, a depth camera and speakers. One can experience virtual 3D models of objects that appear either as part of one's real surroundings, or combine to make up entirely new ones.

AR - ODG Smartglasses

ODG's pair of augmented reality glasses were initially designed for military and industrial uses and a consumer version is being developed. The product is expected to be a cross between a Google Glass and the Oculus Rift. Unlike Google Glass, ODG's glasses has two displays i.e. one for each eye and it can employ stereoscopic 3D. .

VR - Oculus Sound SDK

Oculus Sound SDK supports a higher resolution display, lower weight, built-in audio, and 360° tracking. The upcoming Oculus Audio SDK will incorporate head-related Transfer Function technology.

Samsung Gear VR

The Samsung Gear VR is a mobile virtual reality headset developed in collaboration with Oculus. A compatible Samsung Galaxy smartphone acts as the display and processor, while the Gear VR unit acts as the controller, which contains the high field of view connecting to the smartphone via micro-USB.

Software evolution and lack of depth in dedicated VR/AR content is a key limitation in the short term to VR/AR becoming truly mass. However, companies are working towards lowering the barriers of entry to VR creation through the launch of software development kits for people with little know-how. These development kits allow users to create immersive applications that support head-mounted displays, motion trackers, 3-D displays and other input devices. Further, VR hardware companies are also looking to tie up with content creators to develop dedicated VR content which in turn will develop the overall VR ecosystem.

41. Watch The Opera House Come Alive With Projection Mapping Animation For Vivid Sydney. http://www.gizmodo.com.au/2015/05/videosydneyoperahousecomesalivewithprojectionmappinganimation/ dated 29 May 2015 accessed on 2 March 2016

42. Virtual & Augmented Reality: An Update http://daretodifr.com/virtualaugmentedrealityupdate/ dated 16 February 2015 accessed on 16 March 2016

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In India, VR adoption is at a very early stage with focus on inexpensive VR headsets compatible with smartphones. For instance, in 2016, Samsung has launched Gear VR for Indian consumers, at a price of INR8,200.[43] India-based Agnus also launched a VR headset compatible with smartphones, selling it at an introductory price of INR2,499.[44] However, penetration of these devices is currently at low levels though this will change as VR products become available at lower price points.

Applications

Sector	Example	Indian Perspective
Gaming: Lower costs and nominal time requirements are major incentives for game developers, who are likely to be the chief VR content providers. Around 829 VR games are currently under development.[45]	To go along with the launch of its VR headset in 2016, Sony is currently in the process of developing around 30 VR games.[46]	VR in gaming is fairly new to India, with a few smaller companies offering VR game development services. In 2016, the FX School has launched the first VR game design and development course in India.[47]
Film and TV: Companies have started to experiment with VR through tie-ins to well-known movie franchises.[48]	In 2015, Oculus teamed up with 20th Century Fox to release movies on its VR cinema platform, Oculus Video. About 100 Fox films would be accessible on the platform.	The Indian film industry is still in the phase of testing waters on how well the content would be accepted among the audience, and what could be the business model for such experiential viewing.
Advertising: VR has emerged as a foremost platform to change advertising norms, enabling brands/advertisers empathise with consumers in a whole new way	In 2016, Coca-Cola has introduced a novel design for its retail packing which will allow the cardboard to be folded into VR glasses, which can then be used with a smartphone.[49]	In 2015, CommonFloor, a map-based search engine for finding properties, unveiled Retina, a Google Cardboard-based virtual reality platform that enables users to view builder properties using their smartphones.[50]
OOH: A number of companies around the world have incorporated the VR technology in their ad campaigns.	Marriott Hotels carried out a VR campaign in 2015, creating a 4D sensory experience to 'teleport' people to several locations such as Hawaii and London.[51]	The trend of using VR in outdoor ads is still to gain acceptance in India.
Live Events: Live events, such as sports, is another sector that has started to imbibe VR technology	The National Basketball Association (NBA) used the VR technology in the basketball game between Golden State Warriors and New Orleans Pelicans in 2015.[52]	Meraki released a 360-degree concert film in December 2015 on musician Hardwell's performance in Mumbai to mark its debut as a VR content production start-up.[53 54] The AR technology was used during Prime Minister Narendra Modi's electoral campaign, where his holographic image was used to address audiences at more than 800 rallies in a number of remote areas in the country.[55]

43. Samsung Gear VR Headset Launched at Rs. 8,200 http://gadgets.ndtv.com/wearables/news/samsung-gear-vr-headset-launched-at-rs-8200-792541 dated 21 January 2016 accessed on 21 March 2016
44. Top 5 Indian Startups Dabbling in Virtual/Augmented reality http://www.gizmodo.in/indiamodo/Top-5Indian-Startups-Dabbling-in-Virtual/Augmented-Reality/articleshow/49768169.cms 14 November 2015 accessed on 21 March 2016
45. Virtual reality becoming real-ces http://indianexpress.com/article/technology/tech-news-technology/virtual-reality-finally-becoming-real-ces/ dated 20 January 2016 accessed on 21 March 2016
46. Sony already has over 30 project Morpheus VR games in the works http://www.engadget.com/2015/06/15/sony-project-morpheus/ 15 June 2015 accessed on dated 21 March 2016
47. http://fxschool.in/news-details.php?news_id=193 18 August 2015 accessed on 21 March 2016
48. 20th Century Fox first major Hollywood studio to release full length films on Oculus http://www.fastcompany.com/3051483/tech-forecast/20th-century-fox-first-major-hollywood-studio-to-release-full-length-films-on- dated 24 September 2015 accessed on 21 March 2016
49. Coke and mcdonalds are in virtual reality business. http://www.eater.com/2016/3/2/11145714/coca-cola-mcdonalds-virtual-reality-headsets 2 March 2016 accessed on dated 21 March 2016
50. Quikr officially announces 'Merger' of Common floor with QuikrHomes http://gadgets.ndtv.com/internet/news/quikr-merges-commonfloorcom-into-quikrhomes-786824 7 January 2016 accessed on dated 21 March 2016
51. 10 examples of virtual reality marketing in action http://www.cmo.com.au/article/577228/10-examples-virtual-reality-marketing-action/ dated 12 June 2015 accessed on 21 March 2016
52. NBA, Turner sports deliver first live game in virtual reality for fans http://www.nba.com/2015/news/10/27/virtual-reality-available-for-golden-state-warriors-new-orleans-pelicans-season-opener dated 27 October 2015 accessed on 21 March 2016
53. Startup from India enters Virtual Reality content market with a 360 degree concert film
54. http://vrperception.com/2016/01/05/startup-from-india-enters-virtual-reality-content-market-with-a-360-degree-concert-film 5 January 2016 accessed on 21 March 2016
55. Magic' Modi uses hologram to address dozens of rallies at once http://www.telegraph.co.uk/news/worldnews/asia/india/10803961/Magic-Modi-uses-hologram-to-address-dozens-of-rallies-at-once.html dated 2 May 2014 accessed on 21 March 2016

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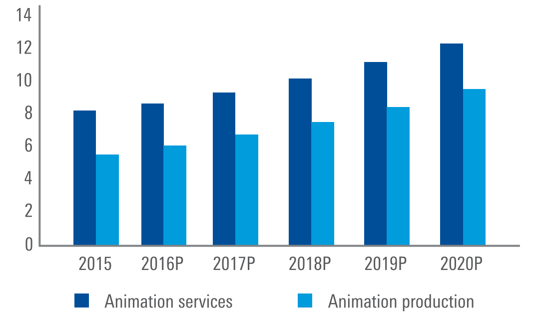
Compared to the VR/AR developments happening at the global level, India lies way behind and it would take a few years for the technologies to find a niche amongst the Indian audience and service providers. Currently, VR/AR applications are mostly biased toward games and while enthralling, immersive videos are only in the form of demos/promos. Companies are hesitant to devote finances in non-gaming VR due to lack of demand for such media. Therefore, VR/AR's immediate challenge is to move beyond the gaming domain and expand its reach in other forms of entertainment. To this end, VR/AR players are collaborating with media firms to increase alternatives for non-gamers and the future is likely to witness abundance of AR applications and VR content incorporating new forms of story-telling.

The road ahead

Industry size

INR billion



Source: KPMG in India analysis and discussion

Segments	2016P	2017P	2018P	2019P	2020P	CAGR % 2016-20
Animation services	8.8	9.5	10.4	11.4	12.5	8.6%
Animation production	6.0	6.5	7.0	7.6	8.4	8.4%
Total animation	**14.8**	**16.0**	**17.4**	**19.0**	**20.9**	**8.5%**

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With India bagging its first ever award at Annecy in 2015, the world's oldest, largest and most prestigious animation film festival, the animation industry is slowly recognising the potential that India has from a creative perspective. The animation industry faces a talent crunch, and trained and talented people are the need of the hour. With the changing mindset of the audience, animation has the potential to become one of the most sought-after mediums for entertainment and storytelling in India but this would need a strong push from the government in the form of incentives, and an evolved mindset and approach of the creators.

Indian animation on Indian TV has started to pick up. While audience craving has always been for good content irrespective of the medium (2D or 3D animation), many content creators had focused on 3D since it was perceived to be more 'modern'. That thinking has, thankfully, been replaced by them building up good content models of well written 2D animated content.

The deployment of some form of VFX on almost all content (film, TV, web) has led to a huge proliferating of that industry, which is offsetting the sluggish growth the animated content creation industry is showing, giving the AVGC industry as a whole good growth.

With travel times increasing and smartphones becoming cheaper, India continues to be one of the fulcrums of mobile gaming growth in the world.

Lack of an Indian globally merchandisable original IP/brand is the single largest problem that the animation industry faces. While investment in IP needs deep pockets and an appetite for risk, it seems to me that several current content creators in the market are working their way towards becoming that company which has the risk appetite and the deep pockets to give original IP the backing it deserves. We should see India's first globally-merchandisable original IP brand emerge within the next two to three years.

The central government's plans for setting up a Centre of Excellence for the AVGC industry is commendable, however just one such won't work. The country is starving for high quality, full-time career education in the AVGC sector, which not many are providing currently.

Chaitanya Chinchlikar

Vice President
Business Development Whistling Woods International

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Indian production houses must make bold, ambitious and passionate moves with a clear focus, never to settle for second best. In working with worldwide leaders and with notable clients, we need to be in sync with their workflows and piplelines and ensure a seamless execution in content production to achieve the goal.

VFX and animation are expensive content to create and hence must be done with an 'eye on the bottom line'.

The Indian media and entertainment industry has recorded unprecendented growth over the last two decades, making it one of the fastest growing industries in India. The need of the hour is to leverage this opportunity and work 'hand-in-hand' with the government and academia to ensure that standards and best practices are set and implemented to increase India's global share.

Jeemon P V

Managing Director
Epica Studio

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VFX and post production, a new dawn

Overview of the Indian VFX industry

The Indian VFX industry is transforming rapidly. With every passing year, the studios are maturing in terms of technology, techniques and output, aided by the experience from Hollywood outsourced work. Also, filmmakers today are beginning to accept VFX as an integral part of storytelling. Many movies and television series now have on-board VFX studios right from the pre-production stage itself and this trend is only going to increase. The use of VFX is not restricted to main stream Hindi films, in fact South Indian films are torch bearers in making VFX centric films. Importantly, many Indian VFX studios such as Prime Focus are taking centre stage globally, by acquiring Hollywood VFX studios and setting up facilities across the world.[56] Finally, the entire VFX eco-system is evolving, be it theatres, televisions, mobiles or viewing preference of the audiences, which has given the sector the much needed impetus.

Use of VFX in India

The year 2015 was a milestone year for VFX in India with the release of the first part of the long awaited SS Rajamouli's 'Baahubali – The Beginning' in which VFX was used in almost 90 per cent of the scenes.[57] Further, during the year many movies released where filmmakers successfully used VFX as an important tool for storytelling such as 'Bajirao Mastani', 'I', 'Hawaizaade', 'Detective Byomkesh Bakshi', 'Bombay Velvet' and 'Bajrangi Bhaijaan' to name a few. The use of VFX by these filmmakers was driven by variety of reasons - few to recreate an earlier era such as 'Detective Byomkesh Bakshi' to create Kolkatta of 1940s, 'Bombay Velvet' to Mumbai of 1970s and 'Bajirao Mastani' was a period drama and VFX was used to create palaces and war sequences, and others to reduce costs as it would be more convenient and economical for them to shoot in a studio in Mumbai and finish the balance work with use of CGI. VFX is making its presence felt in films of all genre be it action, comedy or romance and irrespective of scale, be it small, medium or big budget movies. Other regional films too are now using it effectively, for instance the Marathi film 'Mitwa' used total of 325 VFX shots by Verter Volt and this trend is expected to increase in future.[58]

56. Technicolor buys Mikros Image; strengths position in animation market http://www.indiantelevision.com/television/production-house/post-production/technicolor-buys-mikros-image-strengthens-position-in-animation-market-150408 dated 8 April 2015 and Prime Focus World and Double Negative Announce Merger http://www.primefocusworld.com/news/2014/6/26/prime-focus-world-and-double-negative-announce-merger dated 26 June 2014; Reliance Group and Prime Focus complete transaction http://www.primefocusworld.com/news/2015/4/8/reliance-group-and-prime-focus-complete-transaction dated 8 April 2015 accessed on 29 February 2016
57. 15 lesser known facts about Bahubali http://www.indiatvnews.com/entertainment/bollywood/15-lesser-known-facts-about-bahubali-22525.html dated 10 July 2015 accessed 1 March 2016.
58. Swapnil Joshi starrer 'Mitwaa' gets 350 VFX shots done by Vertex Volt http://www.animationxpress.com/index.php/latest-news/swapnil-joshi-starrer-mitwaa-gets-350-vfx-shots-done-by-vertex-volt dated 30 March 2015 accessed on 1 March 2016.

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Top 10 Bollywood grossers (domestic collection net) of 2015 and 2014 with number of VFX shots

2015 movies	Box office collection INR million[59]	VFX partner	Number of VFX shots (approx)	2014 movies	Box office collection INR million[59]	VFX partner	Number of VFX shots (approx)
Bajrangi Bhaijaan	3,203	Prime Focus[60]	500	PK	3395	Riva VFX[64]	700
Prem Ratan Dhan Paayo	2,074	Prime Focus[61]	1,200 plus	Kick	2330	Prime Focus[62]	1,000
Bajirao Mastani	1,750	NY VFXWAALA[65]	1,800 plus	Happy New Year	2,033	Red Chillies VFX[64]	2,000
Tanu weds Manu Returns	1,520	Prime Focus[62]	200 plus	Bang Bang	1,810	Prime Focus[62]	1,600
Dilwale	1,480	Red Chillies VFX[63]	1600	Singham Returns	1,410	Reliance Mediaworks[66]	2,500
ABCD 2	1,057	Riva VFX[64]	70	Holiday	1,127	Future Works[67]	750
Baby	955	Riva VFX[64]	900	Jai Ho	1,110	Prime Focus[62]	150 plus
Welcome Back	948	Prime Focus[62]	835	Ek Villain	1,055	Prime Focus[62]	200 plus
Singh is Bliing	902	Prime Focus[62]	620	2 States	1,040	Reliance Mediaworks[66]	250

I believe this trend is here to stay, and will continue in the coming years with films like Fan, Robot 2, Baahubali 2, among others that will enthrall the Indian as well as global audience; where VFX will play an integral role in the success and appreciation for such unique storylines . The VFX industry has come a long way since its initial days, where it was considered only to be a cost and time saving tool. Films like 'Ra.One', 'Robot', 'Krrish 3' and last year's 'Baahubali' have proved that a few filmmakers are breaking away from the traditional ways of telling stories and are becoming overtly dependent on the use of visual effects to bring unimaginable stories to life on the big screen.

Keitan Yadav

COO

Redchillies.vfx

59. http://www.koimoi.com/ accessed on 1 March 2016
60. http://www.primefocusindia.com/films/bajrangi-bhaijaan dated July 2015 accessed on 1 March 2016
61. How VFX will make Salman Khan's 'Prem Ratan Dhan Payo' larger than life http://indianexpress.com/article/entertainment/bollywood/exclusive-how-vfx-will-make-salman-khans-prem-ratan-dhan-payo-larger-than-life/ dated 6 November 2015 accessed on 1 March 2016
62. http://www.primefocusindia.com/films
63. http://www.redchillies.com/Default.aspx
64. www.animationexpress.com
65. Ajay Devgn kick starts NY VFXWAALA, a division of Ajay Devgn Films http://www.bollywoodhungama.com/news/16498330/Ajay-Devgn-kick-starts-NY-VFXWAALA-a-division-of-Ajay-Devgn-Films dated 6 October 2015 accessed on 1 March 2016
66. www.animationboss.com
67. Futureworks packs a punch with A.R. Murugadoss's 'Holiday' www.futureworks.in dated 18 June 2014.

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Globally, there are many movies which can be called as VFX centric films, in these movies significant portions are created digitally with the use of VFX technology, for example 'Avataar', 'Jurassic Park',' Iron man series, The Avengers series and among others. Internationally, Hollywood over the past five years has had at least five VFX films on the top 10 grossers list.[68] In 2014, it was 'Transformers: Age of Extinction', followed by 'The Hobbit: The Battle of the Five Armies', 'Captain America: The Winter Solider', 'The Hunger Games','Mockingjay - Part 1', 'Maleficent' and 'Guardians of the Galaxy'.[69] This year, 'Star wars: The Force Awakens', 'Jurassic World' has been at the top of the heap, followed by 'Furious 7', 'Avengers: Age of Ultron' and 'The Hunger Games:Mockingjay - Part 2'.[69] The box office collection for these movies in India has been good too.[68]

In India, few of the first efforts towards VFX centric movies were made by South Indian movies such 'Arundhati' and 'Magadheera' in 2009 though the scale was smaller. 'Enthiran' was a breakthrough film in terms of use of VFX in Indian films which was followed by, 'Ra one', 'Eega', and 'Krishh 3'. The 2015 release 'Baahubali – The Beginning' surpassed the achievement of these movies in terms of VFX shots, expenditure on VFX, scale of production and box office performance.[70]

68. KPMG in India analysis and discussion
69. Industry discussions conducted by KPMG in India
70. Will Baahubali's Success Spur More Desi VFX Clicks? http://www.outlookbusiness.com/enterprise/trend/will-baahubalis-success-spur-more-desi-vfx-clicks-1969 dated 29 September 2015 accessed on 4 March 2016

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Baahubali - The Beginning - Case study on a VFX success story

Background

S S Rajamouli directed 'Baahubali – The Beginning', the first of the two parts released in 2015. The movie was simultaneously made in Telugu and Tamil and dubbed into Malayalam and Hindi.[73] The film, a period drama set in a fictional kingdom on Mahishmati, was announced in 2011 and the actual production started in July 2013.[73]

Production and collaboration

- India's most expensive movie with total budget of INR3,000 million (for both parts) with VFX budget amounting to INR850 million i.e. 28 per cent of total budget allocated to VFX. The films had more than 90 per cent of scenes requiring CGI work with 4,500 to 5,000 VFX shots.[71]
- In a first of its kind collaboration, 17 VFX companies and 600 VFX artists worked on the project over a period of two years. VFX studios and artists from Hyderabad, Malaysia, America collaborated to work on the film.[72]
- The films' VFX work was supervised by V. Srinivas Mohan, with Makuta VFX, Hyderabad chosen as the principal visual effects studio and was responsible for more than 50 per cent VFX work in the film which includes waterfall scenes, mountains and huge landscapes including the kingdom of Mahishmati.[72]
- Firefly Creative Studio, Hyderabad, worked primarily on the avalanche and the epic war sequences and under-water VFX shots. Tau Films from Malaysia was responsible for creating the bison entirely on CGI whereas Prasad EFX from Hyderabad was responsible for some shots in pre and post battle episodes involving digital multiplication and creating a 3D image for some characters.[73]
- Srushti VFX from Hyderabad was involved in digitally creating some of the shots in war sequence along with Firefly studios.[73]
- Annapurna Studios, Hyderabad was chosen as digital intermediate partner for the film, which is responsible for generating the digital feed with the best colour and audio for editing. For the first time in Indian movies, Academy Color Encoding System workflows were implemented along with Infinitely Scalable Information Storage keeping in mind the mammoth scale of digitally enhanced shots in the film.[73]
- 70 to 80 per cent of VFX work for the film was performed locally from Hyderabad.[72]
- Bollywood filmmaker Karan Johar's Dharma Films collaborated with SS Rajamouli to present 'Baahubali' in Hindi. Transcending regional boundaries, Baahubali is the first regional film that had a pan-India appeal. This is the first time that a movie received partnerships from across states.

Key considerations behind the success of the movie

- The VFX and CG of the film were a visual treat to the audience and there was effective use of available technology to build and deliver products. This film was much dependent on VFX and computer graphics.[72]
- The sketches of the world of Mahishmati were lively and believable and the art brought to life the kingdom that was grand and huge. The design of armory and war machines was of high quality.[73]
- The action sequences throughout the film were well choreographed which left the audience awestruck especially the fight shot in snow and the 20 minute war sequence. The war strategy in the film is based on the Trishul Vyuh, inspired from Mahabharata.[73]
- Baahubali proved that a universal story will be received well by audiences belonging to any place or language. Baahubali became a huge success in Hindi, Tamil and Malayalam languages, but its Telugu version reached greatest heights and set new records in both the Telugu speaking states and in the U.S..[73]

71. Will Baahubhali's success spur more desi vfx http://www.outlookbusiness.com/enterprise/trend/will-baahubalis-success-spur-more-desi-vfx-clicks-1969 dated 29 September 2015 accessed on 4 March 2016
72. This little-known Hyderabadi studio made Baahubali a visual spectacle. http://qz.com/454478/this-little-known-hyderabadi-studio-made-baahubali-a-visual-spectacle/ dated 16 July 2015 accessed on 4 March 2016
73. KPMG in India analysis

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VFX – Beyond movies

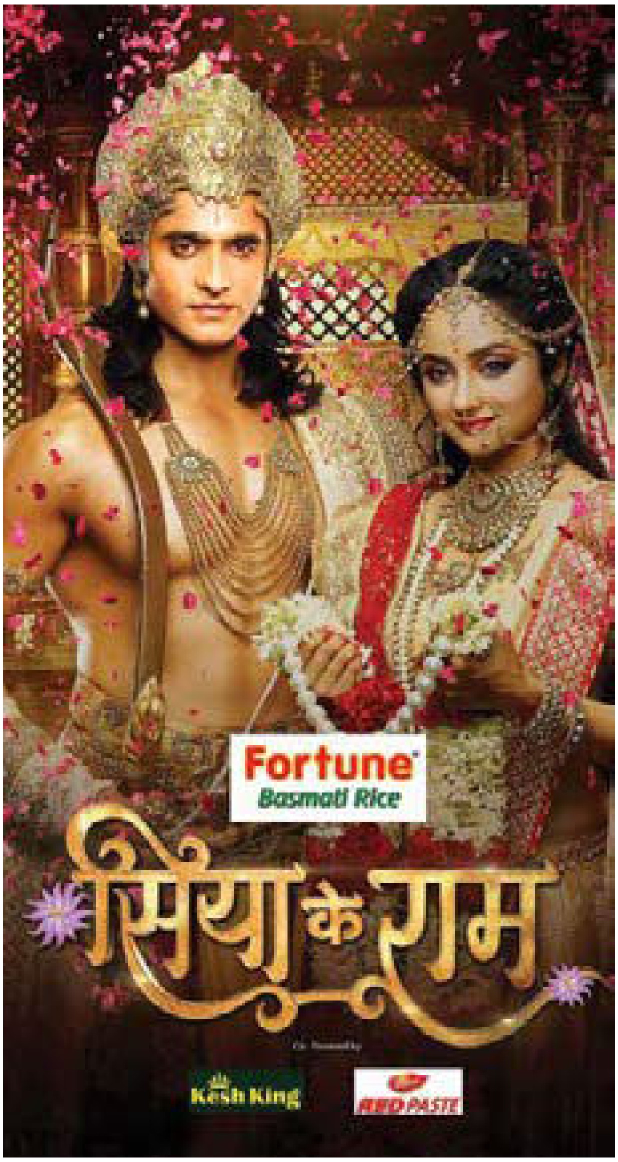
Recently, many primetime television shows across channels are increasingly using visual effects to add new dimension to overall viewing experience of the audiences. VFX was traditionally, due to its cost benefit, considered more suitable for films but has gradually made its way into lives of the TV audience. Star Plus, Zee TV, Sony, &TV, Life OK and SAB have launched more shows that require the proficient use of VFX for adding better quality to viewing experience. In 2015, few shows that successfully used this technology include 'Chakravartin Ashoka Samrat', showing journey of Emperor Ashoka., 'Maharakshak Devi', 26 episode series show requiring about 250 VFX shots which include chroma shots, 3D modeling, 2D animation and matte paintings. Other shows that use VFX are Star Plus's 'Siya Ke Ram', Colors's 'Naagin' and a more recently launched show 'Janbaaz Sindbad'.

Advertising agencies have also begun to invest heavily in creating videos and other forms of interactive messaging with the use of not only visual effects, but also exploring newer technology like virtual reality and augmented reality. The past year has certainly set some benchmarks in terms of use of VFX across media formats and it is believed that the coming years will definitely witness a lot more experimental techniques being used to deliver stronger stories.

VFX work outsourced to India

Indian outsourcing sector is growing as Indian studios are moving up the value chain from performing low end work to high quality work for foreign films. India is the preferred choice as an outsourcing hub due to the cost arbitrage, availability of talent and good communication skills. Digital media has contributed to the growth spurt in the VFX industry. Because of these factors, outsourcing projects to India is going to increase in numbers.

The year 2015 saw quite a bit of quality outsourcing work done by Indian studios. 'Chronicles of the Ghostly Tribe', a Chinese action adventure film, was managed by Prime Focus Worlds's Beijing facility, and the work was completed by Prime Focus World's Mumbai VFX team.[74] Since its release, the movie has been garnering many favourable reviews for its VFX work, which has been described as 'establishing a new benchmark for VFX work in the Chinese film industry and leading Chinese films into a new era of VFX.[74] 'Mortdecai', a film based on the series of books by Kyril Bonfiglioli had a lot of invisible VFX work that the audiences did not recognise as visual effects and 105 VFX shots provided by the Vancouver and Mumbai teams.[75] One of the studios working on the VFX of the show 'Game of Thrones' was the Indian subsidiary of the Los Angeles based Prana Studios, responsible for bringing the mighty dragons to life in the show.[76] Moving Picture Company, better known as MPC, did most of the major visual effects work on X-Men Apocalypse out of its facility in Bengaluru.[77]



74. Chronicles of the Ghostly Tribe http://www.primefocusworld.com/chronicles-of-the-ghostly-tribe/ accessed on 1 March 2016
75. Mortdecai http://www.primefocusworld.com/mortdecai/ accessed on 1 March 2016
76. 'Game of Thrones' wins record breaking 12 Emmys including VFX and Sound http://www.animationxpress.com/index.php/latest-news/game-of-thrones-wins-record-breaking-12-emmys-including-vfx-and-sound dated 22 September 2015 accessed on 1 March 2016
77. 'X-Men: Apocalypse' goes on floors 27 April; to release 27 May, 2016 http://www.animationxpress.com/index.php/latest-news/x-men-apocalypse-goes-on-floors-27-april-to-release-27-may-2016 dated 23 April 2015 accessed on 1 March 2016

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Unlike the manufacturing sector, creative sector does not have a prototype which can forecast quality with 100 per cent certainty each time. Attaining the required quality could be like a walk through a maze. Each artist can take a different route to achieve similar quality. Ensuring quality consistency and yet deliver in the same time, is another logic which the business has to constantly innovate and experiment. The managers behind the scenes play a vital role in providing creative but logical solutions to identify the best approach to navigate through this maze of subjectivity. Being in the outsourcing business, it can be yet another vital component to be on the forefront and successful.

It was obivious that the low manpower cost was the primary attraction for the global partners to raise curtains for the Indian studios initially, but their prerequiste was always high quality deliverance. The challange for the Indian Delivery Managers, behind the scenes, were to balance between Quality and Cost. This fundamantal metric is crucial to sustain in the outsourcing industry. A long-term perspective for business growth was to further solve the trignometry of Cost, Quality and Delivery timeline.

Initially, India experienced a roller coaster ride, but today it has established itself as one of the premier partners in the global AVGCS segment. The success story of India in the outsourced vertical has advanced to considerable heights. This in turn has motivated the global partners to establish their operations with India as its key insource partner. The persistent efforts of Indian stake holders have paid off in converting an outsource business model into a much more robust insource model. This transition from being an outsource to insource partner have strengthened the credibility, quality and security of the industry stakeholders on the global diaspora. This indeed is in line with the vision of Indian government, 'Make in India'

Prafull Gade

Managing Director
Deluxe India

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Key trends[78]

Increasing presence of VFX in all M&E segments[78]

The year saw increasing use of VFX in all M&E segments, i.e films, television and advertisements. Some Oscar nominated movies had the VFX work done in India and with Baahubali, VFX is now taken seriously not just in movies but also in the television space with shows like 'Siya ke Ram', 'Naagin' and Mahabharata. With genres such as supernatural and mythology being received fairly well, the industry is introducing the audience to good quality VFX. Additionally in the web space, new age companies like Housing.com, 99acres.com etc. are using 3D technology to sell/rent homes on the internet.[79]

Increased use of 'live action' in VFX[78]

VFX players are now increasingly engaged in creating live action imagery by using computer-generated effects of what would have been handled by traditional animation. In 2014, 'Maleficent' using live action was a success and in 2015, 'Cinderella', 'Avengers:Age of Ultron' and the sci-fi Jupiter 'Ascending' too successfully used live action.[80]

Growing presence of Indian studios in international markets[78]

The growing presence of Indian studios in international markets has caused them to capitalise on synergies across their various offices, locations, talents and projects. Reliance MediaWorks, Prime Focus, Tata Elxsi, and Pixion are some of the Indian studios that have established their footprint in the overseas markets.[78] Captive centres in India have moved up the value chain to become Centres of Excellence (COE) in specific areas for many animation and VFX companies. Global acceptance of Indian talent is encouraging and has steered in a new era where there is increased collaboration with international production houses.[79]

From VFX to VRX[78]

With the VFX industry gaining importance, VR is also seeing an upward trend. How Virtual Reality Effects (VRX) will change the media and entertainment world will depend on how quickly people are trained on the subject. Everyone currently working on VRX has trained themselves on the tools in the last twelve months or so. This has big implications for next generation talent, and is the inevitable evolution of visual effects.

Digital dawn[78]

Media consumption across the globe is increasingly taking place in digital formats. Increasing internet penetration and access speeds, a plethora of devices that support content consumption, and the rise of digital media players are driving the on-demand digital content industry. With multiple content consumption choices, consumers are shifting from content ownership to having always-on access to a vast library of digital entertainment on their own terms. The supply side ecosystem has to keep up.

Key challenges[78]

Incentives provided by foreign governments

The trend of Hollywood and other developed countries outsourcing VFX projects to low-cost ones has been significantly on the rise. This has adversely affected VFX artists in developed countries. To counter this situation, the governments of countries such as Canada are offering grants, labour tax credits and subsidies to domestic companies engaged in VFX work to help them retain artists as well as in their expansion efforts. These grants are to be used to create and retain over many jobs, and expand and enhance studios as centres of innovation.

Digital problems

The problems facing VFX companies are also digitally embedded. Digital visual effects, compared to traditional special effects, are also seen as being nearly infinitely flexible and thus able to be revised over and over again. If there are only two miniature models built for a practical explosion then to do a third take is clearly more cost and time. If the second revision of a digital explosion simulation is not right, it is almost always assumed it will be re-rendered or re-simulated until the correct creative output is agreed upon. The hard costs of equipment, electricity, staff costs, rent, and even depreciation are not seen in the same way as a crumbled miniature model on the sound stage floor.

Absence of back-end participation

Another important issue that may be hampering the financial success of VFX companies is the absence of back-end participation. Currently, there appears to be no revenue share model with the VFX companies. With VFX playing an increasingly important role in the making of a movie, a composite model akin to 'MG with share in overflows' used in film distribution could pave the way for increased use of quality VFX to enhance user experience.

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78. Industry discussion conducted by KPMG in India
79. M&E trends 2016 http://www.dailycadcam.com/me-trends-for-2016-alok-sharma-head-me-autodesk-india-and-saarc/ 19 January 2016 accessed on 4 March 2016
80. The 5 biggest VFX trends for 2015. http://www.creativebloq.com/3d/5-biggest-vfx-trends-2015-11513809 dated 7 January 2015 accessed on 4 March 2016

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As an industry, one of the biggest challenges we face is that it is often assumed by our clients that the initial bid will be the final bill. The initial bid is based on the script and a set of assumptions about the director's vision, and as we all know, things can change – sometimes radically – once the shoot begins. A bid for 300 VFX shots on a project can end up growing to as many as 1,000 shots or more. Our clients may be working with locked budgets, but we must be clear – if the requirement changes, then so must the cost. The alternative is that we are undervaluing the work that we are delivering – which is not good for the company, and more importantly, is not good for the industry as a whole

Merzin Tavaria

Co-founder and Chief Creative Director
Prime Focus

VFX is definitely picking up in India and is gaining a strong foothold. While we are still not doing the cream of the work currently going to Canada and the U.K., the quality of our work is increasing year on year. While our talent is not as experienced as the west and it will take us some time to bridge that gap but we have come a long way and are beginning to contribute in fairly significant ways globally.

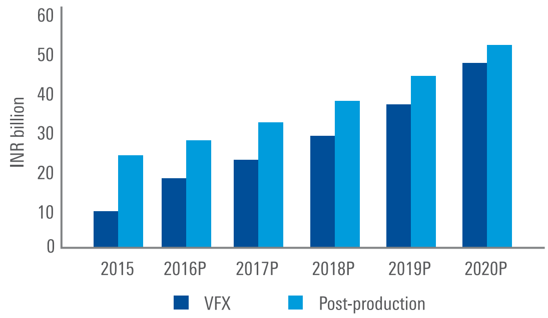
Krishna Murthy

CEO and Founder
Anibrain

The road ahead

Although not as popular as the VFX industry internationally, VFX Industry in India is gaining popularity. The global cultural exchange, cross fertilisation of talent and advancement of technology are the key contributing factors. With high-speed media net transfer capabilities; virtual worlds are being driven by technology that keeps getting better with a wider reach across the world. The movie making value chain has undergone a metamorphosis and it is indeed encouraging to see that mainstream Indian filmmakers plan their production schedules to accommodate the VFX component of the film. Going forward, the trend is expected to catch up even further and thereby become the standard operating procedure. That also shall pave the way for further integration of VFX within the script, which may eventually lead to creating a film like 'Gravity' out of India.

Industry size INR billion



Source: KPMG in India analysis and discussion

Segments	2016P	2017P	2018P	2019P	2020P	CAGR % 2016-20
VFX	18.0	22.5	28.4	35.8	45.1	25.6%
Post-production	25.5	28.6	32.3	36.5	42.0	13.0%
Total VFX and post production	**43.5**	**51.1**	**60.7**	**72.3**	**87.1**	**18.5%**

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Conclusion

The future of Indian animation and VFX industry is bright and it is just a matter of time before a new benchmark is set. While the industry will get a boost after the release of a few big films, the television space is also not to be underestimated. The mobile and internet gaming area although still not big enough, should also see accelerated growth in the next couple of years. It is expected that digital will drive growth, and innovation will be the key which will be driven by creative expression.

Opening a new frontier of wonder in immersive experiences for Asian artists and technologists

As the global media and entertainment sector continues to push the boundaries of creativity and engagement by creating more immersive experiences, artists and technologists in India and throughout Asia -- have an immense opportunity to participate in one of the most dramatic inflection points in the history of this industry.

Juniper Research has forecast that the virtual/augmented reality (VR/AR) market will hit USD150 billion by 2020. Other reports indicate that the global AR market, alone, will grow at a CAGR of about 80 per cent over the next five years, with Asia being the prime growth driver.

However, in order for these projections to be fulfilled, I believe that 2016 -17 will be a critical inflection point for VR. While there is a huge focus on getting the devices in place for a seamless experience, content will, as always, be the pivot point which will either make or break this new and exciting medium.

The concept of Virtual Reality has been prevalent for many years. In 1962, Morton Heilig, the 'father' of VR patented the 'Sensorama Simulator'. This "mini theatre" had a vibrating seat and a wind machine to 'blast' the viewer. Since then, the past few decades have seen efforts to bring VR to market falter.

This, however, appears to have changed when VR received a 'shot in the arm' in 2014 as Facebook bought Oculus Rift's head mounted display technology for USD2 billion. Zuckerberg called it "the next most important computing platform." In the aftermath of this acquisition, we have seen a flurry of activity in the VR and AR space as major brands -- including Samsung, Sony, HTC, Microsoft and beyond – have made major headlines with new display technologies.

On one hand, the attention that these big technological moves have received makes sense. The challenges associated with recreating reality in a digital format inside a headset are immense. It requires the industry to take technologies like 4K/ Ultra-High Definition (UHD), high dynamic range (HDR), wide colour gamut (WCG) and other image enhancing technologies to entirely new levels.

But the other side of the VR/AR coin is equally exciting, and challenging. Artists and storytellers will have to work hand-in-hand with scientists and technologists to reinvent how to engage and direct audiences in a three dimensional and multi-sensory environment that puts the consumer "inside" the experience. This is very different from developing content that is "in front" of audiences. While this presents great technical challenges, it also completely alters how content creators interact with consumers.

Here are a few examples of some groundbreaking work in this space:

The Martian VR experience:

Moving Picture Company (MPC) VR joined forces with Robert Stromberg, VRC, RSA and Fox Innovation Lab for The Martian VR Experience, executive produced by Ridley Scott.

Ushering in a brand-new era of immersive entertainment, 20th Century Fox, Fox Innovation Lab, RSA Films and The VR Company partnered with Samsung for an exclusive sneak peek of The Martian VR Experience. This thrilling preview allows one to fly onto the surface of Mars and experience key scenes from the adventure in a 360° virtual reality environment. The immersive adventure runs 15- 20 minutes, with viewers participating from astronaut Mark Watney's perspective, performing tasks that will facilitate his chances for survival and rescue.

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Goosebumps Virtual Reality Adventure:

Sony Pictures tapped a creative dream team to bring R.L. Stine's classic children's book series — Goosebumps, to the big screen.

Goosebumps the movie, a Halloween release, is a magical cinematic story featuring kids who try to save their town from R.L. Stine's monsters. MPC created a VR experience enabling moviegoers to put themselves inside an action-packed scene from the movie. And motion systems technology company D-Box provided the mechanical chairs for the VR experience designed for use with Samsung Gear VR headsets. The Goosebumps VR Adventure was featured in select theaters for four weeks.

A custom mobile app was also created for the experience, which runs on the Gear VR and works hand in hand with the D-Box seat technology.

These examples are just the tip of the iceberg of what's to come next. The immersive experience space will up the ante with new innovation in processing, transferring, communication, imaging, storage and display technologies. The future of VR will be amazing. Stand by for Magic Leap's 'Mixed Reality' - where light-field displays could eventually enable viewers to interact with both the real world and a virtual object projected on it. VR and AR are here today – embrace it!

Biren Ghose
Country head
Technicolor India

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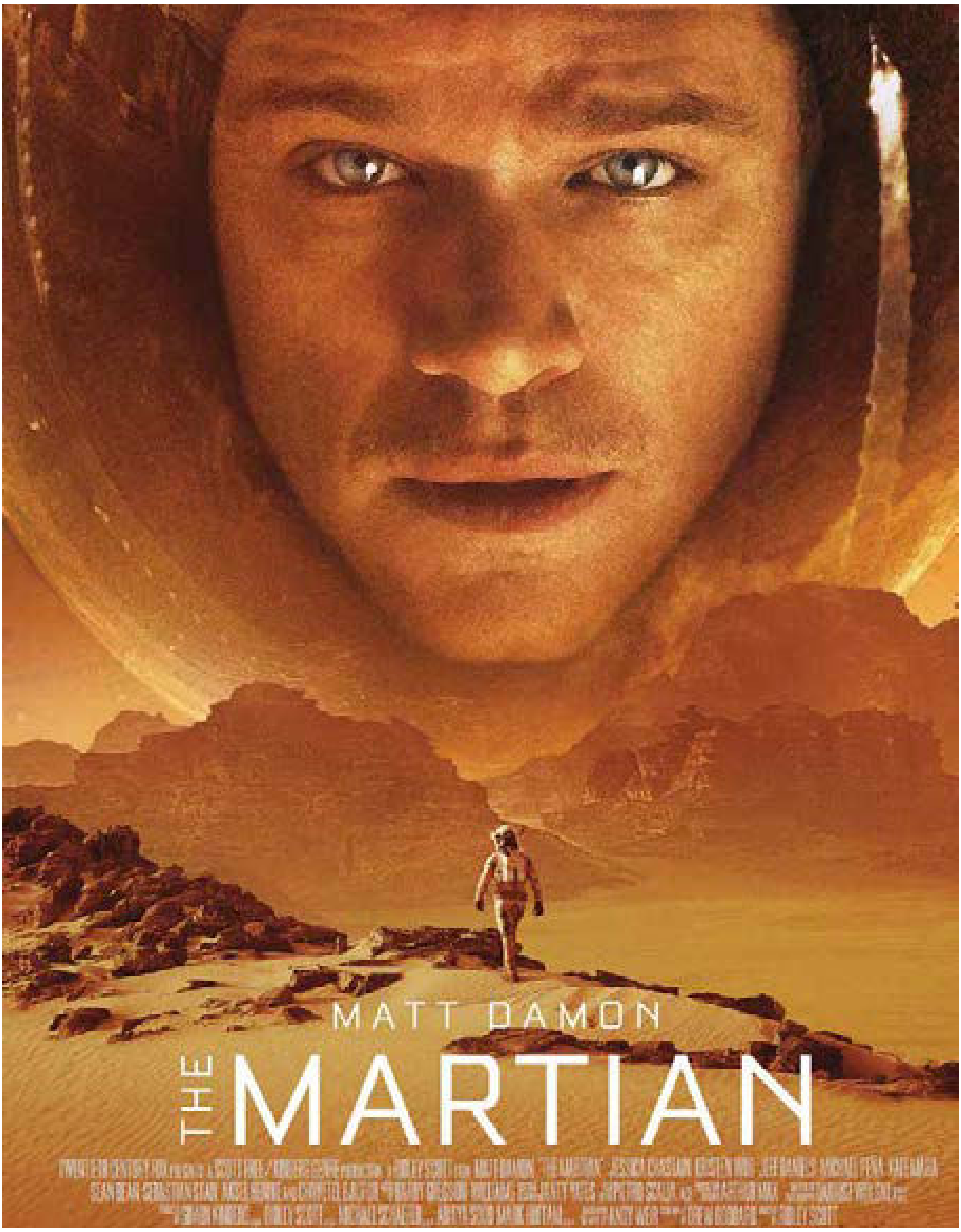

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Out of Home

Driven by transit

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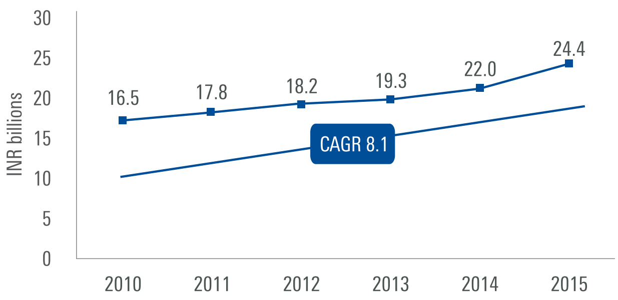
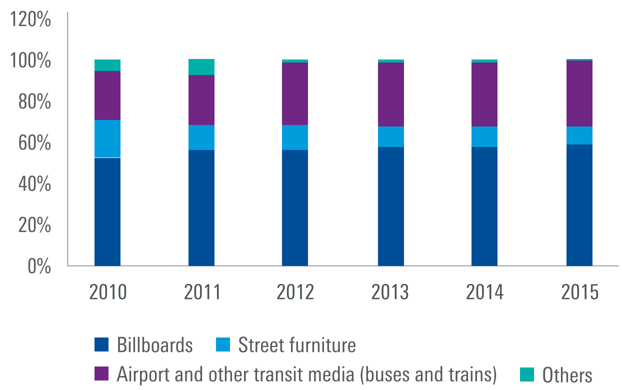
Outlook for the year

OOH industry size



Source: KPMG in India analysis and discussions

OOH format-wise revenue split 2015



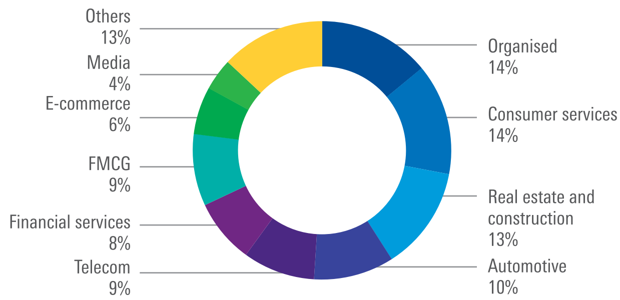
Source: KPMG in India analysis and discussions

In 2015, the Out Of Home (OOH) industry in India received a boost by a combination of factors including new categories spending on OOH media, E-Commerce and M-Commerce. The current year's growth of 13 per cent[1] was driven mainly by automobile, e-commerce and telecom sectors with the different formats benefitting. The overall spend on OOH out of the total advertising pie was 5.4 per cent which is higher as compared to the previous year[1].

Billboards continue to dominate the OOH landscape. Street furniture however has declined from 20 per cent five years back to about 5 per cent now[1]. The media formats that have emerged as clear 'growth formats' are ambient and transit. The new metro lines, malls, corporate parks and world-class airports have given a new boost to OOH advertising. It is no surprise that airports, transit and ambient together account for 37 per cent of revenue share and this segment is posting steady growth[1].

In terms of brands, Housing.com, Aakash Institute, Kalyan Jewellers, Bhima Jewellers, Tanishq and Malabar Gold from the jewelry category and Flipkart, Quikr from the E-Commerce category made it to the list of top ten spenders in OOH in 2015[2]. In 2014, Vodafone, Tanishq and Big Bazaar were listed in the top three positions for maximum space in OOH, they were replaced by Housing.com, Amazon and Flipkart in 2015[2]. Vodafone, OLX, Idea, Big Bazaar and SBI Home Loans which were in the top ten brands list in 2014 did not make to the list in 2015[2].

Sectorwise OOH split 2015



Source: KPMG in India analysis and discussions

01. KPMG in India analysis and discussions
02. These Brands have maximum OOH Spends and Space in India – 2015, http://www.allaboutoutdoor.com/news-detail.php?mid=4509, accessed on 18 March 2016

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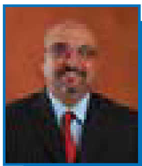
While retail, consumer services and real estate held strong, the growth story was scripted by advertisers from e-commerce, automobile and telecom. In terms of city-wise split, Mumbai was the major contributor to OOH revenues (22 per cent)[3] followed by Delhi (19 per cent)[1]. Bengaluru has replaced Kolkata in the third place as compared to the previous year with a contribution of 10 per cent[3]. With a growing impetus on e-commerce, the expected launch of automobiles throughout the year, and signs of a strengthening economy, leading to increased ad spends, 2016 is expected to see sustained growth for the sector.

As in the earlier years, challenges such as lack of a measurement metrics, fragmentation and slow adoption of technology (such as digital OOH) continued to be sore points for the industry. However, industry players are working with Indian Outdoor Advertising Association (IOAA) towards building an Audience Measurement System for Outdoor Media and if successful, could be a game changer. Also, digital OOH is slowly gaining momentum especially though transit media in metro cities.



"The time has come for all the stakeholders in our industry to set aside their personal agendas for some time and focus on the industry and a step in that direction has been taken by the signing of the MOU between Advertising Agencies Association of India (AAAI) and IOAA."

Soumitra Bhattacharyya

Chief Executive Officer

Madison Out of Home

What's trending: How technology is changing outdoor advertising

Technology is continously evolving and advancing and changing the way one does business. For years, the only real form of outdoor advertising was billboards. The images, placed alongside highways, made it possible to pass along a message in order to help draw attention to a particular product or service, but ultimately, it allowed individuals to receive the message only if they drove past the sign and if they actually paid attention to what it said. Technology has drastically changed the way one might treat outdoor advertising, and businesses are now looking at potentially purchasing advertisement space and what different types of options are available and how these can impact businesses. Some of the key technology trends in outdoor advertising are as follows:

Interactive advertising

Globally, interactive advertising is a fast evolving trend, its major differentiator as compared to traditional media is the ability to allow consumers to interact and select the relevant content of the advertisements as against traditional media that distributes mass messages. In case of an interactive advertisement customers interact with the medium which gives more time for the advertiser to communicate its message. For instance, a telecom company launching its new services can put an interactive billboard to give details regarding its new services, rates, data and voice plans, etc. and customers can filter the content based on their requirement. Interactivity in the outdoor sector is one of the latest developments which aims at putting the consumer at the centre of the campaign. The emergence of interactive outdoor advertising has witnessed the merging of experiential marketing with traditional posters, creating an impact by which this medium can be measured.

Despite its performance globally, in India interactive outdoor advertising is at a nascent stage, the use of interactive outdoor is limited to a few industries. Indian advertisers have not yet commenced using the concept of interactive outdoor advertising with real time content, there are few issues related to the use of interactive outdoor; mainly cost mixes i.e. interactive is a costly media and the OOH allocation of the overall advertising pie is usually too little to use interactive outdoor. However, there are few instances where interactive outdoor was successfully used in India for instance Colors for their reality series 'India's Got Talent' wherein people were able to interact with the billboard and anybody could call with their mobile phone and activate events on the billboard[4]. In India, although currently the use of interactive outdoor is relatively scarce but in the coming years with technological advancements and the rise of new industries, the use of this technology is only likely to increase.

03. KPMG in India analysis
04. 8 near-future trends set to change out-of-home advertising, http://www.digitalsignagetoday.com/articles/8-near-future-trends-set-to-change-out-of-home-advertising/dated 15 February 2016 accessed on 8 March 2016

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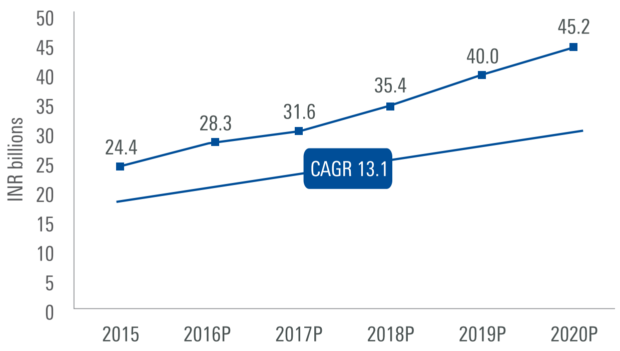
Precision targeting with data analytics

Over the past couple of years, broadband networks and low-cost flat-screen televisions have enabled static billboards to change into fluid displays that can be changed at low cost multiple times each day. The widespread adoption of smartphones has enabled the simple billboard to become a portal for direct communication between the advertiser and target audience. An advertisement can encourage the viewer to send a text message for more information; it can include a quick response code or a near field communications (NFC) chip that can be used to push down more information to the mobile device. Until recently, advertisers' options for choosing locations for their OOH advertising were limited, they would look at the location of the bus stop, train station or taxi stand and they would survey people at those locations to build a profile of the average passer-by. Now with innovative geo-location analytics tools, advertisers can choose the location and content of messages based on the near-real-time knowledge of consumer profiles and locations. Companies planning OOH advertising campaigns can now get accurate information on the number of people at any location, by the time of day or day of the week. They can also understand the age group, gender or demographic they belong to. By applying the science of data, there is the opportunity to achieve precise targeting with OOH advertising, resulting in potentially more effective campaigns and improved Return on Investment (ROI) on marketing budgets.

The road ahead

OOH industry size



Source: KPMG in India analysis and discussions

The road ahead for Indian OOH industry is stimulating, many factors are expected to drive growth for the sector. Firstly, development in infrastructure such as roads, railways, airports is likely to lead to the share of digital screens increasing manifold not only in metro cities but also in Tier II and Tier III cities; also reduced costs to produce LED screens is likely to give the segment a much needed impetus. The Airports Authority of India (AAI), has plans to functionalise almost 50 airports over the next 10 years.[5] The Government of India recently announced 100 cities which will be developed as smart cities over the next five years, out of those towns and cities, 24 are capital cities, another 24 are business and industrial centres, 18 are culture and tourism influenced areas, five are port cities and three are education and health care hubs.[6] The government also intends to take up road projects worth INR1,000,000 million a year and 1 per cent of it — INR10,000 million — will be spent on tree plantation along national highways.[7] All the above are expected to lead to an increase in OOH spending beyond what was projected in the previous year. Secondly, the sector is likely to see new developments in multi-targeting where OOH planning systems are integrating with data sources including mobile, online browsing and shopper purchase records. The advertisers can utilise OOH to target micro-specific segments on the move. For instance, election campaigns can tap into first-party polling and location data to target constituents in real-time. Thirdly, real-time OOH trading could make its first moves into India as OOH vendors integrate inventory into demand-side-platforms. Digital OOH's ability to target consumers on a real-time basis could lead to more robust use of the segment. Fourthly, with technological advancements, OOH is likely to become a more intelligent option as many brands would take advantage of the developments in internet-connected and interactive screens. This is likely to drive more customers and eventually advertisers towards it.

The above OOH predictions are based on advances in technology that continue to shape the industry and one can expect more intelligent, highly-targeted and measurable campaigns as the OOH medium evolves.

05. 50 new airports coming up in India in the next 10 yrs dated 5 November 2015, http://www.businessinsider.in/50-new-airports-coming-up-in-India-in-thenext-10-yrs/articleshow/49673619.cms accessed on 18 March 2016
06. Govt. announces list of first 20 smart cities under 'Smart Cities Mission' dated 30 January 2016 http://www.thehindu.com/news/national/list-of-first-20-smart-cities-under-smart-cities-mission/article8162775.ece accessed on 18 March 2016
07. Govt unveils policy to create green corridors along national highways dated 25 September 2015, http://www.thehindubusinessline.com/economy/logistics/govt-unveils-policy-to-create-green-corridors-along-national-highways/article7703187.ece accessed on 18 March 2016

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Regulations, Consolidation and Measurement will be the game changers! Government Regulations are critical to the growth of this industry. We are addressing this issue through IOAA to lay down a universal rule that brings uniform regulations to one and all under the roof. The OOH Industry has always suffered because of the fragmentation that exists in the industry. However, with larger players coming together under the unifying umbrella of IOAA, a lot of transparency will come into the industry. IOAA is also working towards building an Audience Measurement System for Outdoor Media. Industry players are working very closely with IOAA to deliver on these issues. AAAI and IOAA coming together will surely add focus on the regulations and create a culture of discipline and good practices going forward. 2016 in all aspects, be it Revenue Growth as predicted by Warc, or Uniformity and Regulations through IOAA, or the Infrastructure development and Government Support along with their Marketing spends on various initiatives seems to be a year to look forward to. The sector seems well placed for better year ahead.

Alok Jalan
Managing Director
Laqshya Media Group

Conclusion

With growing competition between the products and services, effective and efficient advertising seems to be the need of the hour and this need has resulted in new and innovative changes in OOH advertising media. Advancements in technology and the constant evolving advertising mix have created newer trends in outdoor media. Gradually, electronic LED Billboards, mobile displays, roll ups, vehicle wraps, skywalks, building wraps, flyover panels and interactive screens are changing the trends in Indian OOH advertising in a massive way.

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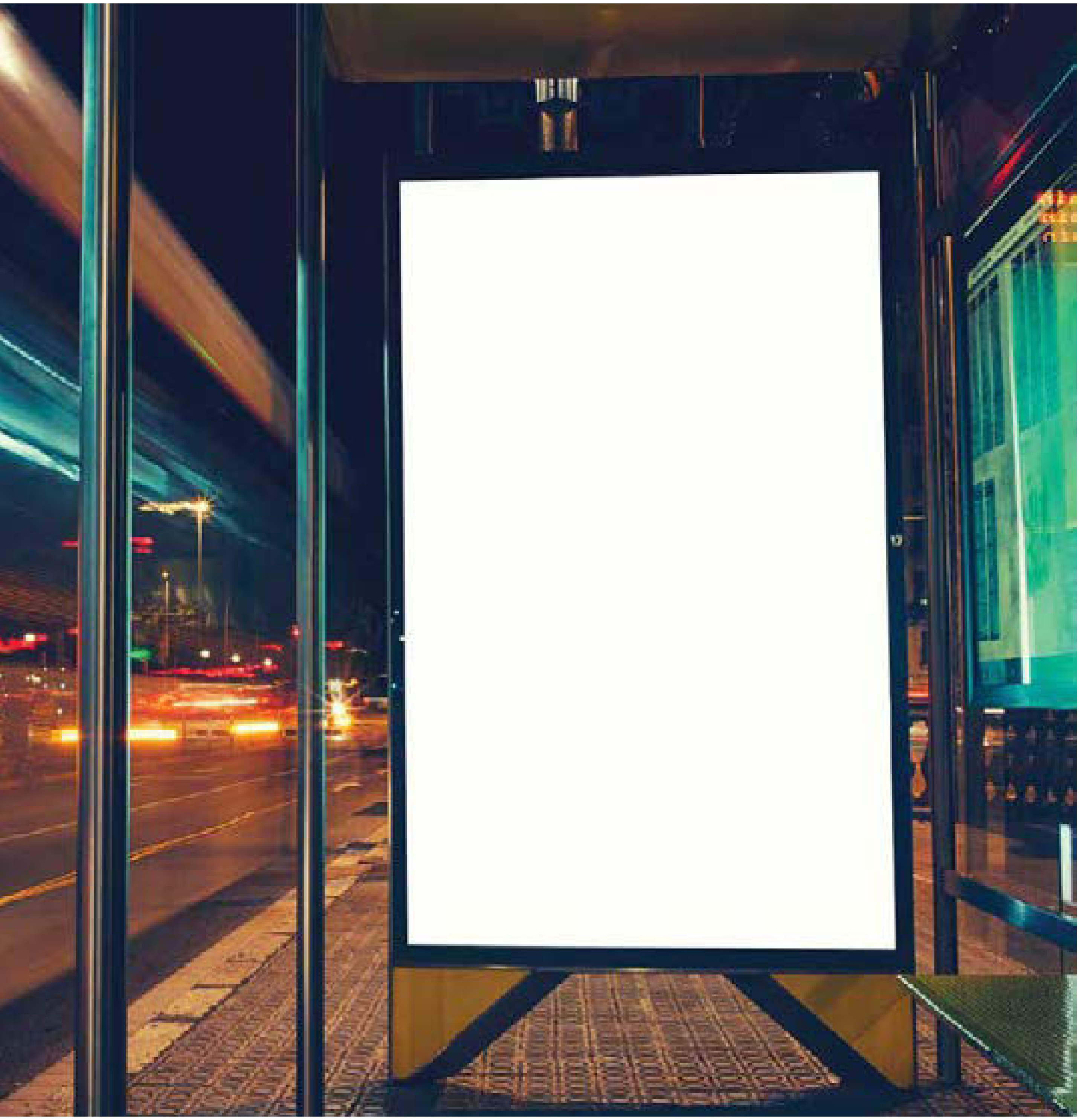

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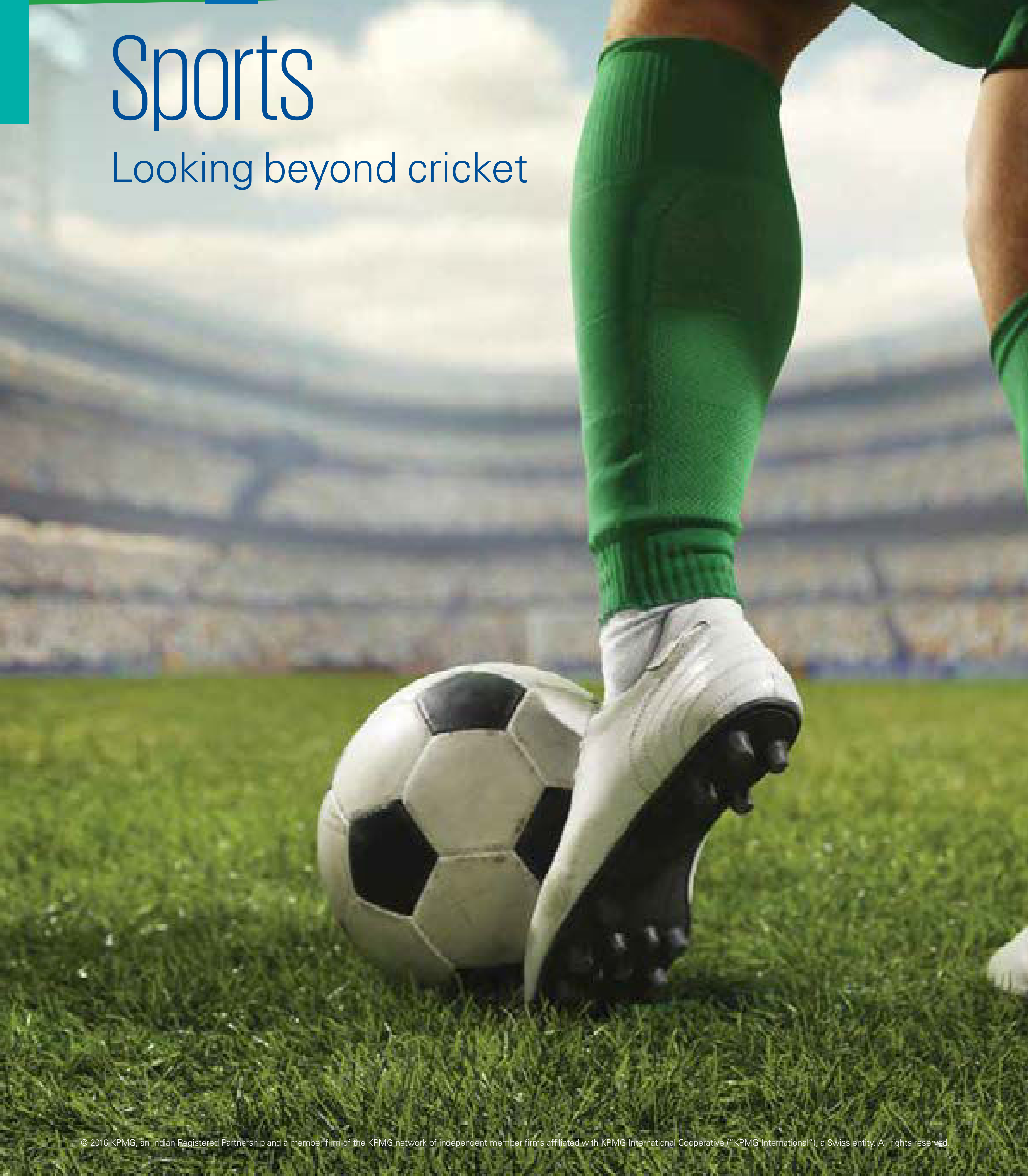
Sports

Looking beyond cricket



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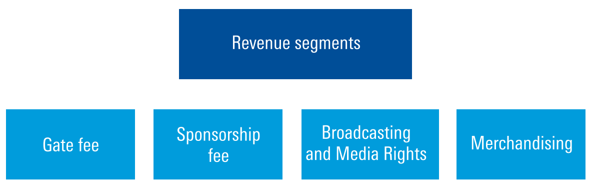
Overview of global sports industry

A combination of various factors over the past few years, such as improved economic scenario, rising pay, TV penetration, growth in TV advertising, ongoing migration of sports to paid channels and increasing proportion of middle class income group, have led to the growth of the sports sector worldwide. The global sports industry is estimated to be worth USD600-700 billion.[01] Growing at a CAGR of 6.5 per cent over five years, sporting events generated a revenue of USD80 billion (inclusive of media rights, sponsorship and gate revenues) in 2014.[02] North America is considered to be one of the largest markets for sports followed by Europe, the Middle East and Africa region, and the Asian market.

The global sports market receives a huge chunk of its revenue from four well-defined segments: (i) gate fee, (ii) sponsorship, (iii) broadcasting and media rights, and (iv) merchandising.

Key revenue segments for sports



Gate fee

Gate fee or ticket revenues was once considered to be the top revenue generator for the sports teams and leagues. Although still significant in many sports, revenue from merchandising (commercials) and broadcasting have now taken prominence. Several sports are also finding it hard to lure fans to a stadium. Many National Basketball Association (NBA) teams are now witnessing declining ticket sales even when the tickets are priced as low as USD1.[03] To circumvent this downward trend, teams are required to engage fans more fervently and understand their consumption habits in a better fashion.

Sponsorship

Sponsoring a team or an event has always been a hit formula for several companies. Now they are getting more innovative and finding sponsorship avenues. From stadiums, to kit branding to being an official car provider, newer avenues are being used leading to higher revenues. For example, the World Cup 2014 hosted by Brazil generated USD1.4 billion through various sponsorship deals with 20 major companies showing a 10 per cent increase from the World Cup 2010.[04] Looking at the pace of growth, it is estimated that the global revenues from sports sponsorship might reach USD45 billion by 2016.[05]

Broadcasting and media rights

The sale of broadcasting and media rights is one of the biggest source of revenue for most sports organisations these days. They generate the funds needed to finance major sporting events, refurbish sports infrastructure and contribute towards the development of sport at the grass-roots level.

Merchandise

The sale of merchandise is directly proportional to the engagement level of the sport with its fans. Manchester United Football Club, for example, did well to earn GBP31.6 million in 2015[06] from merchandising, apparel and licensing revenue. The increased demand for branded sports merchandise globally is primarily being driven by people shifting to healthier lifestyles, rising middle class and enhanced level of consumer engagement by various sports brands.

The India story

The ongoing decade has been a strong one for sports in India, with trends indicating sustained growth in the future as well. The symbiotic relationship between entertainment and sports that started with the Indian Premier League (IPL) has now spread over other sports with the Indian Super League (ISL, 429 million viewers), Indian Badminton League (IBL, 21 million viewers), Pro Kabaddi League (PKL, 435 million viewers), etc.[07] ISL has gained a lot of popularity globally and has emerged as the third biggest football league in the world by average stadium attendance (27,090 per game).[08] The growing popularity of these leagues clearly indicates that India might well be on its way from being a one-sport nation to multiple sports nation.

The sports sector witnessed a growth of 10 per cent from 2013 to 2015 — up from INR43,725 million to INR48,069 million.[09] On the contrary, cricket saw a dip in on-the-ground sponsorship numbers which fell from INR5,083 million to INR4,647 million.[09] The numbers clearly depict that though cricket continues to be a dominant sport, the rise of other new sports leagues is helping broaden the base of the industry.

01. 'Business of Sports', KPMG-CII Report, 2014
02. Winning in the Business of Sports, AT Kearney, 2014
03. Why many high-performing sports teams are losing money at the gate', Vision Critical, 'https://www.visioncritical.com/gate-revenue/', accessed on: 1 March 2016
04. 'FIFA to reap USD1.4 billion in sponsorship revenues from Brazil 2014', Portada,, 'http://www.portada-online.com/2014/01/27/fifa-to-reap-1-4-billion-in-sponsorship-revenues-from-brazil-2014/', accessed on: 1 March 2016
05. 'Global Sports Sponsorship Revenue Expected To Rise To USD45B In '16, Study Finds', Sports Business Daily, 22 April, 2015
06. Official website - Manchester United Football Club,'http://ir.manutd.com/company-information/business-model.aspx', accessed on: 1 March 2016* Fortune.com, 28 October 2015
07. 'Million-dollar games: How private enterprise is changing non-cricket sports in India', Forbes India, 16 March 2015 'Presentation: Sports Industry has grown by 10 per cent in 2015', Afaqs, 'http://www.afaqs.com/news/story/43904_
08. Worldfootball.net, 'http://www.worldfootball.net', accessed on: 1 March 2016; KPMG in India's analysis, 2016
09. 'Presentation: Sports Industry has grown by 10 per cent in 2015', Afaqs, 'http://www.afaqs.com/news/story/43904_Presentation-Sports-industry-has-grown-by-10-per-cent-in-2015' ,accessed on: 1 March 2016

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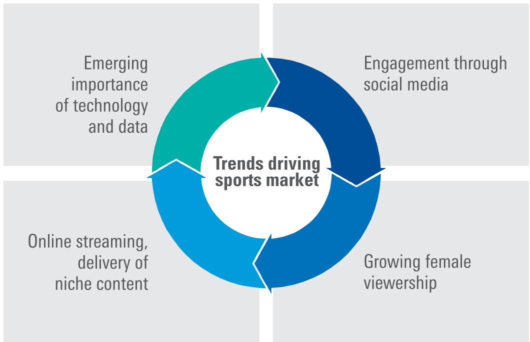
Trends driving the sports market worldwide

Major trends



Emerging importance of technology and data

With triggers like higher internet and mobile penetration in place, broadcasters and sponsors are looking for multiple ways to connect with fans across the digital screens ranging from TV to mobile phones to tablets. From installing a number of camera angles to using drones to plugging microphone to players' clothes, broadcasters are using innovative ways to make sports broadcast more immersive. It is equally true for sponsors who are reinventing ways to use digital technology. They are trying out different publicity methods based on data gathered by a fan's past and future habits. The emphasis is on leveraging technology for providing exclusive on-the-go and on-demand content to sports consumers.

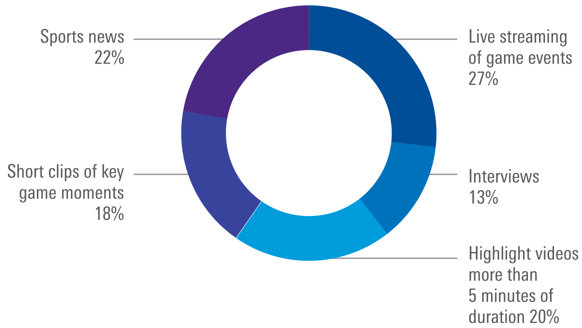
Engagement through social media

The explosive growth of social media has been pervasive. Like other industries, social media has acted as a game changer in the sports industry too. Social media is acting as a catalyst in harbouring the interest of fans globally. By engaging fans through social media, sports rights holders have discovered new communication channels with their audiences that help them increase the engagement levels. This also helps in increasing the brand affinity and loyalty.

Online streaming, delivery of niche content

Viewers these days prefer watching sports through live streaming, which gives them the flexibility of time and space. Among devoted sports enthusiasts globally, 45 per cent prefer online sports compared to 33 per cent who

Online consumption of sports content



Source: Know the fan: The Global Sports Media Consumption Report, 2014

prefer television content. Also, 52 per cent of fans make use of a tablet or smartphone to access sports content while watching television.[10]

In India, too, there has been an upsurge in the smartphone and internet usage statistics. This has provided consumers with an option to consume content on-the-go. They are accepting the time and space flexibility proposition that online media provides. Sports fans of today prefer a wide-ranging experience and a lot them watch other sports content, such as interviews, game highlights and live streaming of games. This is an encouraging sign for players interested in developing a digital ecosystem for sports consumption.

Growing female viewership

There has been an upsurge in the global female viewership. Female sports fan base has strengthened owing to a strong recent growth in the female viewership. For example, even at the National Football League (NFL), the female viewership has grown at a faster pace compared to the male viewership. The female viewership grew 26 per cent in 2014 compared to 18 per cent growth in male viewership.[11] Also it has been observed that female fans, apart from watching the game, follow it over second screens for game-related activities, majorly on social media. This trend is gaining traction and could be well capitalised by sponsors and broadcasters.

Sports viewership, in India, is no longer male dominated now, as females and kids are forming a significant portion of the viewership pie.

In the first season of ISL, about 57 per cent of the total viewership was contributed collectively by women and children.[12] For the second season of PKL, this statistic was in excess of 50 per cent.[13]

10. '10 stats to help you increase sports fan engagement', Scribble Live, 'http://www.scribblelive.com/blog/2014/02/19/10-stats-to-help-you-increase-sports-fan-engagement/',accessed on: 1 March 2016
11. 'The NFL Is Growing Only Because of Women', Bloomberg Business, 26 September 2014
12. 'Indian Super League viewership surpasses FIFA World Cup', The Economic Times, 31 December 2014
13. 'Pro Kabaddi League shows 45 per cent rise in TV viewership in second season', Firstpost, 'http://www.firstpost.com/sports/pro-kabaddi-league-shows-45- per cent-rise-tv-viewership-second-season-2374392.html' ,accessed on: 1 March 2016

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The trend clearly shows that broadcasters and sponsors have to tweak their strategies to cater to the increasing female viewership. A few advertisers and sponsors have already started capitalising on these trends. For instance, Zivame, an online lingerie store tied-up with U Mumba, a Pro-Kabaddi team, to support a cause outlining the need to safeguard the dignity of women.[14] It is expected that other female-oriented brands would follow suit.

The teams and sports associations are also cognisant of the fact and trying to woo female viewership and fandom. There are already parallel tournaments taking place for women in cricket and football. Several teams are also planning to have sports academies for women. Gauging by the market enthusiasm, this trend of women following and playing sports is here to stay.

Female viewership of prominent Indian leagues

Hockey India League
35% Females
15-24 years all SECs

Pro Kabaddi
38% Females
4-24 years SEC BCDE

Indian Premier League
35% Females
10-44 years all SECs

International Premier Tennis League
38% Females
15-24 years SEC BCDE

Indian Super League
38% Females
10-24 years across SECs

Source: 'India Sports Sponsorship Report', Group M-Sportz power, 2015

> Increase in engagement with females is crucial for sustainability of any sport. In the modern world families strive to be active, and be involved with a sport that all members in the family can relate to. Lot of teams today are trying to engage females not just as audience, but also as active players. Football leagues of the West have parallel competitions for females too. The same culture has to be brought to India. The ecosystem is gaining traction with Indian women teams performing well in Asian and International events. Once the female involvement reach similar levels, sports in India would not only become inclusive, but also financially more attractive in terms of investment.

Prashant Agarwal
President
Delhi Dynamos FC

Other India specific factors

Expanding middle class and increasing disposable income

The Indian middle class has been growing and is expected to increase to 41 per cent of the total population by 2025.[15] There has been a steady increase in the disposable income of the people leading to an increased appetite for sports consumption. There has also been an increase in the average share of recreational and educational activities in the annual household consumption, and is expected to increase from 5 per cent in 2005 to 9 per cent in 2025.[16] Hence, this is an opportune time for various industry stakeholders to capitalise on the opportunity and develop an ecosystem by improving the returns.

Growth in rural viewership numbers

Regional games packaged in interesting league formats have been successful to an extent in garnering rural viewership. As per the numbers reported by BARC (Broadcast Audience Research Council) India, rural contribution to the number of impressions was as high as 45 per cent in the sports genre.[17] The trend is consistent across new sporting leagues as well. For example, ISL season 2 garnered 47 per cent of its viewership from rural areas, with 210 out of 447 million TVTs (TV viewership in thousands) coming from the rural markets.[18]

14. 'U Mumba collaborates with Zivame to salute the "Dignity of Women"', This Week Bangalore, 'http://www.thisweekbangalore.com/u-mumba-collaborates-with-zivame-to-salute-the-dignity-of-women/', accessed on: 1 March 2016
15. 'Rise of the Indian Middle Class', MapsofIndia, 'http://www.mapsofindia.com/my-india/india/rise-of-the-indian-middle-class' ,accessed on: 1 March 2016
16. '10 stats to help you increase sports fan engagement', Scribble Live, 'http://www.scribblelive.com/blog/2014/02/19/10-stats-to-help-you-increase-sports-fan-engagement/',accessed on: 1 March 2016
17. All India BARC Data for Week 41, 2015 to Week 7, 2016
18. Three most promising greenshoot sporting leagues in India', The Economic Times, 19 December 2015

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High levels of interest in rural areas is indicative of the latent potential in rural sports offering. With Star India placing its hope on kabaddi and Sony Pictures Network (SPN) on wrestling, the broadcasters too are vying to woo the rural viewership. The interesting part here is that they are trying to present these predominantly rural sports with an urban packaging, and have seen significant traction.

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Online streaming, delivery of niche content

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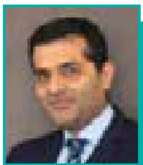


"Rurban sports are being seen as the game changers. There is a lot of appetite for non-conventional and predominantly rural sports. Kabaddi for one has seen tremendous response and can end up being the second sport in India (after cricket). The rise of these traditional non-conventional sports has allowed regional brands to support teams from their region and reach a wider base using prime time bands on sports channels. These shifts in the ecosystem will bring about the much required widening of the sports vertical as a whole and ultimately help in the creation of sports infrastructure for multi disciplinary sports across the country in the times to come."

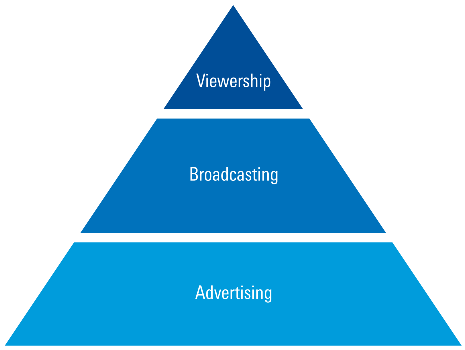
Karan Ahluwalia

Senior President & Country Head
Media & Entertainment, Fine Arts, Luxury & Sports Banking Group Yes Bank

Advertising, broadcasting and viewership

The three key metrics for sports

From an economic point of view, there are three key stakeholders who end up revving the cash engine for sports properties on TV — broadcasters, advertisers and viewers.



The following section examines how sports in India fares to each of these key metrics.

Advertising

Advertising spends in India is on the rise with increased interest in sports, such as kabaddi, football and hockey, apart from the most popular sport — cricket.[19] An array of specialised sports channels and other digital media have caught advertisers' fancy as avenues to connect with the viewers of these games.

New advertisers on the roll

During the seventh season of the IPL, sports advertising saw a new phase where lower-profile advertisers paid INR20 to 30 million[20] for being associated with a team by way of inscribing their logo on team uniforms and accessories. This is about one-tenth of the money spent by larger brands associated with IPL.

Apart from regular advertisers, such as confectionery brands, telecom companies and automotive companies, e-commerce companies have made a mark in the minds of IPL viewers. Until 2010-11, the top-10 e-commerce companies hardly spent INR1 million each on advertising, but now it has increased to INR250 to 750 million each.[21] Advertising by e-commerce companies across media is expected to grow 40 per cent.

19. 'India Sports Sponsorship Report', Group M-Sportzpower, 2015
20. 'Lesser-known brands step forward in IPL distress sale', Livemint, 24 February 2016
21. 'E-commerce boosting television revenues', Financial Chronicle, 26 August 2015

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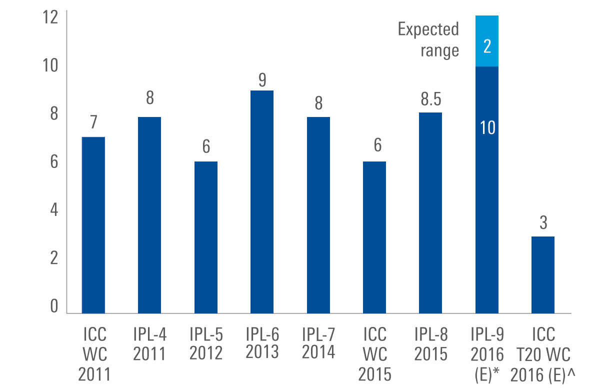
For the first time, a change toward new and lesser-known regional advertisers investing in ICC World Cup 2015 broadcast was seen, who were aiming to increase their visibility through their respective state's channels belonging to the Star India's bouquet. Regional advertisers contributed about 30 per cent[22] of its advertising revenues for the cricket event.

Cricket – continuing as a brand puller

Cricket continues to draw the interest of advertisers with marquee properties, such as IPL and World Cup, witnessing growth in ad rates and spurt in new sponsorships.

Sony Pictures Network sold 100 per cent of the on-air inventory[23] for the IPL season 8 even before the start of the tournament. The ad rates too were pretty high, in the range of INR500,000 to INR575,000 per 10 second spot in 2015[24] (with a year-on-year increase of about 10 to 15 per cent).

Ad revenues from ICC World Cup and IPL (in INR billion)

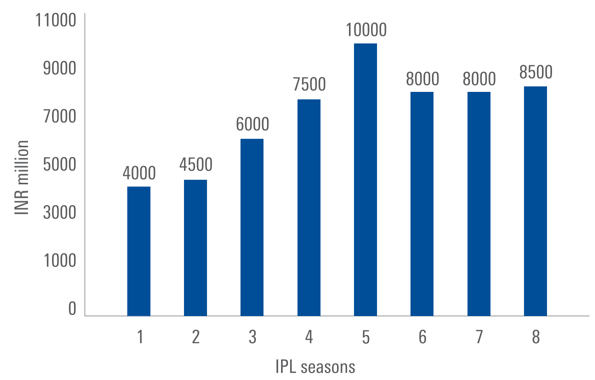


Source: 'IPL 2015 gets bigger and better', Financial Express, 21 April 2015, *KPMG in India discussion with Industry, ^ 'Star India eyes over Rs300 crore as ad revenue from World T20', Livemint, 14 March 2016

Several brands are aware that association with cricket provide them an unparalleled platform. To establish its presence in India and build a platform for visibility, Chinese mobile phone maker Vivo replaced a beverage company as the title sponsor of IPL for the next two years until 2017. As per media reports, BCCI's deal amount with Vivo is expected to be worth INR1 billion per year[25], a 25 per cent increase in the price paid by the earlier sponsor for its association with the tournament. The latter company had committed to pay INR3,968 million for being the title sponsor for IPL from 2013 to 2017[26], replacing the previous sponsor DLF that paid INR2,000 million to become title sponsors of the tournament from 2008 to 2012.[26]

High advertising revenue has been a key driver of profitability for the broadcasters as well as the sports associations. Sony Pictures Network (SPN) has seen its revenue from IPL increase from about INR4 billion in season 1 to over INR10 billion in future seasons. Even in 2016, the revenue from ad sales alone is more than INR10 billion with a year-on-year growth of approximately 17 per cent.[27] This has rubbed on to BCCI with the surplus generated from IPL reaching close to INR3.6 billion in season 6 itself.[28]

Revenue generated for SPN from IPL



Source: Media Buyer Estimates, BCCI Annual Reports 2008-2015

The India versus South Africa series attracted significant brand attention with more than 10 co-sponsors and associate sponsors. With a number of brands associated with this tournament, it is expected that ad revenues were INR2,500 million[29]. The co-sponsorship brands included Lava mobiles, Raymond, and Paytm, while the associate sponsors included Hero MotoCorp, OLX, Maruti Suzuki, Havells, Idea and Royal Stag among others. These brands were keen to be associated with this tournament despite high ad rate packages of about INR140 to 150 million for associate sponsorship.[29]

Star India expected a 60 per cent growth in revenue from ICC World Cup 2015 vs 2011[30], and witnessed many first-time advertisers, such as Marico, Yepme, Paytm and Raymond. Advertisers who bought inventory for the India-Pakistan match at the last moment paid INR2.5 to 3.5 million for a 10-second spot.[31]

22. 'World Cup: regional advertisers on front foot with low rates', The Hindu Business Line, 17 February 2015
23. 'IPL sells 100% inventory; adds 3 new sponsors', Exchangeformedia.com, 'http://www.exchange4media.com/ipl/ipl-sells-100-inventory;-adds-3-new-sponsors_59546.html' ,accessed on: 1 March 2016
24. 'Big ticket IPL remains big brand branding fiesta', The Financial Express, 8 December 2015
25. 'Vivo replaces Pepsi as IPL title sponsor, deal pegged at Rs 200 crore', Exchangeformedia.com, 'http://www.exchange4media.com/ipl/vivo-replaces-pepsi-as-ipl-title-sponsor-deal-pegged-at-rs-200-crore_62059.html', accessed on: 1 March 2016
26. 'Pepsi pay Rs 396.8 crore to be IPL title sponsors', First Post, 'http://www.firstpost.com/sports/ipl/pepsi-bid-rs-396-8-crores-to-be-ipl-title-sponsors-530517.html', accessed on: 1 March 2016
27. Industry discussion with KPMG in India
28. 'IPL teams may lose 40% of revenues if event partly shifted to South Africa', The Economic Time, 19 February 2014
29. 'Gandhi-Mandela series ad revenues expected to cross Rs.250 crore', Exchangeformedia.com, 'http://www.exchange4media.com/tv/gandhi-mandela-series-ad-revenues-expected-to-cross-rs.250-crore_61725.html', accessed on: 1 March 2016
30. 'Face off over Star Sports revenue: Sanjay Gupta vs Harsha Joshi', The Financial Express, 10 March 2015
31. 'India-Pak match ad rates estimated at Rs 25 lakh per spot: Is it viable for marketers?', Exchangeformedia.com, 'http://www.exchange4media.com/tv/india-pak-match-ad-rates-estimated-at-rs-25-lakh-per-spotis-it-viable-for-marketers_59096.html', accessed on: 1 March 2016

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Star India is expected to earn about INR3 billion in ad revenue from World T20 in March 2016. Sponsors — Flipkart, Oppo and Nissan — have shelled out INR250 million each for about 125 seconds of air time per match.[32]

Rising support for other sports

Corporates have always extended support to cricket in India, but in the last few years they have extended support to other sports too.

Hero MotoCorp has been associated with a range of sports, including golf, cricket, hockey and football, for over two decades now. With an annual sponsorship budget of INR1.25-1.5 billion, the company has showed its interest in tournaments such as —

- Hero World Challenge — a Tiger Woods Invitational and PGA sanctioned event, which features top-18 golfers in the world
- Hero Indian Open, an annual golf tournament
- Women's Indian Open since 2010; Hero also sponsors India's domestic Pro Tour for women.

Oxigen, the mobile wallet app, with an annual sponsorship budget of INR1 billion has sponsored a bilateral tournament for disabled cricketers from Sri Lanka and India.

Paytm is actively exploring opportunities in other sports and has allocated INR5 billion toward sports marketing over the next four years.

Videocon, too, became the title sponsor for the Hockey India League (HIL) team — Dabang Mumbai. With its annual sponsorship budget of INR300 million, the company wants to generate and garner popularity not just for the brand, but also for its DTH services.

The Steel Authority of India (SAIL) undertakes sponsorship of various major sporting events. SAIL has extended support/sponsorship for the Indian women's weightlifting team to participate at international events, the Indian Davis Cup team, Chennai Open (lawn tennis), All India Jaipal Singh Gold Hockey Tournament at Rourkela, AITF–SAIL (India-Pakistan) Lawn Tennis Championships, All India Tennis Association in New Delhi, Seventh World Korfball Championship, and Jawaharlal Nehru Hockey Tournament in New Delhi.

Increasing popularity of leagues — an opportunity for advertisers

As sponsorship of big sporting events has gained momentum, so has the advertisers' need for new platforms to associate with. With ownership of cricket as a platform becoming dearer, brands in India have developed a new fondness for other sports.

The 2015 season of Pro Kabaddi League saw associate sponsorship for INR50 to 70 million a year[33], unlike the first edition where there were no brand associations, and as a result Star India did not generate any advertising revenue. For season 3, PKL got eight brands on board as associate sponsors, which included VIP Frenchie, Bajaj Electricals, Thums Up, State Bank of India, Flipkart, Department of Atomic Energy (DAE) among others. According to media reports, in PKL 2, seven out of the nine sponsors were new advertisers. The first season managed to garner only limited attention of advertisers in the form of few brand associations at the team sponsorship level, such as Amul, Fevicol, Future Generali, Bajaj Electricals and Emami. This however changed in the next season and the brand associations have resulted in revenues for Star network to the tune of INR500 to 550 million.[34] Even though Star India monetised this property for the first time, its aggressive push helped enforce advertisers' confidence in PKL.

Indian Super League in its second season, too, witnessed a fair share of interest from advertisers. ISL 2 sponsorship revenues reportedly increased to INR1 billion in 2015, a 100 per cent increase from the INR500 million generated in the first edition held in 2014.[35] With title sponsor Hero MotoCorp, associate sponsors Maruti Suzuki and Flipkart, and other brand associations with Amul, Imperial Blue, The Muthoot group and DHL, ISL 2 saw some big players from varied sectors expressing interests in football.

Many industries today see the value of associating with sports. In a survey[36], it was found that a majority of companies in technology, consumer goods and services sector are advertising during sporting events, and are willing to do so in future as well.

32. 'Star India eyes over Rs300 crore as ad revenue from World T20', Livemint, 8 March 2016
33. 'Pro Kabaddi League season 2 to have 5-7 on-air sponsors', Business Standard, 25 June 2015
34. 'Pro Kabaddi League revenue estimated at Rs 50-55 crore in season2', Exchangeformedia.com, 'http://www.exchange4media.com/tv/pro-kabaddi-league-revenue-estimated-at-rs-50-55-crore-in-season-2_61399.html', accessed on: 1 March 2016
35. 'ISL season preview: Central sponsorship doubles to Rs 100 cr as 2015 promises better football, bigger battles', Firstpost, 'http://www.firstpost.com/sports/isl-season-preview-central-sponsorship-doubles-to-rs-100-cr-as-2015-promises-better-football-bigger-battles-2453216.html', accessed on: 1 March 2016
36. A Study on Sports Marketing Trends & Perceptions in India, SportzConsult, 2012

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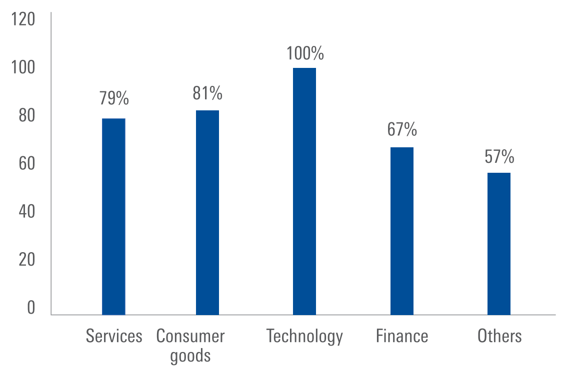
Percentage of industries willing to advertise during sporting events



Source: A Study on Sports Marketing Trends & Perceptions in India, SportzConsult, 2012

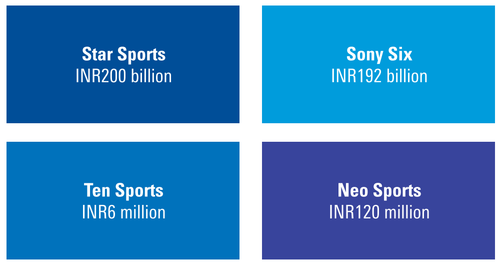
While brands with higher budgets prefer to advertise on cricket events, such as India-South Africa cricket series, those with tighter budgets are likely to look towards advertising on newer leagues — ISL and PKL. With increasing reach and the popularity of new leagues, this pattern is slowly fading and all kinds of advertisers have begun to advertise over a wide spectrum of sports properties.

Broadcasting

With 175 million TV households, India is the second largest market for broadcast media, second only to China.[37] The year 2015 saw the broadcasters taking advantage of this large viewership base to earn revenues, and sports channels building affinity through localisation.

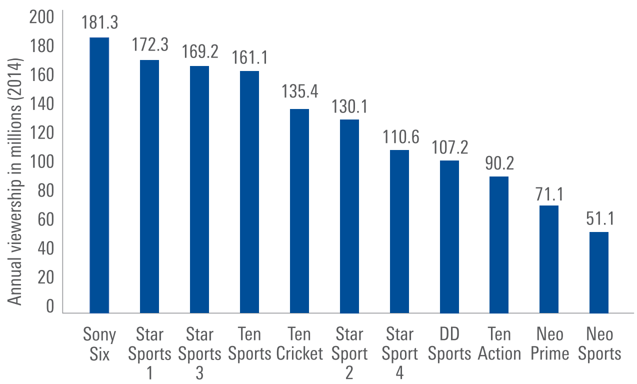
Sports is an imperative constituent of channel bouquet for a network to drive the subscription of other channels. Non-cricket sports help to increase live sport coverage all year round, which expands the sports viewing universe and helps advertisers in reaching out to new audiences. It is now apparent that broadcasters with a channel bouquet spread across genres are spending significantly on sports.

Approximate sports investment by broadcasters



Source: Analyst reports, Business of Sports: Aiming Higher Reaching Further! – FICCI Report, 2015

Popularity of prominent sports channels



Source: Sony-six-claims-to-be-the-most-viewed-sports-channel-of-2014, Television Post, www.televisionpost.com/television/sony-six-claims-to-be-the-most-viewed-sports-channel-of-2014 15 January 2015

Globally, subscription contributes more to sports revenue as compared to advertising revenues. However, the scenario is exactly opposite in India. Internationally, subscription is almost 90 per cent of revenues for sports channels and the rest 10 per cent comes from ad revenues. In India, it is almost 60 per cent from ads.[38]

The share of broadcast fees is also a key source of revenues for league franchisees. For instance, more than 50 per cent of an IPL team's revenue comes from the share of the broadcasting fees and (central) sponsorship income from BCCI. It is expected that this share may rise given the renewal of broadcast rights of the IPL in 2018, which could get them about USD3 billion[39] or even more.

37. Industry discussions with KPMG in India, KPMG in India's analysis 2016
38. Industry discussions with KPMG in India
39. 'Year 2018 could be a game-changer for IPL', The Times of India, 23 October 2015

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Star India: Eyeing the digital medium

To air IPL until 2017, SPN pays about INR7 to 8 billion a year and holds the exclusive broadcast rights for IPL. However, the digital rights for IPL for the years 2015, 2016 and 2017 are held by Star India for which it paid INR3,022 million[40], seizing the rights away from Sony, with a bid of INR2,850 million. Star India streams sports on StarSports.com and HotStar.com. The IPL digital rights procurement was a premeditated deal by Star to build Hotstar as a primary destination for digital content consumption.[41]

Star India has also acquired exclusive media rights (broadcast and digital rights) for cricket matches organised by BCCI from 2012 till 2018 for INR38.51 billion.[42] Star strengthened its position as the home of international cricket by acquiring Asia Cup rights until 2023 and extended its partnership with Hockey India by renewing the telecast rights deal until 2018.[43]

Glimpse of Star India's investment in cricket

Country/ board	Amount (INR billion) (at current rate)	Period	Total matches	India related matches
India	46.03	2012-18	233	233
England	12.27	2013-19	313	62
Australia	NA	2013-17	191	33
Champions League T-20	55.24	2008-17	NA	NA
ICC tournaments	67.51	2007-15	NA	NA

Source: 'Star TV banks on cricket for growth', Business Standard, 11 February 2015

With an initial investment of INR3 billion, including INR1.5 billion in the first season in 2014, Star India is estimated to have generated a revenue of about INR500 to 550 million from the popular PKL.[44] Star India is also the official and exclusive broadcaster of ISL.

Star Sports, the official broadcaster of ICC World Cup, introduced two new high-definition (HD) sports channels — Star Sports HD3 and HD4.[45] These channels also benefitted by packaging ad spots for highlights and India matches as stand-alone properties.

The glam quotient of international events

In 2015, broadcasters started getting increasingly involved in acquiring the telecast rights for major international events. The increasing interest of Indian audience in such events has led to this development.

SPN through Sony Six acquired the telecast rights to LaLiga, the premier division of the Spanish football league system, for a period of three years. It was the exclusive broadcaster for the NFL Super Bowl for the Indian viewers in 2015. Sony Six also acquired the exclusive telecast rights of the FA Cup and the Series A (prime football properties), across India, Pakistan, Sri Lanka, Bangladesh, Bhutan, Nepal and Maldives.[46] The channel has positioned itself as a premier destination for unparalleled football viewing experience.

Going local to expand horizons

Broadcast of major sports events in regional feeds has become the motto of leading broadcasters — SPN and Star. SPN launched a new sports channel Sony Kix that broadcasts the games in Tamil and Telugu feeds, while for the Bengali feed broadcast it chose the network's Bengali channel Sony Aath.[43] The idea is to cater to the regional viewers' demand. According to the channels, these feeds would help garner incremental increase in viewership.

ICC World cup 2015 was the first event to be telecasted in six languages including Tamil (Vijay TV), Kannada (Suvarna Plus), Malayalam (Asianet Movies) and Bengali (Star Jalsa) apart from Hindi and English. Pro Kabaddi League is being broadcast by Star in five languages over eight channels.[47] Its rival SPN enhanced broadcast production quality with regional language feeds for football. Such a move was beneficial for the regional advertisers too as it provided them a great opportunity to grab visibility with ad spots as low as INR50,000 to INR125,000 for a 10-second spot.[48]

Broadcast in multiple languages has also made it lucrative for regional players to venture into sponsorships. It gives them access to a national platform to expand reach and cognisance of their brand apart from reaching their core target consumers. Relatively regional brands, such as Anmol Biscuits and Red Chief Shoes, have hence come up as sponsors and have found relevance in supporting Kabaddi teams.

Collaborating to win

Sports networks are collaborating to launch co-branded localised multisport channels to provide coverage of various sports, such as cricket, football, tennis, badminton and field hockey.

40. 'Star India pays Rs 302.2 crores to clinch IPL digital media rights for three seasons', India.com, 'http://www.india.com/sports/indian-premier-league-star-india-pays-rs-302-2-crores-to-clinch-ipl-digital-media-rights-for-three-seasons-277656/', accessed on: 1 March 2016
41. 'India World Cup matches deliver a boost for Star's Hotstar app', Live mint, 21 April 2105
42. 'Star India wins BCCI media rights for 6 yrs', Business Standard, 2 April 2012
43. 'How sports broadcasters played the game in 2015' ,TelevisionPost.com, 'http://www.televisionpost.com/tvp-special/how-sports-broadcasters-played-the-game-in-2015/', accessed on: 1 March 2016
44. 'Pro Kabaddi League season 2 to have 5-7 on-air sponsors', Business Standard, 25 June 2015
45. 'STAR India gears up for ICC World Cup 2015', Business Standard, 29 January 2015
46. 'Sony Kix acquires telecast rights for La Liga in India', Sportskeeda, 'http://www.sportskeeda.com/football/sony-kix-telecast-rights-la-liga-india', accessed on: 1 March 2016
47. 'Going local', Stat TV Press Release, 'http://www.startv.com/PressReleaseDetails.aspx?pid=1460', accessed on: 1 March 2016
48. 'World Cup: regional advertisers on front foot with low rates', The Hindu Business Line, 17 February 2015

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SPN and ESPN have joined hands to launch co-branded TV channels with Sony Kix of SPN getting rebranded to Sony ESPN. Both broadcasters have also come up with a website and app, showcasing an amalgamation of technology integration and enhancement throughout sports. The alliance with ESPN would help Sony as the former is synonymous with sports programming and has a high brand recall. ESPN's portfolio of live and non-live contents would also come in handy for Sony.

Innovations around the traditional sports could help in making it more aspirational. The creation of digital platforms are required for sustained and deep engagement with real time analytics.

Telecast on traditional non-sports channels

Hindi movie channels are becoming the new destinations for sports properties. The trend of airing language feeds on Hindi movie channels gained traction in 2015. Ten Sports Network started airing WWE Raw and Smack Down in Hindi on movie channel Zee Cinema.[49] The objective was to expose an unsuspecting consumer to high adrenaline sports feeds. Sony Max, the Hindi movie channel of SPN has been home to the IPL for eight years. It also has the telecast rights for the Pro Wrestling League (PWL). This marked the channel's entry into non-cricket sports.[50]

Such channels have a track record for taking new properties to masses. They bank on the popularity of the sport and the fact that contact sports with an on-ground presence do well on Hindi movie channels. Set Max started its journey by getting exclusive cable and satellite rights for the live telecast of ICC Cricket Tournament that were held from 2002 to 2007.[51] For a movie channel to get rights for the cricket matches was unusual. As per industry sources, its bid of USD255 million was higher by at least USD100 million.[49] But the ploy seemed to have worked as even in the ICC Champions Trophy held before the World Cup 2003, the matches saw a 42 per cent increase in female viewership. Following this, Sony ended up making INR450 million in revenues.[52]

With audience interest increasing in sports other than cricket, the revenue potential is significant for broadcasters. Major broadcasters have realised this and making big bets on sports properties. For instance, Star plans to invest over USD5 billion for the next five years in sports events.[53]

For broadcasters, monetisation and return of investment for stakeholders, and the sustainability of the business models are now the impending issues.

Challenges

The scarcity of quality sports content, high cost of acquisition, high marketing cost and limited options of monetisation are some of the key challenges faced by the broadcasters.

- The scarcity of content and high acquisition costs: There seems to be a consistent scarcity of quality sports content. Since the stock of sports content is pre-determined and narrow, demand for this limited content leads to high cost of broadcasting rights. Content cannot be created as in GECs and supply could only be increased to a limited extent with new events. Hence, content cost for sports turns out to be more than 70 per cent of the total cost compared to 55 per cent for GECs. To top it, every renewal in four to five years, too, sees the rights amount go two to three times across all sports.[54] Star Sports, the official broadcaster of the ICC World Cup, faced challenges, such as scrambling to get advertisers on board for the tournament initially, since the cost of acquisition of sports content was considered significantly high.[55]
- High marketing costs: Considering its importance for new sports and leagues, marketing is positioned at a close second in terms of cost. This too ends up driving the cost of broadcasting a sports property.
- Limited monetisation options: Limited space to fit in an advertisement during the course of games, such as badminton, makes it difficult for the broadcasters to make money from the sport. The sport does not deliver convincing ratings for advertisers to leverage its popularity.

49. 'Star India wins BCCI media rights for 6 yrs', Business Standard, 2 April 2012
50. 'Sony Max enters the ring', Business Standard, 1 December 2015
51. 'How sports broadcasters played the game in 2015' ,TelevisionPost.com, 'http://www.televisionpost.com/tvp-special/how-sports-broadcasters-played-the-game-in-2015/', accessed on: 1 March 2016
52. 'Two is company, three isn't a crowd!', India Television, 'http://www.indiantelevision.com/ye2002/sportschannels.htm', accessed on: 1 March 2016
53. 'Player number 1', The Financial Express, 20 January 2015
54. Industry discussions with KPMG in India
55. 'With World Cup viewership worse than 2011 edition, Star misses Rs 850-crore ad target', The Economic Times, 6 April 2015

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The road ahead

Broadcasters could develop relatively lesser-known sports into blockbusters by using appropriate packaging. Although success is not always guaranteed, the returns could be significantly higher.

A multi-platform strategy with digital avatars of their broadcast properties is another step they have already taken. It is a strategy to build the brand as the number of people watching television content on digital platforms is increasing substantially.

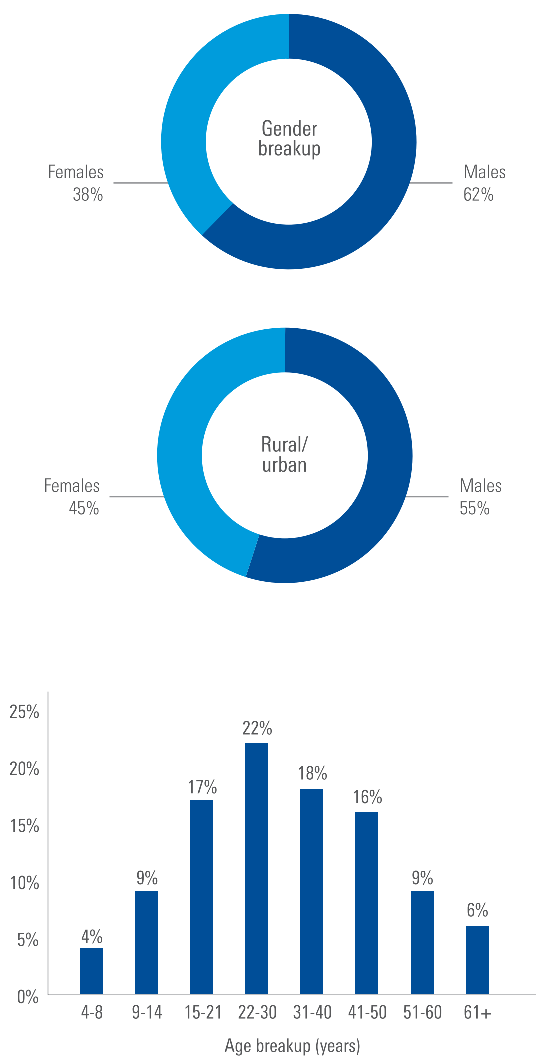
Even national broadcaster Doordarshan plans to air content in High Definition, and stream programmes live to smartphones. As feeds are available through the internet, regional channels, mobile applications, etc., there are various media available for the content to take centre stage.

The trend toward digital broadcasting delivery is here to stay and broadcasters need to continue striving for providing distinct sporting experiences to viewers, thereby expanding and strengthening their target audience.

Viewership

Over the last two years, sports viewership has witnessed a rise of 30 per cent.[56] As discussed earlier, this increase in viewership has been broad. The reach of sports has broken the barriers of age, gender and geography.

Segmenting the sports viewers in India, 2015



Source: BARC India, TG: All 4+, Market: All India; Copyright © 2016 Broadcast Audience Research Council India. All rights reserved. Reproduction of any matter published in this report, in part or whole, in any language or format, or derivative work, without the express written permission of BARC India is strictly prohibited and will be liable for legal action.

56. 'Sony looks for playing fields beyond IPL', Business Standard, 11 February 2016

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Cricket vs non-cricket viewership

The year 2015 started on a promising note with 635 million viewers until the semi-finals stage of the ICC World Cup. About 309 million Indians watched India's semi-final match on STAR[57], comparatively lower than anticipated, as the India-Sri Lanka final in 2011 had a reach of approximately 400 million.[57] The India-Pakistan match on the other hand garnered a viewership of 288 million on television with Hindi and regional feeds contributing about 77 per cent of the overall viewership.[58]

IPL 2015 was successful in grabbing the attention of the Indian audience, with an average 4.4 per cent of all TV viewers watching the first five matches against 3.1 per cent in the previous season. According to media reports the first half of the opening match of IPL between Kolkata Knight Riders (KKR) and Mumbai Indians (MI) aired on Sony Max reached 28.3 million viewers and the second half too was watched by 32.3 million viewers.[59] IPL 2015 recorded a 41 per cent increase in viewership compared to the previous edition. The last four matches, being the most popular and anticipated game of the whole event, was enjoyed by 105 million viewers, a 9 per cent increase over IPL 7, on Sony Max, Sony Six and Sony Aath.[59] As per a research, until 45 matches of the tournament, female viewership increased to an all-time high of 36 per cent.[60]

Demographically, the audience constituted of 26 per cent aged between 15 and 24, 38 per cent above 35 and 18 per cent each in 24-35 and 4-14 age groups.[61] The top-five states that watched IPL 8 were Gujarat, Madhya Pradesh, Maharashtra, West Bengal and Uttar Pradesh.[61]

Viewership for IPL 7 vs IPL 8

Viewership comparison	IPL 7	IPL8	% in rise in IPL 8
Avg. TV viewership %	3.2	4.1	30
Time spent per viewer/ match (mm:ss)	41:46	49:04	17
Reach (in million)	138	145	5
Avg. TV viewership (in '000s)	8,366	10,151	21

Source: 'IPL 8 viewership betters previous edition', Business Standard, 24 April 2015

The viewership of cricket has remained mostly unchanged given that it already has the highest audience penetration. Things could change with ICC World Twenty20 cricket championship, which could see a viewership in excess of 100 million.[62]

Growing viewership and popularity of other sports is slowly but steadily eating into screen-time for cricket. These sports have helped in extending live sports coverage to all year round, which attract advertisers targeting sports-viewing audience. Despite this development, the sponsorship and viewership numbers of cricket have remain unaffected. This is a good sign for the sports community in India and indicates the creation of a new category for other sports.

Apart from cricket, another sports gaining momentum in terms of viewership is wrestling, a sport fairly ingrained in India. The inaugural season of PWL outperformed the Hero ISL, Hero Hockey India League and the International Tennis Premier League (ITPL). PWL saw an average daily reach of 31 million according to data provided by BARC India.[63] The tournament appealed to the audiences in Himachal Pradesh, Chandigarh, Punjab and Haryana with significant on-ground presence, i.e., above 90 per cent occupancy in north India. Also, 90 per cent ratings on Sony Max was an outcome of strong viewership in the mentioned states.[59]

The shift towards tier-II cities

With multiple sporting and entertainment events competing for eyeballs in metros, different leagues have taken to smaller towns to strengthen their fan base. On the one hand, new leagues like Pro-Wrestling have teams from Ludhiana, seasoned leagues like IPL have toyed with the idea of teams in tier-II cities, such as Ranchi and Raipur, as a 'second home.' In 2015, IPL also introduced a concept called IPL Fan Park where stadium-like experience was provided to viewers by putting up huge screens on weekends in smaller stadiums across small cities of Nashik and Kanpur. The strategy has largely worked as it has allowed teams/leagues to expand their fan-base and have audience stickiness, given the lack of quality entertainment options in these cities. Going ahead, more teams across leagues could look beyond the top-six metro teams to increase viewership and enhance their fan base.

Hero ISL season 1 was the fourth most watched league in world football in terms of average attendance and broke into top-three in its season 2.[64]

Pro Kabaddi League achieved 56 per cent[65] increase in viewership over the previous season. In 2015, PKL garnered a viewership of 1.23 per cent of all TV viewers as against 0.79 per cent in the inaugural season in 2014.[65] Cumulative TV viewership of the first 12 games stood

57. 'ICC World Cup 2015 was watched by 635 million viewers in India', The Economic Times, 2 April 2015
58. 'ICC World Cup is biggest ever on Indian television', The Hindu, 2 April 2015
59. 'STAR India gears up for ICC World Cup 2015', Business Standard, 29 January 2015
60. 'IPL 8 Attracts 182M Viewers', Trak.in, 'http://trak.in/tags/business/2015/05/21/ipl-8-viewership-stats-top-advertisers/', accessed on: 1 March 2016
61. 'With World Cup viewership worse than 2011 edition, Star misses Rs 850-crore ad target', The Economic Times, 6 April 2015
62. 'Star India eyes over Rs300 crore as ad revenue from World T20', Livemint, 8 March 2016
63. 'Pro Wrestling League is season's 2nd most-watched non-cricket tournament', Business Standard, 1 February 2016
64. Worldfootball.net, 'http://www.worldfootball.net', accessed on: 1 March 2016; KPMG in India's analysis, 2016
65. 'Pro Kabaddi League ratings grow by 56% in season 2', Exchange4media, 'http://www.exchange4media.com/tv/pro-kabaddi-league-ratings-grow-by-56-in-season-2_61342.html', accessed on: 1 March 2016

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at 117 million. The percentage reach (percentage of people from the total television viewing universe who have watched the tournament for at least one minute) of the tournament has gone up by 13.73 per cent, from 3.86 in 2014 to 4.39 in 2015.[66] The average time spent per match per viewer has also increased by 22.6 per cent. Significant rise was also witnessed in online viewership of the league owing to streaming on Hotstar.

Viewership for Pro Kabaddi League 1 vs 2

Viewership comparison	PKL 1	PKL 2
Online viewers (distinct visitors)	700,000	26 million
TV viewership rating	0.91	1.33
Average time spent per viewer in mins	17.92	21.20
Percentage reach	3.85	4.56

Source: 'Pro-kabaddi-league-notches-more-scores', Business Standard, 5 September 2015

PKL 2015 showed that in a short span of time a cricket obsessed nation could turn its attention to a 'rurban' sport like Kabaddi. PKL capitalised on factors of good scheduling, crisp programme packaging, fan experience and excellent game quality. With telecast in five languages on eight channels under the Star India network — StarGold, Star Sports 3, Star Sports HD2, Star Sports HD3, Maa Movies, Star Sports2, Plus Suvarna and Star Pravah, PKL 2015 recorded 53 per cent growth in television viewership over the first season.[67]

Going local is another new trend as the popularity of IPL has given way to mini state leagues. Karnataka hosts the Karnataka Premier League and Odisha has its own version, called the Odisha Premier League.[68] This culture of local leagues has percolated to grass-root level, with such tournaments being organised at even in district and village settings.

Viewership ratings for some non-cricket leagues in metros (2015)

League	Viewership ratings in %
PKL	0.90
PWL	0.85
ISL	0.32

Source: Pro Wrestling League is season's 2nd most-watched non-cricket tournament', Business Standard, 1 February 2016

Digital medium coming of age

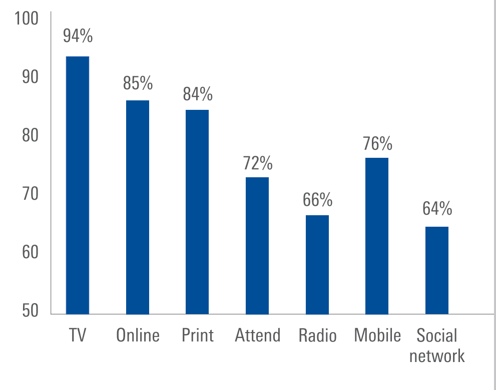
Technology is a prime determinant that has influenced change in sports consumption over the years. Smartphones, tablets, dongles and increasing mobile internet penetration have facilitated the growth of online sports consumption in India.

Online platform is expected to grow by almost 30 to 35 per cent (on a small base), and companies are investing in this as the audience profile and viewing habits are changing.

Today, online rights for events are generally sold separately. A big reason for this is the kind of viewership that the online medium commands. The India vs Pakistan match of the ICC World Cup witnessed a viewership of 25 million* on Hotstar. As per Star India, this was a record for the maximum number of views on a digital platform for a single match. Hotstar also recorded 7.2 million** video views for the first match of IPL 2015 between Mumbai Indians and Kolkata Knight Riders. This was six times the viewership on starsports.com for the first match of Pepsi IPL 2014. In IPL 2015 too, about 20 per cent viewership was online. The rates for advertising on digital medium are also good and a 10-second spot in IPL costs INR150,000. With multiple broadcasters launching their OTT (over the top) apps, this trend is expected to continue across multiple sporting events.

As far as online sports consumption is concerned, the top-three most followed sports online in India are cricket (79 per cent), tennis (47 per cent) and football (45 per cent). Indian consumers spent 18.4 hours per week on sports consumption in 2014.

Medium of sports consumption in India (2014)



Source: Know the fan: The Global Sports Media Consumption Report 2014

* 'At 25 mn, Indo-Pak match viewership creates history', Business Standard, 18 February 2015 ** 'Star India's Hotstar gets 7.2 million video views for the first match of IPL', The Economic Times, 9 April 2015

66. 'Pro Kabaddi League ratings grow by 56% in season 2', Exchange4media, 'http://www.exchange4media.com/tv/pro-kabaddi-league-ratings-grow-by-56-in-season-2_61342.html', accessed on: 1 March 2016

67. 'Star Sports Pro Kabaddi League nets 26 mn online viewers in season 2', Business Standard, 1 September 2015 'Franchises, auctions, big bucks: How Indian sports turned into a money-making enterprise', Scroll.in, 'http://scroll.in/article/757369/franchises-auctions-big-bucks-how-indian-sports-turned-into-a-money-making-enterprise', accessed on: 1 March 2016

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International sports also garnering healthy acceptance

Today, India is able to boast of having tournaments for all kind of international sports. Many of these are also seeing healthy rise in TV viewership. The viewership for basketball as a game jumped from almost nothing to 50 million[69] in the last two to three years, thanks to the aggressive marketing by SPN. Basketball infrastructure available in urban areas is developing and is attracting female attention too. NBA also saw a high female viewership of about 35 per cent in India.[70]

FIFA World Cup 2014 saw an unprecedented phenomenon of more than 40 per cent[71] of overall television viewership consisting of female audiences. The biggest sporting event in the world, witnessed an Indian viewership of 55 million, out of which 32 million were men and 23 million were women.[71]

Fight sports have popularity in non-metro areas. With only 25 per cent duration to the telecast of WWE, Ten Sports is able to garner 85 per cent [72] viewership. Showing an increasing trend, with 5.7 GRPs in 2012 to 9.2 GRPs per week in 2015, tailor-made shows, such as RAW and Smackdown, garnered a viewership of around 1 per cent of TV viewers. Broadcast in multiple languages could further aid in attracting attention of non-traditional viewers to the existing growth in viewership in this non-cricket sport.

The coming of age of sporting leagues

As mentioned earlier, sports leagues in India have seen good uptake with the masses. They offer a perfect combination of sports and entertainment, which is helpful in enhancing the engagement quotient of fans. Consumers with more time for recreation, growing income and growing passion for sports augur well for such sports formats. Non-cricket leagues featuring regional sports are also being well received by fans. The corporates owning these franchises have also increasingly become adept in their management and are realising benefits with the association.

International parallel and examples

There are many examples of sporting clubs and franchises enjoying a high brand value owing to fan power. They not only provide a platform for engagement of sports-loving audience but are also helping the sports ecosystem grow in their respective countries. A successful example here is the football club of the English Premier League (EPL) — Manchester United. A large fan base, high profile players, swanky sponsorships and high match day attendance are the characteristics synonymous with this club. Throughout their 137-year-old heritage, the club has won 62 trophies and has a global fan following of 659 million followers.[73] The club has attracted some prominent sponsors —Aon and General Motors among others, who seek a committed engagement with the brand. The success of the club could be attributed to various ways in which the club engages with the followers[73]:

- In one of the most successful launches ever —its Twitter account attracted 345,000 followers in the first 24 hours of the launch
- Undertakes exhibition games and promotional tours on a global level, to garner enhanced exposure for the fans
- Has a customer relationship (CRM) database with particulars of global followers and customers. It enables the club to better analyse customer behaviour to drive revenues.

Fan Engagement Initiatives by Manchester United

These initiatives have been catalysts for the club's success and have helped establish it as one of the most followed and admired clubs in the world, truly a benchmark for the sports fraternity worldwide.

69. 'National Basketball Association eyes India as part of global drive', The Economic Times, 16 May 2015
70. 'National Basketball Association launches online store to promote brand in India', Business Standard, 6 May 2014
71. '40% of Fifa World Cup's desi TV audience were women', The Times of India, 25 July 2015
72. Ten Sports undisputed leader in sports TV viewership courtesy WWE', IndianTelevision.com, ' http://www.indiantelevision.com/television/tv-channels/sports/ten-sports-undisputed-leader-in-sports-tv-viewership-courtesy-wwe-150719', accessed on: 1 March 2016
73. Official website - Manchester United Football Club, 'http://ir.manutd.com/company-information/about-manchester-united.aspx', accessed on: 1 March 2016

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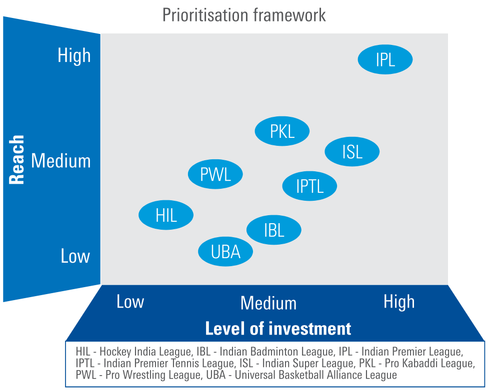
Example of fan engagement in India*

Atletico de Kolkata, an Indian Super League football franchisee based out of Kolkata, has formed an official supports club in a bid to attract more fans. Club owners have formed 'ATK Fans Fraternity' to offer fans a membership at a price of INR800, which is inclusive of a home season ticket (seven games) and an official club jersey. The members have been promised considerable media coverage and would be seated together in the stadium. Such initiatives ensures a win-win situation for both fans and the club. They not only improve fan loyalty and engagement, but guarantee a good support for the home team as well.

*'Atletico de Kolkata's brilliant fan membership deal is something other ISL clubs should replicate', Firstpost, 'http://www.firstpost.com/sports/atletico-de-kolkatas-brilliant-fan-membership-deal-is-something-other-isl-clubs-should-replicate-2410160.html', accessed on: 1 March 2016

Reach vs level of investment for some sports leagues



Source: KPMG in India's analysis, 2016

Groundwork done, non-cricket leagues are gaining popularity

If 2008 became iconic because of IPL launch, then 2014 marked the next big paradigm shift in the history of Indian sports. A number of non-cricket leagues have come up. Among them, the admired ones were accepted with open arms by viewers, such as ISL and PKL. In its first season in 2014 alone ISL garnered close to one million fans.[74] The league also saw an average per game turnout of 26,376 spectators in its second season, which purely on stadium audience places it among the top-three football leagues globally.[75] This clearly shows a change in the attitude of the Indian sports lovers toward non-cricket sports.

As viewership leads to higher TV ratings, leading to higher advertising and sponsorship rates, finally leading to profits to promoters, hence the viewership reach of any league becomes a significant factor for investors. As is visible in the figure, despite being high on investment, IPL has the maximum reach and is an investor's favourite. Among the new leagues, PKL performs the best by having superior reach despite lower levels of investment than ISL.

Viewership of other leagues catching up with IPL

The coming up of new sports leagues have played a pivotal role in the growth of the Indian sports sector.

The new sports leagues offer lots of choices to true sports lovers. Taking examples of some of the successful leagues, ISL's TV viewership increased about 26 per cent in 2015, compared to 2014. With an average attendance of 27,090 during the 61 matches played, ISL now is the third highest attended football league after the Bundesliga and the English Premier League.[76] PKL, which uplifted the regional game of Kabaddi, witnessed 20 per cent rise in viewership in its second season.[77]

Observing the viewership pattern and support from sponsors and broadcasters, it is obvious that these non-cricket leagues may play a pivotal role in establishing India as a 'multi-sport' nation and expand the sport viewing universe as a whole.

Monetary incentives for the sports associations

The phenomenal success of IPL not only transformed the fortunes of its telecaster Sony Set Max but also turned the financial fate of BCCI. The association in the very first year of IPL raked a profit of INR3.50 billion more than the initial profit of INR2.35 billion for all of 2007.[78] During 2015, BCCI recorded a total IPL revenue of INR9.99 billion.[79] It has been estimated that IPL would bring in revenue of INR1.2 billion per annum into cricket, more than double

74. 'ISL fourth best league in world by average attendance, hits 1 million in-stadia fans', IBN Live, 28 November 2014
75. 'Indian Super League 2015', Worldfootball.net, 'http://www.worldfootball.net/competition/ind-indian-super-league/', accessed on: 1 March 2016
76. 'Here's why Indians will soon look beyond cricket on TV', Brand Equity, 26 December 2015
77. 'How will Pro Kabaddi League's bi-annual format play out for brands and the audience?', Exchange4media.com, 'http://www.exchange4media.com/tv/how-will-pro-kabaddi-league%E2%80%99s-bi-annual-format-play-out-for-brands-and-the-audience-_63305.html', accessed on: 1 March 2016
78. 'IPL doubles BCCI profit', IPL Cricket Live, 'http://www.iplcricketlive.com/indian-premier-league-news/ipl-doubles-bcci-profit/', accessed on: 1 March 2016
79. Annual Report 2015, BCCI, 2015

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the government's sports budget of INR4.90 billion.[80] Clearly, other associations have also been supportive of shorter game formats and the introduction of leagues.

Several sports leagues today run with licences from the respective sports associations. This results into a direct inflow of revenue for the associations. Also, indirect benefits accrue in the form of sports infrastructure development and salary compensations that players end up drawing from their respective clubs/teams in the leagues.

Although many controversies have marred IPL, yet there is no denying the fact that it is still one of the most prestigious and pondered sports property in India. Be it advertising spends or sponsorship revenue, IPL still stands strong in the list. During the upcoming season 9, where two new teams would be playing their first innings, the advertising spend is expected to reach a new high of INR1.2 billion.[81] Also, the exclusive broadcast holder Sony has increased the presenting sponsors from two to three comprising of Amazon, Oppo and Vodafone.[81] The season is already witnessing such strong numbers owing to the 20 per cent increase in viewership during Season 8.[82]

IPL Season 9: bigger and better?

Advertisers to splurge INR12 billion

All inventory sold out already

20% growth in revenue expected over last year

Source: Multiple press reports; KPMG in India's analysis, 2016

Two new IPL franchisees for two years: Dissecting the rationale behind the investment^

Due to the spot fixing scandal, the Justice RM Lodha Committee pronounced the suspension of two of the most consistent IPL teams, Chennai Super Kings and Rajasthan Royals for a period of two years. Owing to this, BCCI inducted two new franchisees for IPL Season 9 (2016) and Season 10 (2017).

The two new teams, Rising Pune Supergiants and Gujarat Lions, are backed by New Rising Promoters and Intex Group, respectively, who acquired their teams through reverse bidding process. While it is widely perceived that a short tenure (the teams would exist only for two seasons) might deter potential sponsors from the teams, this could be ruled out owing to the strong brand image of IPL. However, the new teams could possibly be at a disadvantage vis-à-vis the existing teams in the following aspects:

- By placing negative bids the teams have foregone their right to the BCCI's central revenue, instead they have to pay BCCI the respective bidding amounts, INR160 million (New Rising Promoters) and INR100 million (Intex Group).
- Looking at the operational cost of the other teams, the new teams are expected to end up spending INR850 to 900 million annually.
- If the owners are planning to capitalise on the extended marketing opportunity, then they could miss on the substantial sponsorship revenues being earned in IPL.

On the other hand, keeping the absolute picture in mind, these teams could gain the following advantages:

- IPL can help the companies enhance their brand values by providing them the desired exposure outside their operating base.
- The parent groups associated with these companies might save advertising and marketing cost, which they would have otherwise incurred.
- Through the IPL auction process, they have gained access to some of the prominent and popular players. The elite players being associated with the teams can automatically become their brand ambassadors for the next two years.

It could be ascertained that profit making is not a key motive of the team owners as they do not expect to even achieve breakeven in a short span of two years. In spite of this, they have decided to be associated with the IPL owing to the significant opportunity for corporate brand building.

^ 'New IPL teams: Intex, New Rising to lose Rs100 crore each in 2 years', Livemint, 11 December 2015

80. 'IPL doubles BCCI profit', IPL Cricket Live, 'http://www.iplcricketlive.com/indian-premier-league-news/ipl-doubles-bcci-profit/', accessed on: 1 March 2016
81. 'During IPL 9, ad spend may race to Rs 1,200 crore', The Economic Times, 2 February 2016
82. 'E-commerce boosting television revenues', Financial Chronicle, 26 August 2015

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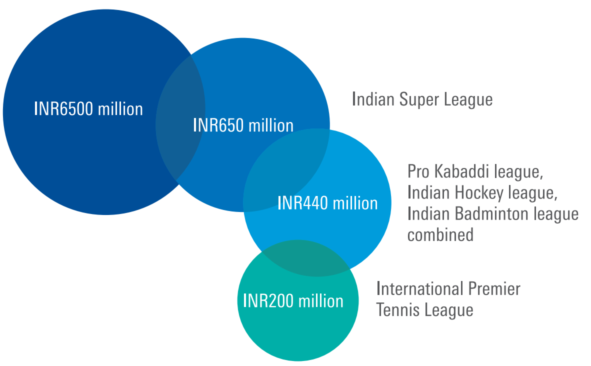
> IPL as a league is an amalgamation of sports and entertainment, which makes it conducive for family viewing at home or at the stadium. The advent of other sporting leagues following this format, is good for the growth of the sector as a whole, as it helps grow the sports watching universe. Eventually the same will also have a positive rub off on IPL.

Hemant Dua
Chief Executive Officer
GMR Sports Pvt. Ltd.

Looking at the sponsorship figures (2014), IPL clocked in the highest amount of INR6.5 billion, followed by ISL which raked close to INR650 million. Pro Kabaddi League, although giving neck-to-neck competition to IPL in terms of viewership numbers (PKL — 435 million and IPL — 560 million in 2014), is yet to get the appropriate price for sponsorship deals.[83] As the popularity of a specific league grows, so can the sponsorships. Early indications for ISL, PKL and PWL seem to be positive.[84]

Sponsorship figures for various sports leagues

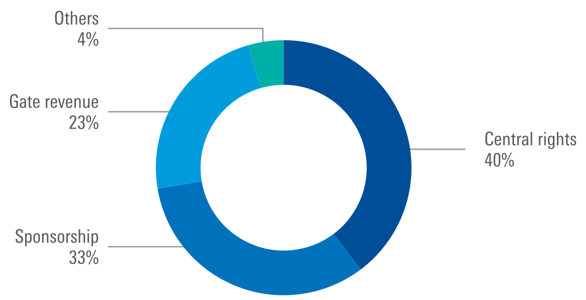


Source: Sportzwiki, 'An overall financial guide for all the Indian sporting leagues', 29 December 2014 (Reported figures for 2014)

Economics for league franchisees — central rights dominate the revenue pie

Several IPL franchisees have now reached the maturity stage of their gestation and have started making profits. This is in contrast with franchisees belonging to other leagues, for whom the gestation period seems far from over. Among the IPL teams, KKR has been arguably the most successful franchise with net profits of INR104.2 million, INR63.4 million and INR91.8 million in 2011-12, 2012-13 and 2013-14, respectively.[85] GMR Sports also made a profit of INR70 million during 2013-14.[85]

Key revenue streams for IPL teams



- The total revenues in the last IPL season have grown to ~2.5 times the first season.
- Gate revenues have notched up by a few percentage points owning to increased ticket rates and better on-ground turnout. In absolute numbers, the gate revenues have almost tripled across seasons.
- The other sources of revenue have grown considerably in the past few years and contribute 5% of total revenues.

Source: Company filings with MCA, Industry discussion with KPMG in India, KPMG in India's analysis, 2016

Many of the other leagues, such as PKL, ISL and PWL, have either completed their first or the second season, and have done a notable job in terms of attracting a large number of viewers. But a sizeable fan base has not transpired into big ground sponsorships, and several franchises are yet to see traction from this side of the revenue pie.

The economics of league format tends to remain similar across different sports. Although there exist variations in the level of capital investment required (for example, cricket and football need setting up significant infrastructure compared to kabaddi, which essentially is an asset-light sport), the key revenue and cost streams are similar.

As an example of how a new league might stack up with IPL and the way revenue and cost streams may evolve, a comparison of ISL with IPL season 1 and their future season has been provided.

83. 'Pro Kabaddi League to return profits by 2018, says Star India', Live Mint, 3 August 2015
84. Industry discussions with KPMG in India
85. 'Clean bowled: Loss making IPL team owners set for better runs?', Rediff.com, 'http://www.rediff.com/business/report/pix-bowled-by-profits-ipl-franchises-set-for-better-runs/20141203.htm', accessed on: 1 March 2016

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Indian Super League (ISL) vs Indian Premier League (IPL)

	Revenue	Season 1 Indian Super League	Season 1 India Premium League	Later seasons India Premium League	
1	Central Pool	-	43%	Decreased	The Central Pool revenue will start coming from season 2 onwards
2	Sponsors	63%	30%	Increased	Sponsorship, Gate revenues and revenue from other activities like Merchandising would continue to grow with increase in fan base and their loyalty
3	Gate revenues	32%	22%	Increased	
4	Others	5%	5%	-	
	Key costs	100%	100%		
1	Team franchising costs	30%	30%	Decreased	Player/staff cost share is higher for ISL given a small cost base and to provide decent incentives for global stars to join the league. The share is expected to stay similar as teams would strive to sign bigger stars.
2	Player/staff costs	35%	25%	Increased	
3	Marketing & brand promotion costs	5%	3%	-	
4	Match and event cost	10%	8%	-	Operational costs are significantly lower compared to IPL. Though the overall costs would increase, the share is expected to remain similar.
5	Operational & administrative expenses	20%	34%	Decreased	

*comparison based on a common-size analysis

Source: Company filings with MCA, Analyst Reports, KPMG in India's analysis, 2016

Overall, the league format is still in a gestating stage, and industry players and other stakeholders need to take a long-term view of fostering and innovating the leagues to achieve sustainable benefits. Many leagues still need significant investment to develop and support leading infrastructure. Also, a sustainable model needs to be figured out to have sports activities throughout the year. Unlike football leagues of the West, for several leagues in India this duration is limited to 40 to 60 days. Although Pro Kabaddi League has planned to have two seasons per year[86], the fact remains that for achieving excellent stature in most sports longer leagues might be required.

Another challenge for the leagues is to groom talent at the grass-root level. They need to determine that this amalgamation of sports and entertainment leads to the development of sporting culture, and inspire more children and youth to consider sports as a career option.

> We need to take a long term view on the league format. 40-50 day league models like IPL are good for sponsors and broadcasters, but we need longer leagues to change the sports paradigm in this country. They need to pan out longer – ranging from eight to nine months of a year, while considering team sports. When players get opportunity to play and perform every day round the year that is when youngsters would actually start taking up sports as a livelihood. That would give sportsmen at least 10 + years of sporting life to showcase their talent.
>
> Supratik Sen
> **Chief Operating Officer**
> Unilazer Ventures – Sports Business

86. 'Star Sports Pro Kabaddi League to be back in June', Business Standard, 4 March 2016

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Corruption is affecting the image of sports: Stakeholders need to be proactive in rooting out this evil

Deals and decisions behind closed doors and private interests make sports a multi-billion dollar business from an economic perspective, but at the same time susceptible to corruption. From referees to players taking bribes, to fixing matches and club owners rigging to betting scandals, reputation of sports keeps getting hit from time to time.

The media reports on corruption in different sports ranging from football to tennis to cricket have been doing the rounds for some time now. Such allegations have in several cases led to public dismay and doubts on credibility for sports and sportsmen. There have been instances of advertisers dropping brand ambassadors and sponsors terminating their long-term association with sports. More often than not sports administrators have been found to be perpetrators of corruption and illegal activities.

In India charges of corruption and irregularities have been levied against IPL, which also affected its parent body-BCCI. The Mudgal Report and Lodha Committee Report found two of the most popular teams of IPL, Chennai Super Kings and Rajasthan Royals, guilty in the match-fixing probe and subsequently these teams were suspended for two years. Such instances have highlighted the need for better management.

The government did its part by pushing for introduction of Sports Fraud Bill in 2015. The Lodha Committee Report has gone a step further and laid down modern industry governance standard for the BCCI. The report has put forth a detailed framework for a completely transparent and accountable governance body.

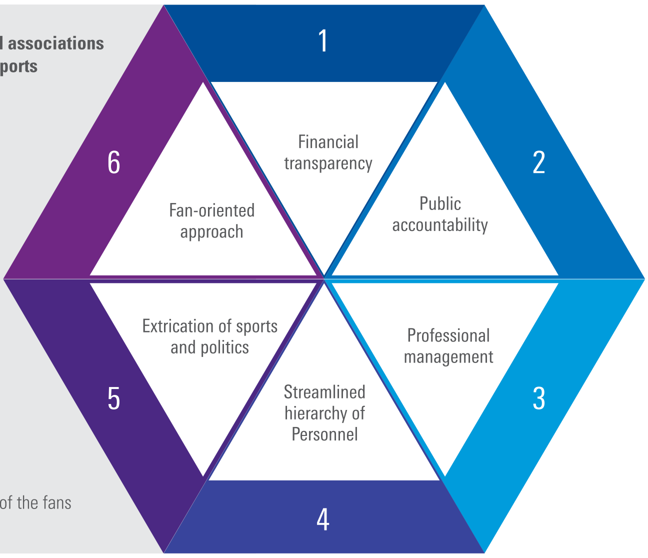
Many Indian sports associations are plagued with similar challenges, and transparency and accountability of office bearers is something that needs to be imbibed. An effective way forward for them is self-regulation and evolving into a professionally managed organisation. Otherwise there might be need of regulations to ensure players' independence, non-conflict functioning of organising committees, judicious dealing of ticketing, land acquisition, intellectual property rights, broadcasting and licensing rights, which could lead to loss of autonomy for the sports' governing bodies.

Source: Lodha Committee Report, 4 January 2016; KPMG in India's analysis, 2016

Preventive steps to keep corruption at bay from sports

Six key features have to be imbibed in sports organizations and associations across the country to keep corruption away from the realm of sports

- **Financial transparency**
  Financial accounts to be made public on periodic basis outlining all types of expenses incurred
- **Public accountability**
  Periodic auditing of operations with rules to favor promotion of sports over personal gains
- **Professional management**
  Hire professional CEOs with experience in sports management/ex sports professional
- **Streamlined hierarchy of personnel**
  Uniformity across member associations and a chance to grow from member to parent association
- **Extrication of sports and politics/bureaucracy**
  Restrict politicians and bureaucrats from being an executive of a sports association to avoid conflict of interest
- **Fan-oriented approach**
  Changes in the way games are organized to cater to sensibilities of the fans and people who support the ecosystem



Source: Lodha Committee Report, 4 January 2016; KPMG in India's analysis, 2016

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Guest column: Developing a sports ecosystem in India

The importance of sports in harnessing the power of youth towards nation building and economic development has been evident ever since the 1896 Olympics and has been firmly established during subsequent international sporting events around the world. The last few years have seen a surge in the development of sports properties in India, and although at a nascent stage, the Indian sports industry presents substantial opportunities.

There is a growing convergence between sports and entertainment in India over the last decade, as both have risen to the challenge of leveraging new digital platforms and technologies. Of late, India's sporting calendar has seen the emergence of at least 12 recognised sports leagues across nine different disciplines, giving unparalleled visibility to businesses and access to unseen opportunities to the Indian sporting talents. The reach has been phenomenal and so has the influx of sponsors from varied domains. The popularity of the league model has determined increase in gate receipts and better TV ratings, leading to more free commercial time, leading to increased sponsors shelling out more money and supporting the game.

Sports organisations of today are embracing their roles as entertainment providers with the realisation that their product is unique and with the understanding that the development of a sports ecosystem could only sublimate to a greater success if the end-user — the 'fan' — is kept in mind. The Pro Kabaddi League is one such example that rose, literally from the heart of rural India to the urban masses, unveiling a utopian political dream — a seamless bridge of common interest between the hinterlands and modern India, affecting a 'RURBAN' sporting revolution.

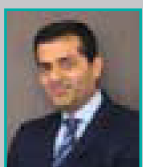
Sports broadcast has turned out to be a strong and viable model of investment — leave alone the national sports broadcasters, telecast of sports in vernacular languages that have opened up new avenues for regional or local brands to advertise, that too to the right target segment at a comparatively reasonable price. This explains the advent of local brand sponsorships in sports. And if Star Sports' endorsement of a property like Pro Kabaddi League is the beginning of a trend for broadcaster investments in sports, then we are perceptively looking at a higher degree of professional sports properties in India — clearly, a big contributor to developing a sporting ecosystem, both for businesses and the end consumers.

Add this with the growing interest of developed sports economies, such as the U.S., driven by well-established sports magnets — the NBA, the future is full of new avenues. NBA officials consider the Indian market key to expanding the brand outside the U.S. — the 'next frontier', as NBA Commissioner Adam Silver called it. About 14 live basketball games are broadcast every week on the Sony Six cable network starting at 06:30 a.m. IST . According to NBA, these games and other programming attracted 70 million viewers last season. Therefore, the writing is on the wall — India may soon see the presence of other international broadcasters with a defined interest in driving talent and viewer interest for maximum return of investment.

It is easy to say 'India lacks a sporting culture', while discussing the sporting ecosystem. Yes, the absence of grass-root sports infrastructure, leave alone giant world-class sports facilities, and the lack of a supporting education policy hurts the overall nurturing of talent in sports at the village, district, state and national level. Hence, what we need is a more welcoming policy-driven approach with a central mandate, with a thrust from businesses with a promising blue-print to build the right foundation of a sporting ecosystem. Here is an interesting statistic from the men's 20km event at the third National Open Race Walking Championship. The top seven walkers clocked a time within the qualifying mark set for the Rio Olympic Games. This is an exceptional update, given India's traditionally weak qualifications in athletics, and the growing influence of marathons and walkathons among the youth. There is talent, but it needs the right environment to be harnessed into a source of constant returns. Sports can offer significant employment opportunities, including sports management, administration, business opportunities in sports, coaching and fitness centres, and all of this is independent of the final product — the athlete.

The various sporting leagues and events in India and across the world have opened up the Indian mindset to now consider sports as a full-time career. The grass-root level development of sports needs an immediate thrust through an active public- private collaboration. The government could help the development of sports through the education system by giving weightage to sports in academics and actively encouraging sports scholarships, apart from enabling corporate participation through CSR platforms.

India has more than 350 million people between the age of 10 and 24, according to a 2015 UN report, and our youth continues to mobilise business decisions around the globe. It would remain our most-valued asset for decades ahead — a healthy economy needs a fit workforce. A sustainable sports ecosystem could be the single biggest contributor to a skilled and fit economic powerhouse of the future, i.e., India.



Karan Ahluwalia

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YES BANK Ltd.

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Way forward to a sustainable sporting environment

The onset and growing popularity of sporting leagues is creating pervasive opportunities for various sports focussed corporates and associated parties. Through various commercial leagues, people are becoming familiar with a gamut of sports, such as kabaddi, wrestling, football and tennis. With these encouraging triggers, it is necessary now to undertake grass-root developments more rigorously. For sports to sustain as a business in India, it is imperative that it moves from a non-profit to for-profit model. The growing popularity calls for enhanced measures to encourage people to get involved with sports and develop an ecosystem. Overall, sports as a sector needs a push from corporates as well as the governments to realise its full potential.

Some of the steps that could further propel the growth in this sector are:

Granting industry status to sports

For fostering growth and the overall development of the sports sector, there is merit in assessing the need for the sector to be granted the status of an industry. This could go a long way in increasing access to organised funding for companies in the sports sector. For the government too, granting of industry status to sports could lead to following benefits:

- The cross-sector linkages of the sports sector are quite significant and could lead to having a multiplier effect on the growth of other sectors.
- The enhancement of sports related exports, could directly and indirectly enhance the receipts of the government.
- The development of various sports could lead to increasing contribution to GDP through various revenue streams. This is likely to have proportional effect on the overall economic development of the country.

Development of human capital

There is a dire need for improving human capital in sports. The government and corporates need to focus on imparting appropriate skills to people interested in sports. The environment could be such that sports are not treated as a secondary profession. There could be an enhanced focus on establishing training academies to produce high quality coaches, players, support staff, etc., as they are instrumental in promoting sports and achieving excellence in the respective sporting field. To incentivise corporates to spend in this regard, the government had included 'training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports' as a CSR activity in Schedule VII of the Companies Act, 2013. More sports and grass-root development activities could be brought under this ambit to help ensure increased investment in this space. Also, for companies directly involved in sports, the process to raise capital for setting up training academies need to be simplified.

Promoting private participation

The growth in the sports sector is attracting investment by private players — corporates as well as HNIs. For example, Star India intends to invest INR1.5 billion during a time span of eight years for popularising hockey.[87] The government could explore measures to develop private-investment lead sporting scenario, which could help in imbibing a sporting culture, thereby developing a sporting ecosystem. Some of the steps that could be taken are:

- Public-private participation to renovate the existing sports facilities
- Inclusion of other sports activities like development of new sporting facilities under the ambit of CSR spend
- Tax holidays and financial incentives for investment made toward grass-root development of sports.

Improving infrastructure

More sporting events call for more stadiums and a better experience therein. To strengthen the revenues from gate receipts, we need to focus on developing stadium infrastructure, which can then play a pivotal role in enhancing the footfalls for various sporting events, aiding monetisation of these investments. Financial incentives could spur investment towards the development of new infrastructure and redevelopment of existing infrastructure. This is expected to push corporates to increase their spending. Another aspect of improving the infrastructure could be providing allied services, such as offering free Wi-Fi to spectators. This could provide an exciting avenue to spectators to share real-time images, videos with friends over social media, etc. For example, free 4G services were provided during all IPL 2015 matches at the Wankhede Stadium.[88]

To conclude, concerted efforts have been made in developing the sector over the past few years. There is a need to enhance cooperation and coordination by both the government and corporates to strengthen the sector from the grass-root level and develop a conducive climate towards building sporting infrastructure and facilitating human capital development which put the sector on an accelerated path and enable India to emerge as a strong sports supporting/loving nation.

87. 'Star India to invest INR1500 crore to turn around India's hockey fortunes', Livemint, 24 January 2014
88. 'Reliance Jio to 4G-fy Wankhede Stadium for IPL matches', DNA India, 1 April 2015

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Live events

Ready to perform

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Industry overview

Live Events (LE) experienced a mixed year in 2015. Some of the generic trends of 2013 and 2014 across sub sectors like experiential marketing, intellectual property (IP) and event management started to vary in 2015 by individual company, region and event type. Established business models are starting to give way to newer and disruptive approaches.

Event savvy governments – both center and states – emerged as the major new client group. LE experienced a growth of ~18 per cent in 2015 over 2014[01] with improved consumer spending, more variety of events offered, and greater penetration into Tier II and III cities,. However, the industry continued to grapple with similar set of infrastructure and compliance-related challenges this year as well as they did last year.

The year witnessed a fair start across all sub sectors as the year-end momentum of 2014 carried over. March to August was challenging for all LE companies across the board and most players claimed it was worse than usual seasonal dips. There were fewer MICE and overseas corporate reward events that usually give respite to the industry in the summer. However, from September, the industry witnessed a phenomenal surge in experiential marketing, government-related events, and IP. Some companies did more business in the last three months of the year than previous nine months combined.

The year ended on an optimistic note – with improved quality and increased quantity of events – and the organised players entered 2016 with an increased confidence and a big pipeline. The industry remained fairly fragmented throughout the year. Larger players continued to face competition and attrition in the experiential marketing space; and the year also saw mushrooming of newer local, and multinational players with specialised competencies, offering services in niche segments. The market for IP, on the other hand, has begun to consolidate, and government-related events automatically exclude smaller players.

Major players in this business demonstrated maturity and a spirit of cooperation by coming together at various levels to address common concerns of the business. Venue management and availability, tax policy, permission procedure, personnel, and unhealthy competition have been and continue to be significant issues for the industry. But by speaking in one voice, LE companies have started to get some attention from policy makers and influencers in the states and, to some degree, at the center. Some individual event companies and IP owners have successfully made an impact. Unfortunately the total size, tax contribution, and economic impact of LE is still considered too small – when compared to tourism, or even other verticals of media and entertainment – to warrant serious policy attention.

> The relevance of the activation & live events sector as part of the the entire media and entertainment industry has not been built to potential yet. Little had changed over the years as the industry has not been able to grow its share of mind commensurate to industry growth. Things are rapidly changing now and I can see Activation & Live Events becoming a much stronger force and a much better industry. The need of the hour is various agencies coming together to form an audience engagement measurement system for us, possibly similar to BARC.
>
> Atul S. Nath
>
> **Founder & M D**
> Candid Marketing

This chapter which seeks to capture the trends that shaped the industry in 2015, and predict some for the year 2016.

Exclusions

The fragmented nature of the industry hinders accurate sizing of the industry's revenues. In interviews and research conducted for this chapter, estimates ranging from as wide as between INR125 billion to INR1500 billion have been shared[01]. The experiential marketing sub sector alone has been pegged, by industry experts, at INR50 billion annually[01].

This unorganised part of the business is predominantly in social (weddings, get-togethers, celebrations etc.) and political (rallies, felicitations, meetings, etc.) events. There is no doubt that this spend is huge and perhaps the biggest number of events in India are indeed social and political. This chapter excludes these due to dearth of verifiable data and predominance of cash transactions.

01. Industry discussions conducted by KPMG in India

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Live events industry in 2015

Parameter	Compared with 2014
Number of events (estimation)	Increased by ~25%
Profitability	Flat; as margins under pressure
Client Base/Demand	Increased by ~18%
Venues for Live Events	Expanded slightly
Government Policies/ Framework	Same; some states got better
Taxation	Same; unresolved to industry's demand
Infrastructure	Moderately improved in some states
Regulation/regulatory bodies	Absent; currently self regulated

Source: Industry discussions conducted by KPMG in India

> It is live shows and live events that are gaining momentum. Not only are more international artists keen to perform in India, the number of shows, artists and ticket prices are also on an upswing. While comedy and electronic dance music are most sought after, Bollywood-themed live events are also highly popular. There has been the rise in the popularity of and demand for live events in general and intellectual property (IP) driven events in particular. While IPs comprises just 2 per cent of the total events conducted, they provide 21 per cent of the total revenues. It draws crowd and boost local economy.
>
> Harindra Singh
> **Chairman & M D**
> Percept Limited

Economic recovery

Industry discussions and research indicate that the improvement in the Indian economy helped grow the LE industry[02]. With per capita net national income increasing by 7.3 per cent[03], the CPI under control, and currency being stable over the past year, Purchasing Price Parity (PPP) of the Indian consumer saw an upward trend. This also led to increasing Marginal Propensity to Spend (MPS) towards services; it is estimated that nearly 8-10 per cent of this MPS is directed towards entertainment by an average Indian household[04]. The resultant increase in spending power – coupled with a shift of consumer preferences and tastes – led to greater consumption of 'experiential entertainment'. Footfalls at IP events, brand launches, street festivals and niche events have increased ~28-30 per cent in 2015 compared to 2014[04]. Categories like music, literary and art-related, automotive experiences, and food were the biggest growth drivers. The bulk of the attendees still continue to be in the 20-35 years age group; but newer audiences are being added in smaller towns, and niche events aimed at the 45+ age group is gaining traction. The year also marked an increase in ticket prices and food and beverages (F&B) spends at venues. Ticket rates have seen increases ranging from 50 per cent (at popular live music and EDM festivals) up to 400 per cent (at food, stand up comedy, and fashion events), without affecting footfall[04].

Event companies are increasingly focusing on building IPs in order to capitalise on the growing demand for quality events. IPs command a premium over other event-related services, generate more stable revenue to the company, get signed on for long-term deals, demonstrate measureable results, and are more resilient to economic slowdowns. It also improves the companies' perception in the market and in the minds of customers and investors. On pricing, interestingly, even college fest and corporate events which are meant for a certain captive audience are also being ticketed due to a surge in demand.

Comedy and stand-up acts as a category is growing in excess of 200 per cent year on year, with several international artists showing keen interest in India, and national artists traveling to smaller towns. The ticket prices also average between INR3,000-6,000; which is higher by 50 per cent than live music shows[04].

Some of the credit for expansion in market must also go to better marketing and innovative content. Growth in new concepts in live shows (musicals such as 'Beauty and the Beast', international speakers, combining Bollywood with stand up comedy, and destination music events), special interest (motorbike riding and car rallies, pet shows, personal finance and investment summits, and road-free days combined with locality fests) and at campuses (extension of live music and EDM brands, live theme-based TV shows, and expansion of college fests) have boosted the market significantly. More live event options mean greater choices for the existing and dormant consumer, and some events now appeal directly to hitherto-ignored segments. This trend is expected to accelerate in 2016 and 2017.

02. http://www.tradingeconomics.com/india/consumer-spending
03. Economic Survey of India 2016
04. Industry discussions conducted by KPMG in India

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With a stable government, event companies saw a marked uptick in the number of enquiries from their corporate clients in 2015. Though MICE, corporate events and rural activation remained muted for most of the year, brand promotions and launches saw a definite growth. Certain sectors of the economy such as e-commerce, retail, apparel, and telecommunications hardware and automotive witnessed ~25 per cent growth, while infrastructure, cement, steel and telecom services saw spending dip significantly[05]. As with other forms of promotion, the largest new category of spenders were general merchandise e-commerce, their fashion and apparel counterparts, and radio taxis. This was closely followed by a new wave of Chinese telecom handset brands. Within automotive, the massmarket brands stepped up spends while those of luxury carmakers' remained flat.[05]

The private sector's use of event companies, and sponsorship of live events, over other advertising mediums, barring digital, increased between 18-20 per cent between 2014 and 2015. Within their advertising budget – covering sales stimulation, brand building and launches – experiential marketing and sponsorship of live events is estimated to be in the region of 25-30 per cent[05]. In 2015, companies that do not have massmarket consumer brands (like technology services, infrastructure, petrochemicals and support services) or rely significantly on a dealer network (insurance and financial services, tyres and lubes, appliances and electronics, and automotive) have been raising their experiential marketing budgets faster than massmarket consumer brands. Consumer brands, especially those unable to advertise directly like liquor and tobacco, have been increasingly leaning towards sponsorship of fashion, music and art events.

Witnessing the general growth in the economy and the events market, several international companies are foraying into India; and consolidation is gradually happening. Dubai Parks and Resorts, the Middle East's largest integrated theme park resort, has launched a talent hunt for performers and artists for a variety of shows across its parks and at the world's first Bollywood themed park: Bollywood Park Dubai[06]. Ferriswheel Entertainment has won the open national tender for the Diu International Festival. With over 140 shows and 300 artists, Diu International Festival will be the longest beach festival in Asia. Set to take place from December 2015 to February 2016, this festival will have a unique format with different artists performing to different themes every week. It will simultaneously focus on jam sessions, concerts, literary and art programmes, workshops, community outreach programmes and carnival. This reiterates the importance of IP, destination and global influences in the events sector.[07]

Consolidation and collaboration activity, so prevalent in other parts of the media and entertainment universe, has started to show some signs in LE.

"Music festivals are now being set up in new, exciting destinations such as Shillong where the response has been overwhelming. Fans value high quality experiences are willing to pay for it - as a result, ticket prices have been going up. Some of the stage governments have become incredibly supportive including Delhi, Maharashtra and Meghalaya - making it easier to organise large format events. Brands continue to invest in such properties as sponsors given the attractive ROIs from them and the ability to engage with fans directly."

Ajay Nair

Chief Operating Officer
Only Much Louder (OML)

05. Industry discussions conducted by KPMG in India
06. http://www.business-standard.com/article, November 13 2015 Talent Hunt for Bollywood inspired theme park in Dubai begins
07. http://www.eventfaqs.com,October 14 2015, Ferriswheel wins multi-agency pitch for Diu International Festival

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Below is a snapshot:

Date	Event management agency	Type	Description
Sep-15	Universal	Acquisition	Universal has entered India live music festival scene, by buying 50 per cent stake in Enchanted Valley Carnival[08]
Sep-15	IMG	Acquisition	WME | IMG had announced the acquisition of The Miss Universe Organisation, which includes MISS UNIVERSE, MISS USA, and MISS TEEN USA, from Donald J. Trump. The Miss Universe Organisation is an international organisation that advances and supports opportunities for women[09]
Nov-15	Wizcraft Entertainment	Advertising Campaign	Wizcraft has joined hands with TATA Motors to launch their experiential multi city campaign for their Passenger Vehicles Business[10]
Nov-15	Wizcraft Entertainment	New Initiative-Infrastructure	Bollywood Parks Dubai, in association with Wizcraft, is working on a Bollywood inspired theme park in India[11]
Dec-15	Percept	Product Launch	Percept ICE executed the launch of the 21st Century Beetle for Volkswagen on 19 December, 2015 at the India Dome, NSCI in Mumbai. The spectacular and much awaited gala launch event saw more than 500 guests attending.
Jan-16	Fountainhead	Acquisition	Dentsu Aegis Network acquired Fountainhead Entertainment. Within the Dentsu Aegis Network structure, Fountainhead and psLIVE India will be merged to form Fountainhead-MKTG[12]

Consolidation is inevitable and will happen faster than we think. The benefits of the being part of a larger entity are many: global best practices, systems and processes, cutting edge international technology, and management bandwidth can quickly be brought to India. Global media groups are very bullish on Indian IP events as a business segment. Such alignments also inculcate fiscal discipline in the company, and diversify risk.

Brian Tellis

Chairman
Fountained Promotions and Events

Government in the driver's seat

Many years ago, the Vibrant Gujarat event set the tone for government-backed events in India. In 2015 – and going into 2016 – this became de rigeur for almost all state governments; and state backed events have proliferated, keeping event companies very busy. The central government, in turn, was the flag bearer hosting numerous events with significantly large budgets. Themes such as 'Make in India', 'Digital India', 'Startup India, Stand Up India' and 'Pravasi Bharatiya Divas' as well as 'Swachh Bharat' got bigger, went global and became more sophisticated. The center's communication strategy was delivered across the country through state-level and city-level events and amplified via social media. Across the LE industry there seems to be unanimity that the current central government is the most event savvy and event friendly government in history.

The general feedback was that the central governments' event programmes were well planned, professional and meticulous; and that it believes events are the most effective way to achieve reach and connectivity with its audience. Several state governments – irrespective of its ruling party – have caught on to the trend, and are using state backed events to achieve similar results. State governments used mega events to showcase its success and policies primarily in agriculture, industry, tourism and technology; some of these events were aimed at wooing investment, and some with an eye on the electorate.

08. http://articles.economictimes.indiatimes.com, September 11 2015, Universal enters India live music festival scene, buys 50 per cent in Enchanted Valley Carnival
09. http://www.cbsnews.com, September 14 2015, Hollywood talent agency buys Miss Universe from Trump
10. http://www.eventfaqs.com, November 10 2015, Wizcraft to roll-out on-ground activation with Messi for TATA Motors #madeofgreat campaign
11. http://www.eventfaqs.com, March 26 2015, Dubai Parks & Resorts partners with Wizcraft for Bollywood
12. http://economictimes.indiatimes.com, October 19 2015, Dentsu Aegis buys Fountainhead Entertainment in Rs.300-400 Cr Deal

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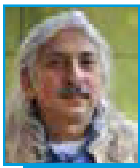
State-level decision makers have come to the conclusion that grand events are better at showcasing their leadership, and human development and economic progress than traditional media. Events, in their opinion, tend to provide greater reach by word of mouth and yet manage to reach those unconnected to digital media.[13]

Since mid 2014, when the current government took office, the momentum of such events has risen sharply. Activity among event companies servicing this segment is up threefold[13]. Beside just managing and executing events, event companies are now being called to help craft strategy for governments. Pre event discussions with event companies include their inputs on location, date and timing, use of hardware, promotional strategy, stage and venue design, audience participation and control, social media amplification, and content (event flow). Event companies often complain that the private sector – considered their traditional clients – have hardly ever used this skill set. Due to receptive nature of government towards new ideas, innovation, technology, and acceptance of international players and their experience, event companies are now beginning to seriously invest in hardware and capabilities [13]. Government business, therefore, has helped event companies augment their strategic capabilities and execution skills.

Individual states are also taking efforts for smooth functioning of the entire value chain of the event with focused and predictable conceptualisation, planning, production and execution, and post event buzz through social media. To boost leisure and adventure tourism and aviation based entertainment in the state, for example, The Department of Tourism, Government of Uttar Pradesh, in association with E-Factor and Sky Waltz will hosted the Taj Balloon Festival in Agra. The development was announced to the media and press on the World Tourism Day[14]. The Rajasthan government's support for Jaipur Literature Festival is illustrative of this growing trend.[13]



The Rajasthan Chief Minister and her government actively supports festival across the state and understands the potential that this has in bringing together built heritage, arts and entertainment and its contributing to local economies and in creating jobs! The government has been extremely supportive of the annual Jaipur literature festival and realise its potential as a brand ambassador of Rajasthan and Jaipur and as a economic contributor to the state.

Sanjoy Roy

Managing Director
Teamwork Arts

This government push in 2015 is coupled with greater transparency, both at state and central levels, in tendering and awarding of contracts. Organised and larger event companies have thus benefitted when compared to smaller, opportunistic players. Picking an event manager for a government project is no longer just price-based. Event companies are seeing ideas ('technical bids') getting increasing weightage to price. Further, companies that forsake government business (due to perceived corruption and sloth concerns) and focused on the private sector, in the previous years, seem to have lost out. 6 of the top 10 event companies interviewed for this chapter mentioned that government business is more than half their annual revenue. Of course, good networking skills and understanding of the administrative mechanism continue to remain key success factors.[13]

With more than 30 new initiatives being taken up by the central government in 2015, the events industry was understandably excited and motivated. Also, the recognition of events, by the highest decision makers, as a tool to achieve communication objectives, citizen reach and direct audience connect comes as a major boost. This is expected to strengthen in 2016; and possibly there will be a shift in government approach from organising events for launches, declarations and summits to greater experiential initiatives and grassroots touch and feel. Individual political parties and politicians are already creating new experiences for stakeholders. Local area festivals, road-free areas, direct citizen interactions, and state-backed religious events are growing; and getting increasingly integrated with the government's administrative approach.

13. Industry discussions conducted by KPMG in India
14. http://www.eventfaqs.com, October 14 2015, Agra to host TAJ Balloon Festival 2015

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Indian states and events (A glimpse)

State	Event	Tourism
Maharashtra	Make in Maharashtra	Elephanta Festival
Gujrat	Vibrant Gujrat Summit	Rann Utsav
Madhya Pradesh	Invest MP	MP Travel Mart
Telangana	HYSEA Annual Summit	Surajkund Crafts Mela
Chhattisgarh	Opportunity Chhattisgarh	Sirpur Mahotsav
Assam	NE-MSME Live Summit	MLTR Live concert
Kerala	Young Entrepreneurship Summit	Visit Kerala Initiative

Source: Websites of Indian State Governments

"The industry is witnessing a multiplicity of similar events coming up across the country. As an organiser it is increasingly putting a pressure on break-even. It is very critical to come up with new and unique ideas to grab the attention of the target audience and create brand establishment. Also essential is to try and experiment with organising different types of events, targeted at people from various demographic profile."

Leher Sethi

Founding Director
Something Creative

Co-ordinator
Indian Council of UN Relations

Advisor
Delhi Literature Festival

Status check

Live concerts and events are no longer restricted to a company's ability to source an artist; or a single promoter business that can just outsource production without having in-depth knowledge, technical expertise or understanding of the challenges. LE is now run by professionals with experience of handling and understanding complicated riders, and also credentials to convince clients, governments and audiences on their ideas and executional abilities. Certain Indian event companies may have reached such levels of expertise: to understand, appreciate and navigate the complexities of the business[15]. In the reports of 2013 and 2014 we identified several concerns for the LE sector. In 2015, it clearly seems to be still struggling with the same issues and challenges of the past years.

Some of the industry's own structural problems – fragmentation, low barriers to entry, bottom end of the value chain, and lack of benchmarking, among others – are intensified by macroeconomic and regulatory challenges such as tax uncertainty and excessive taxation, bureaucratic hurdles, lack of governance and regulatory ambiguity. To address these, and other issues of common concern, major players in LE have come together on platforms such as the Experiential and Event Management Association (EEMA) and Rural Marketing Association of India (RMAI)[15].

EEMA and RMAI are developing common minimum programmes to help the industry present its case to all stakeholders. The main goals are –

- to be recognised as a large and significant industry group in terms of revenue, taxes paid and employment;
- to present their point of view – including problems faced and concerns – to decision makers in government and clients;
- to design common solutions for states, third parties and regulatory bodies, and remain united for challenges faced by their members; and
- to reward and recognise their own efforts at brand building and innovation.

While there is no doubt the efforts of EEMA and RMAI have resulted in governments recognising LE's growing stature, we believe, there is still a long way before LE finds the same sort of impact as television or films or even digital.[15,16,17]

15. Industry discussions conducted by KPMG in India
16. EEMA website
17. http://eemaindia.in/eema-regional-initiatives/

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> The event savvy government is making conscious efforts to boost the Industry, moving forward on single window licensing and ease of business. Noticeably, government projects, similar to the private sector's approach, are being provided large scale event launches engaging some of the best event agencies. However, recognition of the Live Events as an Industry needs to be given importance and fast tracked. There's need for definition of standards and a well-structured regulatory body to design framework, norms and influence as well as accelerate skills development. Expectedly this will take time; but all stakeholders should come together to achieve this purpose.
>
> Dinesh Kummar
> **CFO**
> Wizcraft International Entertainment Pvt. Ltd.

The main challenges that continue to hamper LE[18]

IPR and violations

LE is marred by a lack of consistency in pricing norms for public performance of music and film-related IPR. There are no regulations, transparent pricing and tariff cards for the performance of live music at events. This leads to arbitrary charges imposed by music labels,Indian Performing Rights Society (IPRS) and Phonographic Performers' Limited (PPL) on event companies. Event companies complain that large and recognised events are charged excessively for live and recorded performances, and in the absence of published rate cards, they are often held to ransom by IPR owners. On the other hand, there are hundreds, if not thousands, of unregulated music performances across the country (and overseas) violating even basic IPRS and PPL norms. Music labels and their nominees complain of vast leakage and piracy from live events leading to several hundred millions of Rupees of losses.

The perceived violation of IPR – and pricing disputes – in music and videos is the major reason for legal disputes and courtroom battles for event companies. Small and social events are a big source of revenue leak adversely affecting not only the music labels, but also the larger events and event companies by burdening the latter with higher costs. Its hurts the profitability and also the reputation, and diminishes the resources, of the LE industry. According to event companies, this year also witnessed the alleged misuse of legal recourse by IPR owners due to the lack of proper adjudication bodies and laws.

Infrastructure and venue management

LE faces a two-way challenge in India for both venue and infrastructure supporting the venue. Despite the quantity and sophistication of the events conducted, India remains a highly immature market for venues, and connectivity and access to venues. This affects logistics of event management and adds significant costs to the event – which mostly gets passed on to consumers or the sponsor – thereby inhibiting growth of the LE sector.

Venues:

1. India lacks adequate and proper all-weather venues. Most events still need to rely on sports stadiums, open public areas, and hotel banqueting facilities for events. The Dome (NSCI Complex-Worli) in Mumbai and HICC (Hitex Convention Center) in Hyderabad have recently come up to offer mutli-event, year round event hosting.

2. Infrastructure for organising an event for a crowd of 15,000 or more – such as parking, toilets, safety and fire management, emergency response and assembly, medical aid – is sorely lacking, and event companies still need to arrange for this themselves. Large-scale events are highly city or state government dependent for such support, as well as permissions, opening up possibilities of arbitrary and corrupt practices. Industry still needs to depend on the open spaces and stadiums for such events

3. Venue permissions – especially for those controlled by the government and government bodies like the Archaeological Survey of India (ASI) or Sports Authority of India (SAI) – take a long time to come, and come with several restrictions. Event companies believe that loosening of these strict norms will provide a massive boost to tourism, destination events, and generally to arts and culture in the country.

18. Industry discussions conducted by KPMG in India

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There is only one factor common to real estate and event management: Location, Location, Location!!! In the past, we have had big concerts on uneven, open-air grounds where basic facilities were also unavailable. Live Events can only grow if venues adopt the AEG Business Model: consistent quality at par across the country and a definite impetus on quality of offerings to customers who come to 'enliven' an experience.... The fact that Indian venues like the Dome have realised the importance of offering the best 'Plug & Play' facilities denotes the level of seriousness of the promoters.

Mohomed Morani

Director
Cineyug

Government permissions, licenses and NOCs

Required	Details
Phonographic Performance License	To play recorded music
Excise License	To keep and sale of alcohol in Live Events
Loudspeaker License	To keep and usage of loudspeakers
Premise License	A premises license allows an event to carry all the licensable activities at the venue such as providing late night entertainment between 11 pm and 8 am
Performance License	Performance license allows a child (anybody below 18 years of age) to perform and take part in the musical event.
Entertainment Tax	Entertainment Tax has to be calculated based on the estimated number of tickets to be sold. The percentage of entertainment tax varies from place to place and state to state.
NOCs from	Fire Department, Police, Traffic Department, Electrical, Health, state art bodies and the Ministry of External Affairs (in case of foreign artist)

Source: http://blog.meraevents.com, June 5 2015, Licenses and permissions for organising a musical event in your City

To organise a single event, it may take 18-30 licenses and permissions from local bodies to the central government. This leads to increase in costs, time and human resources spent, inefficient senior resource utilisation and bureaucratic hassles.

Connectivity

1. Transportation and board facilities for individual visitors to leisure events are still an overlooked issue both by organisers and local bodies. Events such as Sulafest in Nasik, Hornbill in Meghalaya, Sunburn in Goa, Rann Utsav in Kutch and many others can greatly benefit and grow if these two main facilities are augmented.
2. Physical infrastructure like roads, railways and air connectivity is also not available at optimal capacity to Tier II and Tier III towns hindering growth prospects of several LE properties and campaigns. Event companies are of the opinion that smaller cities and towns have similar purchasing power compared to pockets of the main metro cities. Reaching these consumers is, however, expensive and inefficient given under developed infrastructure.
3. The annual budget in 2016 has sent positive vibes as it pushes for better and improved infrastructure in, and to, all state capitals and across rural India. A meticulous and practical implementation of the same will help industry to grow 2-5 per cent faster than the current rate as per the experts.

19. Industry discussions conducted by KPMG in India

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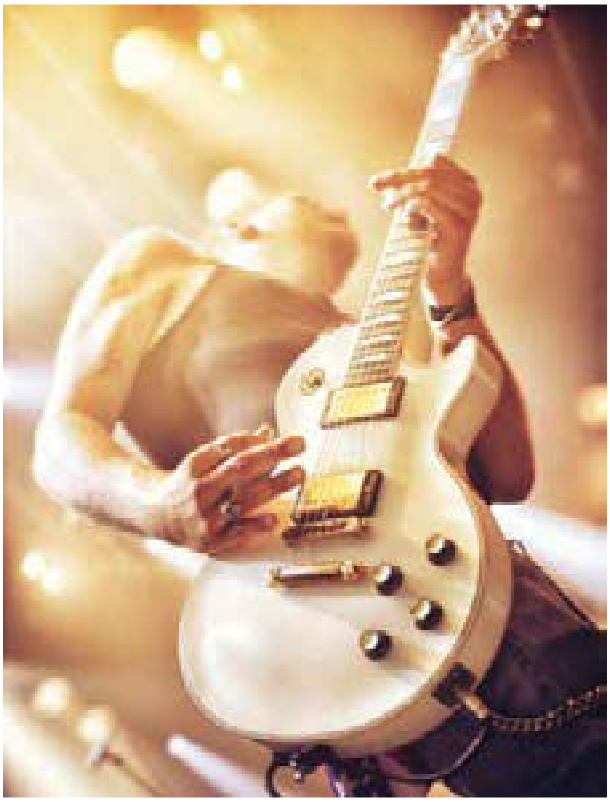
No major growth spurts but the industry has maintained its pace despite the economic slump. There is happiness & creativity all along. From the policing aspect, Events & Entertainment has always been a state subject but the central government needs to tap the live events industry and bring reforms in Taxation, Licensing & other clearances process to establish the industry further…

Tax should be levied only on event management fees instead of the whole cost. The government needs to take a fresh look at the challenges still plaguing the industry especially taxation, bureaucracy and black money and resolve them at the earliest.

Government events have come up as a major stakeholder for the industry but the tendering process has huge implementation and empanelment issues.

Rajeev Jain

Director
Rashi Entertainment Pvt. Ltd.



The expectations

Recognition for LE as an industry	• Creating ministry, or department within a ministry, for LE to coordinate at the highest level. • Formation of a regulatory body to monitor and govern LE on the lines of TRAI or IRDA. • Design tariffs and benchmarking frameworks. • Establishing approved training institutes and design courses for all the aspects of event management for skill development. • Access to bank financing at reasonable rates.
Single Window Clearance	Perhaps the most loudly voiced demand from all the stakeholders with equal enthusiasm. Industry expects to reduce corruption, hassles and time spent on permissions and activities related to documentation. These benefits could be passed on to the consumers. Single window clearance is a potential solution to curb red-tapism and bring in transparency.
Reduce Taxation	• Service Tax: Makes the ticket price of the event go up for the end consumer. This additional burden has to be borne by the end user, adversely affecting sales and market growth. • Entertainment Tax: A state levied tax based on the forecast and estimation of visitors is said to make the return on investment less certain for the event management company.
Other Wish list	• Flexibility and extension in the maximum permissible time of the outdoor events. • Creation of entertainment zones and infrastructure in those zones. • Open up historical and government-controlled venues for greater and flexible private use.

Source: Industry discussions conducted by KPMG in India

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Technology

LE have rapidly adopted technology across several areas of the business. Increased – and in some cases quantum leaps – use of technology has been seen across the industry in areas ranging from promotion on social media, amplification of the event, sustaining event communities through the year, product launches, hardware for the event, on stage and on ground, increasing glamour and the 'wow' factor, and impressing clients. Indian clients, including government departments and agencies, have become eager and early adopters of wide ranging technology. This is on par with developed economies; though in terms of budgets offered, India still has a long way to go.

With the rapid adoption of digital way of life among India's consumers, clients and the government, event companies have quickly adapted to use technology in their value proposition, services offered, and in-house skill set. The introduction of digital initiatives by the government has compelled government decision makers and their event management vendors to move up the curve quickly to appear tech-savvy and tech-friendly.

On the content side, especially for dance music, technology has been the single most influencer, differentiator and disruptive in the last 12-18 months. Technology has helped artists reposition themselves, changed the look and feel and experience of concerts and festivals. Innovations through technology has touched each and every part of a LE - from mobile friendly ticketing, social media led loyalty programmes, RFID for access, and F&B management (cashless events), live streaming, 360 degree and 3D views, and virtual reality to making a huge impact on the actual content.[20]

Technology is broadly being applied in three areas:

Apps and online platforms on social media and digital media for added value, increased reach, amplification, lengthening the 'event' duration, and faster communication.

The message is spread quicker, faster and cheaper and is resulting in increased footfall, better use of promotion budgets and increased profitability per event. This is also being followed up with faster review and feedback from audiences. Event managers and IP owners are able to make quick course corrections and reset strategy if required. Social media, when managed well, also lengthens the 'event' by allowing for early announcement, building hype over a period of time, live coverage, and post event community development and management. This helps annual and multiple location events maximise their digital marketing budgets. All stakeholders are expected to greatly increase their share on social media. Penetration of digital marketing technology in the LE will be two phased, i.e. primary to add value and secondary to add experience. Social media platforms like Facebook, twitter, Instagram, Snapchat and Youtube will continue to revolutionise content marketing in year 2016.

20. Industry discussions conducted by KPMG in India

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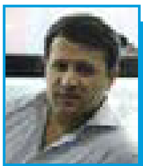
Event Name (As on February 4 2016)	Presence	Facebook Likes	Twitter Followers	Instagram Followers
IIFA Awards	Yes	3,881,442	135,000	166,000
Jaipur Literature festival	-	29,792	11,700	2,446
Sunburn Goa	Yes	1,695,941	330,000	139,000
India Bike Week	Yes	425,240	4,872	6,440
Femina Miss India	Yes	577,432	14,659	873
Filmfare awards	Yes	18,612	20,20,00,000	-
Tata Coffee Grand	Yes	294,085	941	38
Lakme India Fashion Week	Yes	845,953	63,200	201,000
Mood Indigo/Techfest	Yes	372,984	5,802	-
Standard Chartered Mumbai Marathon	Yes	116,701	3,771	-
Pro Kabaddi League	Yes	16,644	40,700	-
Badminton (Indian Badminotn League)	Yes	111,681	-	-
Hockey (Hockey India League)	Yes	2,019,735	16,600	-
Bacardi NH7 Weekender	Yes	447,083	217,000	-
Storm	Yes	55,103	4,271	-
Sulafest	Yes	69,622	8,138	11,300
Escape Fest of art and music	Yes	14,629	483	-

Source: KPMG in India Analysis



"Indian brands and consumers are looking optimistically to leverage the new avenues in technology with equal zeal. I feel mere 'technology' in Live Events is a superficial term. Going beyond, we should look at it as primary and secondary. In near future, primary will add value to the Event through live streaming, cashless transactions and safety measures etc. The secondary will create like never before experience. Thus in my view, it will be technology to add value and technology to create experience."

Jaideep Singh

Senior Vice President and Business Head

Integrated Network Solutions

Cutting edge technology is currently in use in India across events in areas of security, crowd control and ticketing.

App-based payments are now fully integrated into ticketing platforms and the event's mobile and online portals.

Unique identification codes tagged to individual users and consumers allow event companies, especially IP owners, to minimise box office losses and revenue leakage. The physical tags ('wrist bands') are increasingly becoming 'intelligent', with each of them now unique to the ticket or pass holder. High precision cameras and heat sensing devices are commonly being used at high-end events to monitor crowd activity for security and safety, and prevent hazards. This is particularly widespread at government events with heads of state attending. At the same time, the back-end functions of control centers and online event flow management have been rapidly digitised and moved online. In some cases this has led to increased costs but in view of the

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security and safety concerns in crowded venues, many IP owners and clients are insisting on these measures.

Hardware technology at events have shown a remarkable improvement at events

From plain vanilla application of back-screen projections and basic pyro-technics, events in India have moved to drones, virtual reality, holograms, and other immersive technologies. Spurred on initially by social and political events, hologram and 3D technology is increasingly being used at corporate events and IP events. Improved bandwidth, omnipresent smartphones, cumbersome travel and venue infrastructure, and limits to crowd capacity are all converging to boost use of such technologies on the ground. Live streaming allows remote participation by those unable to attend in person; while virtual reality is becoming popular for automotive companies to generate sales through 'real' experiences. One everyday consumer brand is now planning to 'launch' its products online 60-90 days before it is physically available in stores. And based on the response they may not even do a real-life launch through traditional media.

"Indian consumer today is more aware of and exposed to the use of International level technology due to digitisation and globalisation. He demands the finest and the latest technology for Events to create and deliver a world class experience. This comes after the clients have realised importance of being viral and digital. Brands are also willingly ready to pay the price to get the best for one of the biggest emerging markets. I see technology as an extension rather than an alternative. Technology in Events will take a giant leap with world class Technology being used in Events and it will be like what has been never seen before. India gets ready for world class stage where we are bringing MIND-BLOWING technologies in events."

Sharad Mathur

Director
EMG Entertainment

Techie's wish list

Primary	Secondary
• Live streaming • Cashless transaction • Automatic and mechanised safety management • Online vendor code	• Hologram and 3D techniques • Niche consumer centric experiential content • Participative design and production techniques.

Source: Industry discussions conducted by KPMG in India

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Point of view

In India, entertainment options aimed at families have largely been confined to the conventional, passive formats. In fact, for many urban Indian families, a trip to the mall or a fine dining experience passes off as a recreational experience, primarily due to the lack of real entertainment options that can offer a high quality experience.

There are several economic and behavioral factors playing out over the past few decades that have been responsible for this, primarily low family incomes, low propensity to spend on entertainment, lack of (global) awareness and stunted infrastructure.

In the last 5-10 years though, India and Indians have undergone a sea change, especially on the urban spectrum. Economic liberalisation has given rise to new avenues for investments and enterprises across the board and has developed businesses that go beyond the conventional. Alongside, there has been a significant increase in the dispensable income of families and a simultaneous improvement in the need to spend on quality. Today's urban Indian is well-travelled, well-informed and desires the best in life.

These factors have played out well in the Media & Entertainment space, across almost all formats and platforms. The rapid growth in investments – by local and global companies has been supported well by an increasing inclination to spend on entertainment options across age groups. However, compared to Western markets, a large part of the Entertainment industry continues to be unstructured and fragmented.

This was the starting point for us, when we decided to venture beyond the current formats we operate in. Our core philosophy globally as well as in India is to constantly look at serving audiences with unique, high quality entertainment experiences that create unforgettable memories and Live Stage Musicals emerged as the ideal platform to bring this to life for the Indian families.

The 'musical' culture is innately Indian in many ways. We love our dramas, melodramas, songs and dances, and those form the core of what a great Musical is all about! Yet until October last year, there had been nothing as grand, extravagant and lavish as a Broadway musical ever staged in this country. This was primarily due to persistent challenges such as lack of quality infrastructure, untrained talent and long drawn approval processes, to name a few.

But some of this begun to change last year on both fronts – supply as well as demand. While the top metros now have at least a few venues of international standards available for hosting large scale events, the urban Indian has also started adopting new formats of entertainment and is showing a propensity to pay for quality. Triggered by this, we at Disney India felt it was the right time to introduce one of our most 'magical' entertainment formats to Indian audiences – Broadway-style musicals. We also had to change a few rules of the game to adapt to the challenges and audience preferences unique to the Indian set-up. Typically, musicals are conducted in proscenium style theaters with an audience capacity close to 1000, but we re-imagined the format to suit an arena/ stadium set-up, thus taking the production to a completely differently scale. Our musical 'Disney's Beauty and the Beast' opened at the Dome@NSCI in Mumbai and Thyagaraj Sports Complex in Delhi. We then conducted auditions across the country to search for talent proficient in all three skills – singing, dancing and acting and then trained them through a rigorous six-month routine under the guidance of the best names that India has to offer in Western Arts and Music.

The developments on the regulatory front are also providing a significant boost to the investment appetite in the live entertainment sector. The State Governments have rolled out multiple policies over the last 1-2 years to ensure a smoother state of functioning for the events industry at large. Delhi, and now Maharashtra, have both rolled out a single window system to speed-up the approval process and we hope this is soon replicated in other cities as well.

The risk and the hard work paid off for us when the first Season of 'Disney's Beauty and the Beast' received an overwhelming response from audiences in both cities with sold out shows, strong critical acclaim and an endorsement from the entire Creative fraternity. Backed by popular demand, we are now all set to launch the second season of the show this summer.

The biggest learning for us has been that, if you offer Indian audiences an entertainment option that is truly unique, high quality and adapted to their tastes and preferences, they will embrace it with open arms. This has given a boost to our long term vision of serving more and more Indian audiences with high quality musical entertainment showcasing best-in-class storytelling, acting, music and technology with the magic of Disney. We intend to bring many more iconic shows to the Indian stage that are 'Uniquely Disney but Distinctly Indian'.

Siddarth Roy Kapur

Managing Director
Disney India

Unless otherwise noted, all information included in this column/ article was provided by Siddharth Roy Kapur. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

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Conclusion

Given the growth rates of the Indian economy, the increased government spends on events, the ease and use of technology, and the understanding of the industry's issues and challenges, LE is a promising sector with its best years ahead.

This is borne out by the fact that Disney is, finally, investing heavily in India. Globally, 'Beauty and the Beast' is a traveling show, but for India in 2015, unlike any other country Disney decided to produce it locally at a scale and grandeur bigger than the original show. On an average a musical show on Broadway or the West End has not more than 30-40 artists on stage, but it had more than 100 local performers, making it the biggest production of 'Beauty and the Beast' globally. The seating was unique as a select set of audience could choose to be seated on swivel chairs to enjoy a 360 degree view of the show as the action plays out around them. This extraordinary expense created an immersive experience and compelled audiences to pay in excess of INR5,000 per ticket per show.[21]

Disney and 'Kingdom of Dreams' – currently the two main operators of the live musical genre – are betting on the INR25,000 per month per capita spent per household on live entertainment in cities like Mumbai, Delhi and Bangalore. Advanced and capital expense heavy technology through luminous stage and sets are now being used at both acts. By bringing the first Disney Classic musical, the company aims to provide audiences with a live entertainment option on par with New York and London. Similarly, Percept's live events vertical plans to monetise global IPs from its portfolio. Since its launch in 2007 – with few properties or events – Percept conducted about 300 events in 2015, and scaling this up to about 500 events in 2018. Similarly Wizcraft's IIFA is going regional as well as multiple times a year; and Jaipur Literature Festival is expanding its global footprint. All these point to a greater confidence in 2016 and beyond.[21]

21. Industry discussions conducted by KPMG in India

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Theme parks

Get ready for the ride

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The Indian amusement park sector which is valued at USD400 million (INR25 billion) is at a very nascent stage when compared to the USD25 billion (INR1,675 billion) global amusement park segment[01]. However, with rising income levels, increasing domestic tourism and favourable demographics, the sector is estimated to grow by a Compounded Annual Growth Rate (CAGR) of 19 per cent over the next five years, thereby offering immense growth opportunities in this sector[01]. The Indian amusement park sector presently is on a verge of transition, with several new amusement parks being developed across the nation and is poised to become an alternative avenue for entertainment in India.

Amusement parks are making significant investments in technology to develop products/themes that significantly enhance customer experience and participation. For instance, augmented reality (AR) and virtual reality (VR) have become areas of significant interest and investment.

Sector segmentation[02]

Amusement parks worldwide can be broadly segmented into three broad categories, based on their target audience and products/services:

Destination/resort parks

These parks operate primarily as destinations with on-site accommodation and cater to an audience for a duration of more than one day. They feature themed rides and water parks, offer on-site hotels/accommodation and ticket prices which are highest among all three segments. Domestic and international tourists form a major customer segment at these parks. Examples of companies with a large presence in this segment include Disney and Universal Parks & Resorts.

Regional parks

These parks offer a combination of thrill rides, water parks and on-site accommodation. Ticket prices at these parks are generally lower in comparison to destination/resort parks. The primary target area for these parks is the immediate city where the park is located, the secondary catchment covers a radius of approximately 400 to 500 kilometers. Some operators in this space include Cedar Fair (United States), Adlabs Imagica (Maharashtra, India) and Ramoji Film city (Hyderabad, India) amongst others.

Local parks

These parks generally offer rides and other attractions, but seldom provide on-site accommodations. Visitors to these parks primarily come from a catchment distance of approximately 150 to 175 kilometers, typically for a day's visit. Some operators in this space include Alabama Splash Adventure in Alabama (United States), Golfland - Sunsplash in Arizona (United States), Essel World in Mumbai (India), MGM Dizzee World in Chennai (Tamil Nadu, India) and Blackthunder in Coimbatore (Tamil Nadu, India) amongst others.

Concepts of amusement parks globally[02]

Global amusement parks can also be categorised on the basis of the concepts and themes around which a park and its offerings are designed.

Thrill and adventure

These parks offer rides and attractions such as fast roller coasters, safaris, ferris wheels, etc., as well as advanced games and adventure sports to provide thrilling experiences. Some parks in this category include Six Flags (Mexico, United States) and Adlabs Imagica (Maharashtra, India).

Sports

These parks cater to the sports enthusiasts and attractions are based on sports activities such as racing sports cars, rock climbing, swimming, ski-jumping, sprinting, para-sailing and many more. Some of the major parks in this category include Ferrari World (Abu Dhabi, United Arab Emirates (UAE)), ESPN Wide World of Sports Complex (Orlando, U.S.).

Fun and learning

These parks focus on providing a combination of education and information through entertainment, also known as 'edutainment' [03]. They may be based on concepts such as history, art and culture, science, music and dance, film and theatre and sports. Some of the major parks in this category include Europa Park (Rust, Germany), The Epcot Center (Florida, United States), Gulliver's Eco-Park (Milton Keynes, United Kingdom), KidZania (Mumbai, India).

Environment and nature

The main focus of parks in this category is on nature, animals and environmental awareness. This category generally includes nature-based waterparks, marine life based parks, animal theme (zoological theme) parks, gardens, eco-parks, etc. Some of the major players in this category are Ocean Park (Hong Kong), Sea World (Florida, United States), and Animal Kingdom (United States).

01. India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015 accessed on 16 February 2016.
02. Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.
03. Business World website, http://businessworld.in/article/KidZania-To-Invest-Rs-100-Cr-To-Open-Edutainment-Theme-Park-In-Delhi-NCR/12-10-2015-87052/, accessed on 20 March 2016.

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Lifestyle and film

Offerings of these parks revolve around lifestyle components such as fashion, films, shopping, themed restaurants, concert halls, theatres, spas, nightclubs and bars coupled with rides. Some of the players in this segment include Sentosa Island (Singapore), Universal Parks and Resorts (United States) and Ramoji Film City (Hyderabad, India).

Fiction and fantasy

In this category, offerings include museums and fiction-based themes. The players use technologies such as Bluetooth, radio frequency, Global Positioning Systems (GPS), robotics, mobile devices, etc., to bring their characters to life. Key players in this category include The VOID (The Vision of Infinite Dimensions) – proposed to open by June 2016 in United States, and Ripley's Entertainments (United States) amongst others.

Several innovative themes have emerged for parks with the advent of new technologies. Now it is possible to develop a snow park in extremely hot weather, for instance, the Ski Dubai Snow Park (UAE), or to operate a water park in very cold weather. Technology plays an increasingly integral part in the growth of the amusement park segment, as introduction of new attractions is key to maintaining footfalls.

Global amusement park industry performance – Resurgence in footfalls[04]

Attendance has shown steady growth after many years of challenges caused by slower economic growth in the West, with the top 10 amusement parks globally witnessing an attendance growth rate of approximately 3 per cent in 2014. The top 10 amusement parks attendance for 2014 was 130.18 million. The number of visitors at top global amusement and theme parks, region-wise, shows that North America has the highest footfall followed by the Asia- Pacific region and Europe Middle East and Africa (EMEA).

Top 10 amusement parks in the world, 2014[04]

Sr. no.	Amusement park	Location	Percentage change	Attendance in million (2014)	Attendance in million (2013)
1	Magic Kingdom	Walt Disney World, FL, U.S.	4.00%	19.33	18.59
2	Tokyo Disneyland	Tokyo, Japan	0.50%	17.30	17.21
3	Disneyland	Anaheim, CA, U.S.	3.50%	16.77	16.20
4	Tokyo Disney Sea	Tokyo, Japan	0.10%	14.10	14.08
5	Universal Studios Japan	Osaka, Japan	16.80%	11.80	10.10
6	EPCOT At Walt Disney World	Lake Buena Vista, FL, U.S.	2.00%	11.45	11.23
7	Disney's Animal Kingdom	Walt Disney World, FL, U.S.	2.00%	10.40	10.20
8	Disney's Hollywood Studios	Walt Disney World, FL, U.S.	2.00%	10.31	10.11
9	Disneyland Park	Disneyland Paris, Marne-La-Vallee, France	-4.70%	9.94	10.43
10	Disney's Ca Adventure	Anaheim, CA, U.S.	3.00%	8.77	8.51
	Total		**2.92%**	**130.18**	**126.67**

04. 2014 Theme Index – The Global Attractions Attendance Report; KPMG in India's analysis, 2016.

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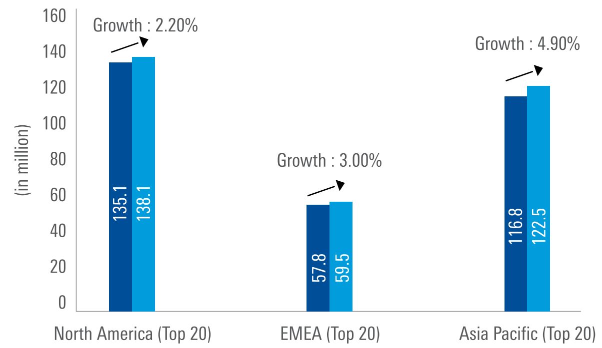
Performance of top 20 amusement parks across regions



Source: 2014 Theme Index – The Global Attractions Attendance Report; KPMG in India's analysis, 2016.

The top 20 parks in North America saw approximately 138.1 million visitors in 2014. With the end of recession in the U.S., the amusement park industry has seen a rebound with attendance figures exhibiting stable growth (approximately 2.2 per cent growth in attendance) which is characteristic of a mature market. U.S. is the largest market amongst other regions with the presence of large parks such as Disney Magic Kingdom, Disneyland, Universal Parks and Resorts and many more.

Top 20 EMEA amusement parks witnessed a footfall of approximately 59.5 million visitors in 2014; approximately 3 per cent higher as compared to 2013. The European amusement park industry showed continued recovery with the attendance figures rising for all the parks except Disneyland Paris. Other large European parks include Europa Park (in Germany) and Tivoli Gardens (in Denmark) amongst a few. Middle East as a region has witnessed continued interest towards development of theme parks in recent times with few amusement parks under development whereas no amusement parks projects have made their way to Africa.

During 2014, the top 20 amusement parks in Asia-Pacific region received approximately 122.5 million visitors. Japan, China, Hong Kong and South Korea are the four large Asian markets with Japan leading the way. Overall attendance at the top 20 amusement parks in the Asian market increased approximately 5 per cent in 2014, compared to 2013. A high annual attendance growth rate, favourable demographics, recent large-format amusement park development activity and the fact that Asia-Pacific region contributes 10 amusement parks to the list of top 25 worldwide highest attended amusement parks, demonstrates that the Asian market is continuing its growth pattern[05]. With dearth of quality amusement parks in India, there is, at a macro level, tremendous headroom for growth.

Indian amusement park sector

Introduction

Inception of the Indian amusement and theme park sector can be traced back to 1984 when Appu Ghar, spread over 15.5 acres of land, was formally inaugurated in New Delh[06]. The park was named 'Appu' after the mascot of the 1982 Asian Games held in New Delhi. Since then, the Indian amusement sector has grown to around 150 parks[07]. After Appu Ghar, entry of players such as Nicco Park and Essel World heralded the beginning of larger amusement parks in India. Nicco Park, spread over 40 acres of land in Salt Lake City in Kolkata was one of the first major parks in eastern region of India and began operations in 1991[08]. Essel World was developed on the coastal village, Gorai, in northwest Mumbai over 64 acres of land. It began its operations in 1989[09].

05. KPMG in India Analysis, 2016.
06. Times of India website, http://timesofindia.indiatimes.com/city/delhi/Dont-close-Appu-Ghar/articleshow/763595.cms, accessed on 20 March 2016.
07. India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015, accessed on 16 February 2016.
08. Economic Times website, http://economictimes.indiatimes.com/small-biz/east/nicco-park-is-now-an-important-landmark-in-salt-lake-arijit-sengupta/articleshow/17229677.cms, accessed on 20 March 2016.
09. Maharashtra Tourism website, https://www.maharashtratourism.gov.in/treasures/delight/esselworld, accessed on 20 March 2016.

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Growth of the amusement and theme park sector in India can be divided into various phases as discussed below:

Evolution of amusement and theme parks in India

1980

Opening of Appu Ghar in New Delhi (1984)

1990

- Development of larger parks – Essel World in Mumbai and Nicco Park in Kolkata
- Emergence of equipment manufacturers and suppliers in India (1993)
- Opening of India's first theme-based park (Kishkinta in Chennai)
- Entry of large players - VGP Universal Kingdom(Chennai), Ramoji Film City (Hyderabad), GRS Fantasy Park (Mysore), Ocean Park (Hyderabad) – marked by the introduction of new formats

2000

- Strategic alliances with international players for themed entertainment along with rising interest of foreign players in the Indian market
- Emergence and growth of Family entertainment centers (mid 2000s)
- Emergence of parks with integrated offerings

2010

Various large players in the Amusement industry raised money through capital markets after 2010:

- Wonderla Holidays raised public money in May, 2014, primarily for developing new amusement parks in Hyderabad and Chennai.
- Adlabs entertainment raised money in March, 2015 for retiring its debt and increasing its footprint in India

2016 onwards

Way forward:

- Introduction of new technology in terms of Virtual reality and Augmented reality.
- Industry expected to grow at CAGR of 19% over the next five years to touch approx. INR60 billion, and attract approx. INR297 billion in investments.

Source: Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

The sector saw emergence of equipment manufacturers and suppliers in India in the early 1990s. For example, Hindustan Amusement Machines, an equipment manufacturer, began its operations in 1993. During 1990s, the Indian amusement and theme park sector also saw the development of its first theme-based park, Kishkinta, in Chennai[10]. The park, inaugurated in 1995, is based on the legend of the monkey kingdom described in the Ramayana. In 1995, VGP Universal Kingdom, another major South Indian amusement park, became operational[11]. It was constructed as an addition to the existing resort facilities of the park operators. The sector witnessed another round of development with the entry of players such as GRS Fantasy Park (in Mysore), Ramoji Film City (in Hyderabad) and Ocean Park (in Hyderabad) in the late 1990s. This round of development was marked by the introduction of newer formats (Film City) and the emergence of large parks in other major Indian cities, e.g., in Hyderabad and Mysore.

In the new millennium, the sector has witnessed the development of large parks with combined offerings such as malls, hotels and convention centres. Worlds of Wonder Park at Noida is based on this concept. The park has been developed on a 150 acre campus and has a large mall. It has also forged an alliance with Cartoon Network to use the latter's characters for its themed attractions.

After 2010, some companies raised capital through the IPO route for expansion for example Adlabs and Wonderla.

10. The Chennai World Press website, https://thechennai.wordpress.com/2011/06/23/kishkinta-theme-park/, accessed on 20 March 2016.
11. VGP Universal Kingdom website, http://vgpuniversalkingdom.in/house-of-vgp/, accessed on 20 March 2016.

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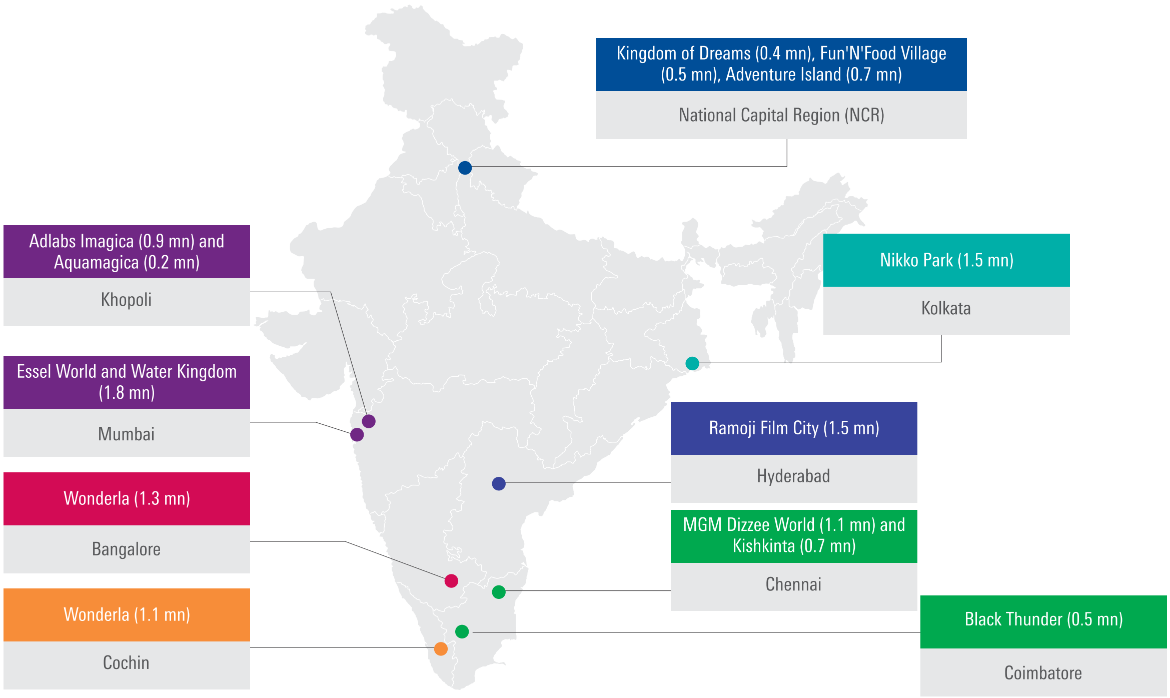
Major amusement parks in India and their attendance (in million) for FY2015



Source: India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015, accessed on 16 February 2016; Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

Amongst the Indian amusement parks, Essel World has exhibited the highest attendance with 1.8 million visitors in the year FY2015 owing to its proximity to Mumbai city along with relatively lower ticket price than its closest competitors (Adlabs Imagica and Wonderla)[12]. Ramoji Film City recorded the second highest attendance with 1.5 million visitors (FY2015). This was followed by Wonderla Bengaluru and Cochin at 1.3 million and 1.1 million visitors respectively for the year FY2015. Adlabs Imagica in Mumbai attained annual attendance of 0.9 million visitors for the same year[13].

12. Business Standard website, http://www.business-standard.com/article/markets/adlabs-imagica-increasing-footfalls-is-crucial-for-turnaround-115030800374_1.html, accessed on 20 March 2016.
13. India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015, accessed on 16 February 2016.

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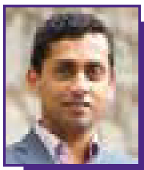
Changing trends of the Indian theme and amusement sector

Over the years, there has been a change in the sector outlook with focus shifting to enhance consumer experience and match quality of parks to international standards. Additionally there is increased focus on expanding the average spend per footfall through multiple revenue streams (beyond rides) to include F&B, retail and hospitality.

1980-2000	2000-2016	2016 onwards
Considered to be a place only for kids Key offerings: • Fun rides • Water rides • Food and beverages outlets.	Increase in the industry offerings Key offerings: • Themed rides • Fun rides/thrill rides • Water rides • Organised food courts/F&B centres • Fitness house (Spas) • Hotel and resorts • Shopping malls/retail zones • Convention centres.	Parks to be based on global standards with use of innovative technology to enhance visitor experience and increase consumer spending. Key offerings which could improve the overall experience of the visitors: • Virtual Reality • Augmented Reality • Innovative concepts and themes • Rides which would require higher visitor participation, improving the overall experience • Edutainment gaining importance as a concept in amusement parks.

Source: Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

Current technology used in amusement parks and Family Entertainment Centres (FECs) in India is basic when compared to the global players. However, recent developments such as theme-based rides, virtual reality based roller coasters, games, sports stimulation technology, education based entertainment, etc. at newly developed amusement centres is changing the Indian amusement sector. For example, Smaaash offers sports stimulation technology thus combining innovative technology with sports to provide an engaging customer experience for sports enthusiasts. Both Wonderla and Adlabs Imagica have rides which combine various themes with virtual reality to enhance customer experience and participation. Kidzania provides real life role play activities for children thus combining education with entertainment[14].



"The Indian amusement sector is currently at a nascent stage as compared to its global competitors. Going forward, awareness about the importance of design and safety, ability to minimise CAPEX, bring in new attractions periodically, train and retain man power and to market the park as an aspirational product would be some of the critical factors contributing to the success of the amusement parks."

Arun Chittilappilly

Managing Director

Wonderla Holidays Private Limited

14. Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

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Key drivers for the Indian theme park sector

Growth in international tourist arrivals

Foreign tourist arrivals is expected to increase from 7.7 mn in 2014 to 15 mn in 2020, attracting higher footfalls for the amusement park[6].

Rising urbanisation

Level of urbanisation is expected to increase from 27.81% in 2001 to 40% by 2030, increasing the catchment area for the amusement park[5].

Increasing contribution to GDP

The direct contribution of travel and tourism to GDP is estimated at INR2,222 billion in 2013, the total contribution is estimated at INR7,416 billion in the same year[4].

Demographic advantage

By 2020 the median individual age in India would be 29 years with 64 per cent of its population in the working age group (key driver for footfalls)[1].

Rising income levels

India's per capita GDP (constant price) has gone up from INR64,316 in 2011-12 to INR87,748 in 2014-15, fuelling a consumption boom in the country[2].

Increased spending on tourism

Capital investment in the travel and tourism sector is expected to amount to INR5,459 billion by 2023[3].

Source: (1)The Hindu website, http://www.thehindu.com/news/national/india-is-set-to-become-the-youngest-country-by-2020/article4624347.ece, accessed on 16 February 2016.
(2)Statistics Times website, http://statisticstimes.com/economy/gdp-capita-of-india.php, accessed on 16 February 2016.
(3)Travel and tourism sector: Potential, opportunities and enabling framework for sustainable growth, www.kpmg.com/IN/en/.../KPMG-CII-Travel-Tourism-sector-Report.pdf, accessed on 16 February 2016.
(4)Travel and tourism sector: Potential, opportunities and enabling framework for sustainable growth, www.kpmg.com/IN/en/.../KPMG-CII-Travel-Tourism-sector-Report.pdf, accessed on 16 February 2016.
(5) Enterprise Innovation website, http://www.enterpriseinnovation.net/article/indias-100-smart-cities-plan-takes-shape-1867281957, accessed on 16 February, 2016.
(6) Orissa Post website, http://www.orissapost.com/15-mn-foreign-tourist-arrivals-likely-in-india-by-2020/, accessed on 16 February, 2016.

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Key challenges faced by the sector

Industry discussions indicate that there are various challenges in the Indian amusement park sector which are entry barriers for various global players. Challenges faced by the sector have been highlighted in the figure below:

Key challenges faced by the amusement park sector

Few government incentives

Currently limited incentives are available from the various governments in terms of tax breaks, various duties etc. for the sector. More support is required from the government owing to the capital intensive nature of the business

Land acquisition

The absence of contiguous parcels of land at affordable rates and difficulty in acquiring these parcels are a major deterrent for the development of amusement park sector

Lack of basic infrastructure

The lack of basic infrastructure in terms of utilities like power station, water, sewage treatment plants), is cited as a point of concern by industry experts

Quality manpower and retention

Availability of quality manpower, lack of training and difficulty in retention of employees

Classification of amusement sector under Infrastructure

Classification of amusement parks under infrastructure (Infrastructure status by the government) projects so as to attain lower interest rates and lower power cost - benefits attached with these projects

Lack of last mile connectivity

Limited public transport (Buses/ metros, etc.) to reach amusement parks affects the annual attendance figures of these parks which are located in the outskirts of major cities. Internationally governments have provided major support for amusement park operators in terms of connectivity.

Lack of awareness about safety

The lack of awareness among park operators and guests with regards to safety, design and hygiene of the amusement parks

Seasonality

Monsoon and cold weather affect the industry as most of the parks are outdoors and cater to the summer or school holiday season

Source: Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

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Sector size

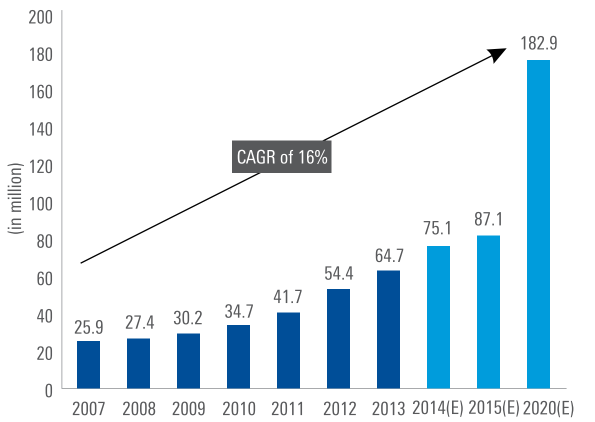
The amusement park sector in India, is currently at a nascent stage when compared to the developed markets. The Indian amusement park sector is estimated to be at USD400 million (INR25 billion) as on 2015 and is expected to register a 19 per cent CAGR over the next five years to reach at INR60 billion[15]. This is likely to be driven by new park developments and favourable demographics. India has approximately 150 amusement parks for a population of 1.21 billion, while the U.S. has 400 amusement parks for a population of 319 million, hence India offers a vast potential for growth in the amusement park segment[15].

Key industry highlights

Amusement park industry in India	
No. of amusement parks, water parks, theme parks	150
Current market size, INR billion	25
Million visitors annually (2013)	64.7

Source: India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015, accessed on 16 February 2016, Indian Association of Amusement Parks and Industries.

Attendance of visitors to theme parks in India

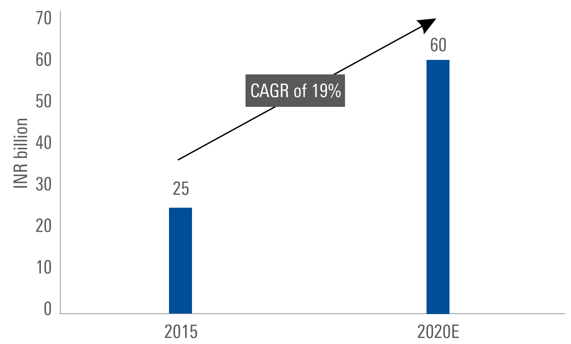


Note: (E) – Estimated figures for the year 2014, 2015 and 2020. The attendance figures for these years are estimated at a CAGR of 16%.

Source: Business Today website, http://www.businesstoday.in/magazine/features/amusement-theme-parks-attracting-visitors-despite-hurdles/story/202286.html, accessed on 20 March 2016.

Many Indian parks have poor infrastructure when compared to their global counterparts, however the Indian amusement park sector is on the verge of transition with several new parks being developed across the country. Historically, annual visitors to amusement parks in the country has increased at a CAGR of 16 per cent for the period of 2007 to 2013. On the contrary, the attendance at the top 25 global amusement park has witnessed a CAGR of 4 per cent for the period of 2008 to 2014, thus indicating the vast potential in the Indian amusement sector[16]. The footfalls are expected to register a 10 to 15 per cent CAGR going forward and are likely to touch approximately 75 to 80 million in the next couple of years.

Estimated market size for the amusement park industry in India



Source: India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015.

Family entertainment centres (Entertainment zones) vs amusement parks in India[17]

The local parks in the amusement park sector are also demarcated in terms of the attractions offered to the visitors. There are Family Entertainment Centres (FECs - stand alone or located in malls) which offer arcade games, virtual reality, augmented reality attractions. FECs are located inside the city and are avenues where people generally spend three to four hours of their time. However, amusement parks located away from the cities provide theme based attractions where visitors can spend their whole day. Both these entertainment destinations differ in the attractions offered to visitors, however both cater to similar target group.

The average spend per person in an entertainment zone (VR/AR arenas) is between INR800 to INR1,200 per person and the average time spent is between three and four hours. However, the average spend per person for an amusement park is in the range of INR750 to INR2,500 for the whole day[17].

15. India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015, accessed on 16 February 2016.
16. IAAPA Global Theme and Amusement Park Outlook 2014-2018 - http://www.iaapa.org/docs/default-source/default-document-library/iaapa-global-theme-and-amusement-park-outlook-2014-to-2018.pdf?sfvrsn=0, accessed on 20 March 2016; 2008 Theme Index – The Global Attractions Attendance Report, KPMG in India's analysis, 2016; 2014 Theme Index – The Global Attractions Attendance Report, KPMG in India's analysis, 2016.
17. Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

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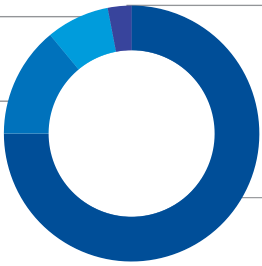
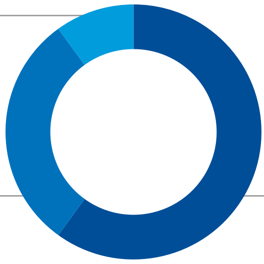
Revenue mix for a typical theme park in India



Source: Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

Revenue mix for a VR/AR theme arena in India



Source: Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

Industry experts indicated there are two major avenues for revenue generation in amusement parks i.e. admission revenue (admission ticket, parking revenues, etc.) and in-park revenue (F&B sales, merchandise sales, hotel accommodation, etc.). But unlike amusement parks, entertainment zones players do not have an admission fee. These players generate a large proportion of their revenue through gaming (per game charge), followed by events revenue (corporates, school groups, kitty parties, etc.) and the rest is attributed to food and beverages.

With India lacking quality entertainment options, amusement parks of international standards are poised to fill the gap in the entertainment sector in India in the coming period. This sector has also proven to be a tourism boaster internationally and this will also be true for our country. However, quality of theme parks, ticket pricing and spreading awareness about the project is the key to the success of such projects. At present, the major problem lies in the communication gap between the operator and the visitor as people do not know what to expect. People benchmark it with the existing amusement parks and do not understand that an theme park is different. The Indian amusement park sector is in a nascent stage and very small as comparable to the global amusement park industry. Accordingly, support from the Indian government is very important. The big challenge faced by this sector is that the government has double taxed this sector with entertainment tax and the increased service tax. Also, the government does not promote the entertainment industry via the tourism ministry, government should participate in terms of provision of low cost long-term funding, clarity on the taxation policy, capital subsidy for large projects amongst others. Giving an infrastructure status to amusement parks would help in reduced interest rate and help the operators procure equipment from the leasing companies.

Manmohan Shetty
Chairman
ADLABS Imagica

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Way forward

There have been various large investments proposed in the theme park sector both on Public Private Partnership (PPP) basis and by private players in India. The list of proposed investments in the industry have been listed below:

Proposed investment in the theme/amusement park sector in the near future

Project	Location	Theme/attractions	Size (Acres)	Proposed investment (INR bn)
Surat theme park	Surat, Gujarat	Theme park	3200	100
Theme park	Agra, Uttar Pradesh	Mega theme park with 7 themes	1000	100
Om City	Hyderabad, Telangana	Replicas of 108 famous temples of the country.	2000	30
Jaipur Mega-tourism City	Jaipur, Rajasthan	Mega tourism	300	25
Theme park	Nagpur, Maharashtra	Theme park concepts like Jurassic park, Terminator and Spiderman	300	15
TBD	Andhra Pradesh	Three amusement parks	TBD	10
Space World theme park	Lavasa, Maharashtra	India's first edutainment theme park (Under construction).	65	4
Appu Ghar	Gurgaon, Haryana	Amusement and Water Park	60	4
Krishna Lila theme park	Bengaluru, Karnataka	Based on Vedic heroes	28	3.5
Wonderla	Chennai, Tamil Nadu	Amusement and Water Park	NA	3
Wonderla	Hyderabad, Andhra Pradesh	Amusement and Water Park	49.5	2.5
Naya Raipur amusement park	Naya Raipur, Chattisgarh	Recreation cum amusement park	40	0.23
Total				**297.23**

Source: India Amusement Parks – Opportunities Galore published by Anand Rathi Associates on December 2015, accessed on 16 February 2016; Economic Times website, http://realty.economictimes.indiatimes.com/news/infrastructure/work-on-rs-10000-cr-theme-park-in-agra-to-begin-from- march/50913951, accessed on 20 March 2016; Times of India website, http://timesofindia.indiatimes.com/good-governance/karnatka/Bengaluru-likely-to-get-its-own-Disneyland/articleshow/48868754.cms, accessed on 20 March 2016; Times of India website, http://timesofindia.indiatimes.com/city/hyderabad/Telangana-govt-to-hand-over-505-acres-for-Ramoji-Om-City/articleshow/50328517.cms, accessed on 20 March 2016; The Hindu website, http://www.thehindu.com/news/cities/Vijayawada/essel-world-evaluates-three-places-for-theme-parks/article8115249.ece, accessed on 20 March 2016.

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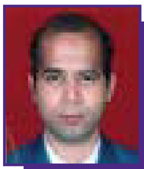

> With the growth in the global amusement park sector, going forward the Middle-East and India are poised to attract substantial investments and tourism within this sector. Augmented Reality (AR)/Virtual Reality (VR) theme-park offering a digital alternative to cinemas, bowling alleys and shopping centres, though being a relatively new concept, is fast gaining acceptance worldwide especially within the gaming concept. We intend to capitalise on our early mover advantage within the AR/VR space. The company is heavily invested in the AR/VR space and is continuing to increase its presence in the sector by developing technologies for additional games. Apart from continuous up gradation of content and minimising CAPEX by in-house development of content, revising the F&B concept in the outlets at regular intervals along with the expansion plans into other cities nationally and internationally are some of the key strategies adopted by the firm. However, clarity in the tourism policy and incentives such as tax holidays provided by the government to this sector would be the key drivers for this industry going forward and would provide a boost to this sector.

Vishwanath Kotian
Chief Financial Officer
Smaaash

A total of approximately INR297 billion is proposed to be invested in the Indian amusement park sector in the near future. Approximately 50 per cent of the investment is proposed in the western region of the country with a large amusement park being proposed in Surat on a PPP model basis. There has been minimal activity witnessed in the eastern region of the country in terms of new proposals for the development of amusement parks.

Industry experts believe that majority of the proposed investments are expected to follow the PPP model which would allow the private players the required leeway from the government in terms of land acquisition, incentives, taxes etc. for development of such large projects[18]. Also, India being a country with a rich historic past has a large quantum of heritage properties across the country. Various state governments are planning at utilising these heritage properties for revenue generation and promotion of tourism. Hence, this appears to be a lucrative proposition for both amusement park operators and the respective state governments.

With favourable demographics, rich historical heritage, new innovative technologies, relatively untapped market, favourable PPP model, and proposed investments the amusement park sector is expected to emerge as a major constituent of the entertainment industry in the near future.

18. Industry discussions conducted by KPMG in India; KPMG in India's Analysis, 2016.

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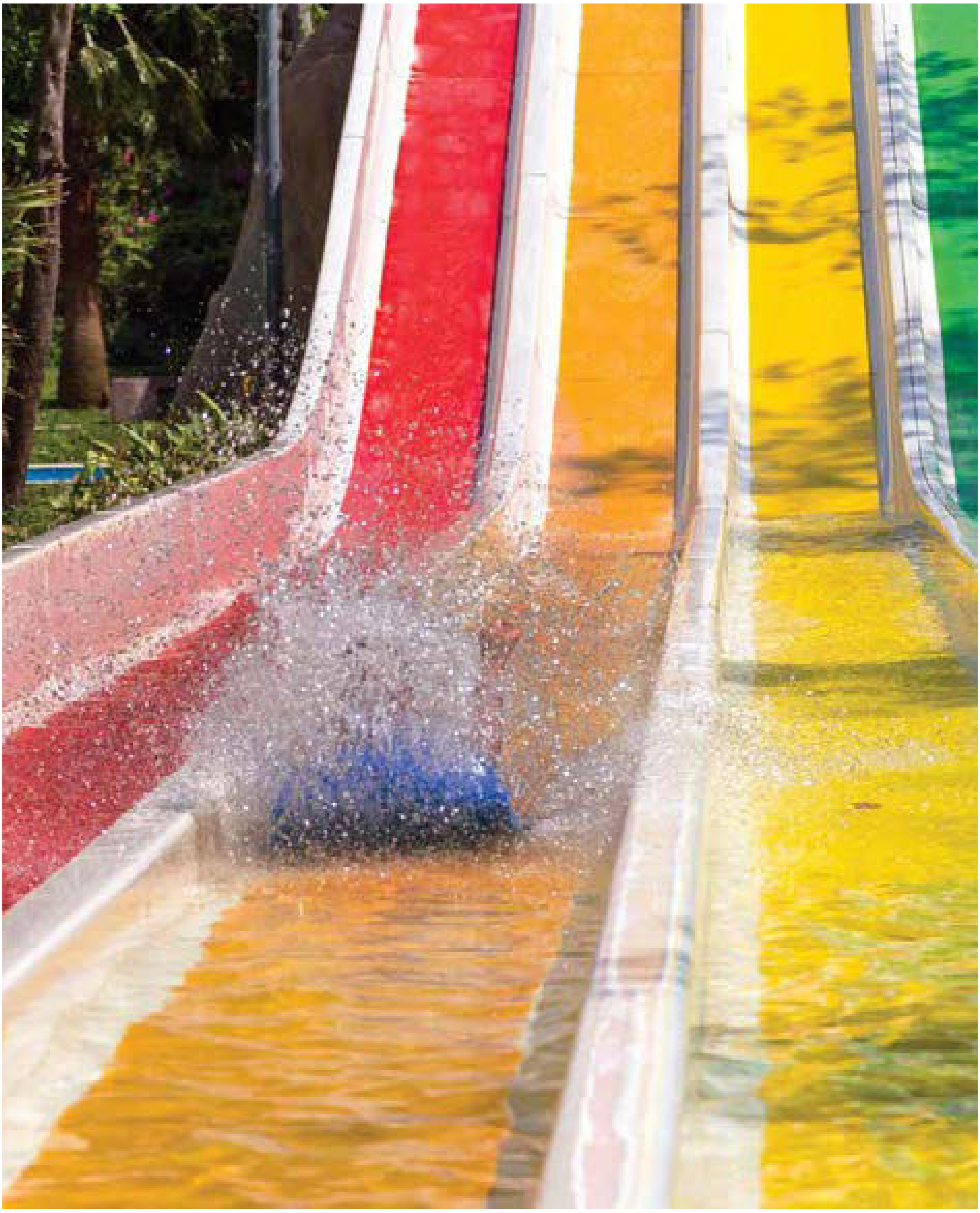

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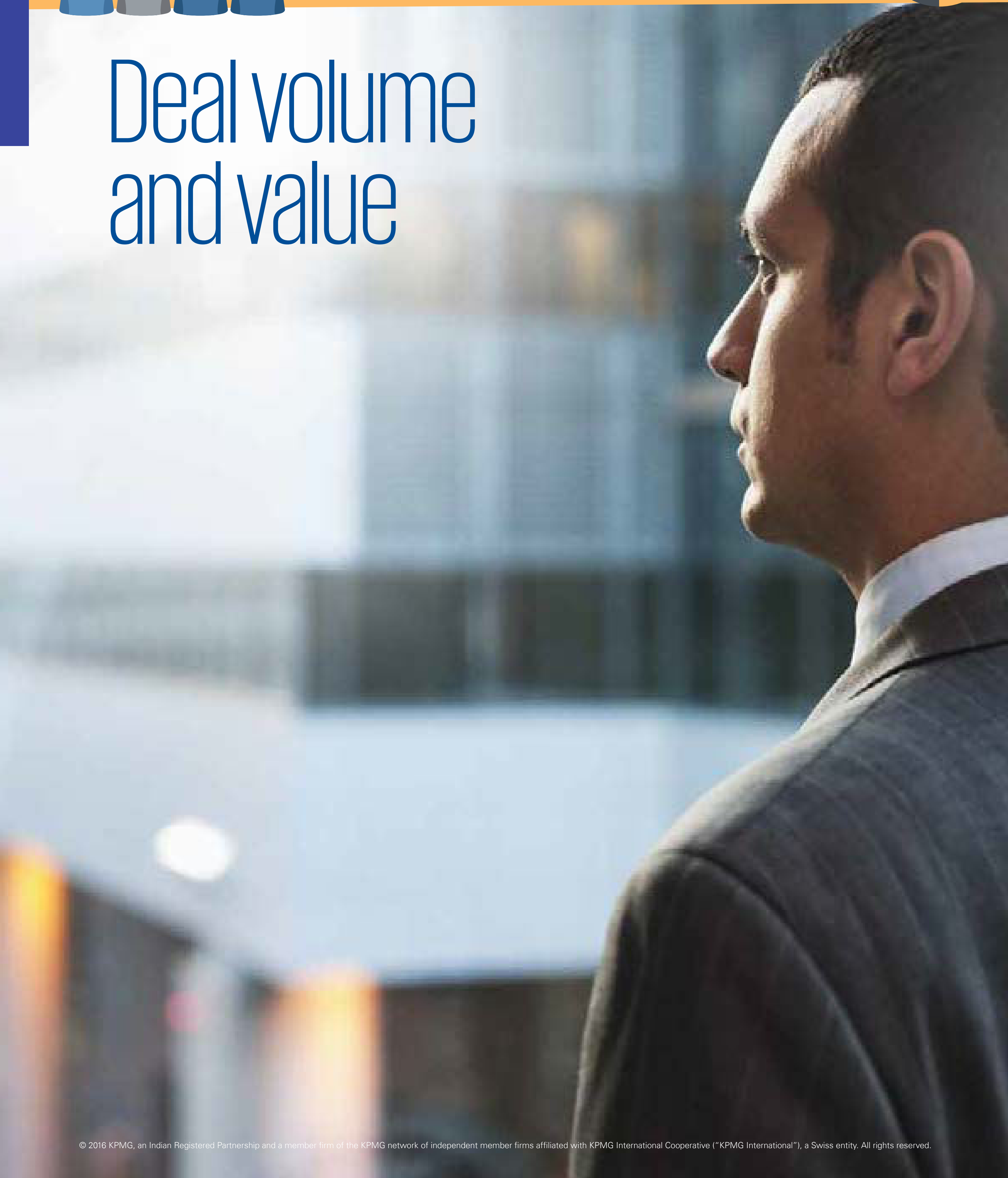
Deal volume and value



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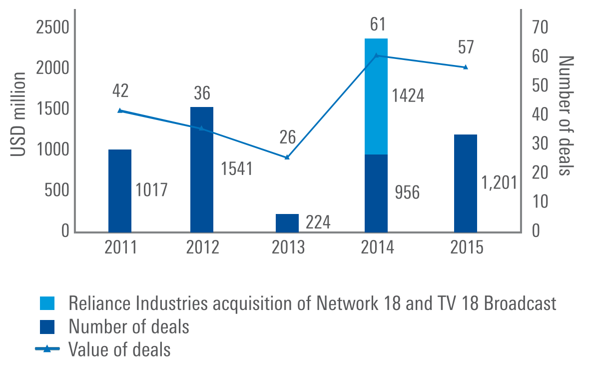
Deal volume and value in 2015

The number of transactions in the M&E industry decreased from 61 in 2014 to 57 in 2015. The overall deal value decreased from USD2,380 million in 2014 to USD1,201 million in 2015. The deal value in 2015 was lower than the deal value in 2014 because of the major acquisition of Network 18 Media & Investments Ltd and TV 18 Broadcast Ltd by Reliance Industries Ltd, for approximately USD1,424 million that took place in 2014.

Trend of investments in M&E (volume and value)



Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

Investment in the M&E industry continued on the basis of a few significant themes, such as portfolio diversification, consolidation and digitalisation.

Notable strategic transactions for 2015 are:

Date	Target	Target sector	Acquirer	Deal value (INR million)	Transaction theme
Feb-15	Maa Television Network Limited	TV	Star India Private Limited	24,000	Portfolio diversification
Jul-15	Prism TV Pvt. Ltd.	TV	Nickelodeon Asia Holdings Pte Ltd.	9,405	Portfolio diversification
Jun-15	DT Cinemas Ltd.	Film	PVR Limited (BSE:532689)	5,000	Consolidation
May-15	Music Broadcast Private Limited	Radio	Jagran Prakashan Limited	5,000	Portfolio diversification
Mar-15	Reliance MediaWorks Ltd	VFX	Prime Focus Limited	3,688	Consolidation
Oct-15	Fountainhead Entertainment Pvt Ltd	Digital	Dentsu Aegis Network Limited	3,000	Consolidation
Jan-15	ZipDial Mobile Solutions Pvt. Ltd.	Digital	Twitter, Inc. (NYSE:TWTR)	1,851	Diversification

Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

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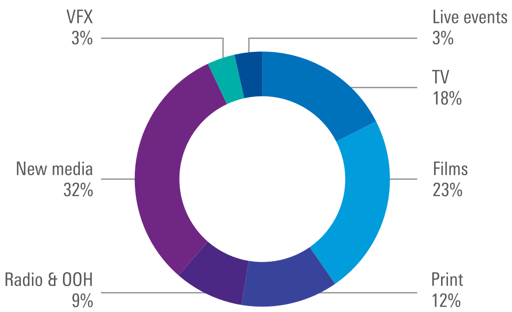
The marquee private equity transactions are:

Date	Target	Target sector	Fund	Deal value (INR million)
Sep-15	Network18 Media & Investments Limited	TV	-	10,000
Jun-15	PVR Limited	Film	Multiples Alternate Asset Management Private Limited	3,500
Aug-15	Technology Frontiers India Pvt Ltd	OOH	ADV Opportunities Fund-I	2,318
Nov-15	Culture Machine Media Pvt Limited	TV	Tiger Global Management, LLC; Times Internet Limited	1,111
Jan-15	Amagi Media Labs Pvt. Ltd	Digital	Mayfield Fund; PremjiInvest	900
Jun-15	Next Radio Limited	Radio	Rakesh Jhunjhunwala	250

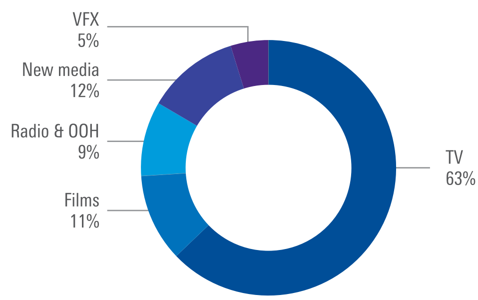
Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

Categorisation of deals in M&E in 2015 by volume/ sector



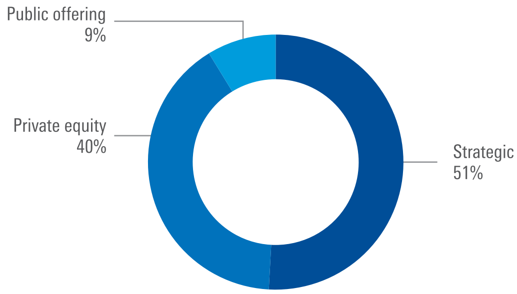
Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

Breakdown of deals in M&E in 2015 (by value/ sector)



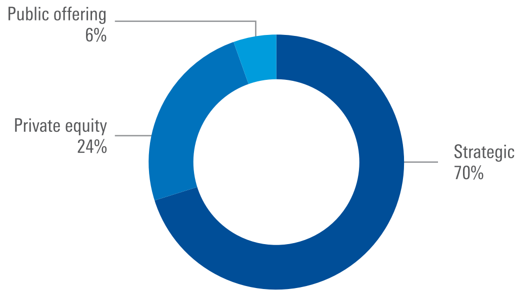
Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

Breakdown of deals in M&E in 2015 by volume



Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

Breakdown of deals in M&E in 2015 by value



Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

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Deal volume in 2015 in the digital/new media sector was higher than other sectors. Digital/new media sector continues to ride on the positive wave of performance from 2013 and 2014, as strategic and private equity investors primarily invested in digital marketing and content creation companies. Deal activities in the television, film exhibition and radio have taken place primarily on account of expansion into the regional markets.

Television

Television, one of the largest segments in the M&E industry in terms of deal value, saw a rise in deal activity in 2015[02]. There were 10 transactions in 2015, which constituted 63 per cent of the total deal value.

Television broadcasting

As per the Telecom Regulatory Authority of India's (TRAI) regulations on channel aggregators, broadcasters cannot package their channels with those of other broadcasters while offering them to Cable and DTH operators.[01] This led to lower bargaining power to broadcasters while negotiating subscription revenues and carriage fees with MSOs and DTH operators. While this did not necessarily impact large broadcasters with a strong portfolio of channels, it has become more difficult for smaller broadcasters having only a few channels. Furthermore, major broadcasting players are aiming to fill gaps in their assortment of channels in terms of regional languages and niche genres. This trend has led to the following transactions[02]:

- Maa Television Network Ltd. sold its broadcasting business to Star India Pvt. Ltd. for INR24,000 million in February 2015, allowing Star India to broadcast the Maa channels under the Star brand and widen its access to a Telugu-speaking audience.
- Nickelodeon Asia Holdings Pte. Ltd. acquired 50 per cent stake in Prism TV Pvt. Ltd. for INR9,405 million in July 2015 to expand Viacom's regional footprint. Nickelodeon is tapping the regional television segment by rebranding the ETC channels as Colors channels.
- Zee Entertainment Enterprises Ltd. acquired Sarthak Entertainment Pvt. Ltd. in July 2015 to access the Odiya-speaking audience.

The television broadcasting industry has witnessed increase in funds being raised by Zee Media Corporation Ltd and Network18 Media & Investments Ltd. These companies intend to use the proceeds for upgrading their broadcasting equipment, funding subsidiaries for repayment of loans, and other general corporate purposes.[02]

Television distribution

On the distribution front, MSOs are yet to show enough monetisation from digitisation. Moreover, MSOs are investing in rolling out STBs, upgrading digital head-ends, other back-end infrastructure for the implementation of digitisation in Phase III and Phase IV.[02] Furthermore, MSOs also require investments to fund acquisitions of other MSOs/LCOs; investments to provide broadband services and fund their working capital. In order to meet such funding requirements, Siti Cable Network Ltd. issued fresh equity amounting to INR2,211 million in March 2015.[02]

Furthermore, Siti Cable would acquire stakes in seven small-sized cable companies. These include companies based in Hyderabad, New Delhi, and Chittoor. Siti Cable would also acquire the remaining 49 per cent stake in New Delhi-based Siti Faction Digital Pvt. Ltd. and 49 per cent stake in Siti Jony Digital Cable Network. This transaction is expected to close by March 2016.[03]

The DTH operator segment is expected to experience a slowdown in investments. The operating margins of DTH operators are on the rise, leading to an increase in cash profits.[02] Therefore, this segment is likely to to fund their capital requirements through internal accruals and hence does not need further significant investments.

Content creators

Increase in internet and smartphone penetration has led to a surge in consumption of television and other video contents through mobile apps and internet services, such as YouTube, HotStar and Eros Now.[04] An increase in transactions in the digital content creation segment has been witnessed in 2015, and this trend is likely continue in 2016.[05]

- Culture Machine, a digital video networks company, raised INR1,111 million through private equity funding by Tiger Global Management LLC, and Times Internet Ltd. Culture Machine would use these funds to invest in strengthening existing technology solutions and creating content.
- YoBoHo New Media Pvt. Ltd., which creates and licences characters and video content for children, sold 87 per cent stake in the company to BroadbandTV Corp. for INR609 million. This acquisition would allow BroadbandTV Corp. to access video content created by YoBoHo for mobile consumption.
- Ping, which produces video guides for home cooking, raised funds through private equity in 2015.
- TVF Ltd announced that they would be receiving equity funding from Tiger Global Management LLC. It is expected that this deal is likely to close in 2016.

01. "TRAI ruling hits content aggregators", Business Today, 12 February 2014, http://www.businesstoday.in/sectors/telecom/trai-ruling-hits-content-aggregators/story/203257.html, accessed on 2 February 2016
02. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016
03. Siti Cable to acquire 76% stake in Scod18; plans to raise Rs 680 crore, Television Post, 6 January 2016, http://www.televisionpost.com/cable/siti-cable-acquires-76-stake-in-scod18-plans-to-raise-rs-680-crore/, accessed on 2 February 2016
04. CRISIL Research, "Digital media gains popularity among advertisers, driven by growing use of smart phones and access to Internet", 2015
05. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

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Radio

Regional consolidation

Larger players in the radio segment expanded into tier-II and tier-III cities through acquisitions of smaller players in the industry. Many players are expected to enter new markets through mergers and acquisitions rather than going through the auction process, since the cost of setting up a new radio station and getting the required licences is high in India.

For example, Music Broadcast Ltd acquired Shri Puran Multimedia Ltd. for an undisclosed consideration in October 2015, as the latter operates radio stations in Uttar Pradesh, Haryana, Punjab and Jharkhand under the Radio Mantra brand name. Similarly, TV Today Network entered into an agreement to sell four radio stations in Jodhpur, Amritsar, Patiala and Shimla to Entertainment Network (India) Ltd for INR40 million, in February 2015.[06]

On the other hand, in order to migrate from Phase II to Phase III licencing, radio channels were required to pay a large one-time migration fee. Hence, radio channels have sought funds to upgrade equipment and meet working capital requirements.[06] Next Radio Ltd, which operates radio stations under the brand name Radio One 94.3 FM, raised INR250 million from a private investor, Rakesh Jhunjhunwala. The funds would be used for migration of Next Radio's existing licences from Phase II to Phase III, apart from participation in the upcoming auctions for new FM radio licences to acquire new frequencies.[07]

Currently, several players are operating radio stations and there is no large national player in the market. As the trend of consolidation continues the top-4 players — Reliance Broadcast Network Ltd, Entertainment Network India Ltd, DB Corp Ltd and Music Broadcast Pvt. Ltd. — are likely to emerge as national players in the long run.

Regulatory developments

Post the Phase III licence migration, all new radio channels would be unable to make changes in majority ownership for three years once they become operational. This would slowdown deal activities for new radio channels.

TRAI has also ruled that starting 2015, the earlier limit of 26 per cent FDI would increase to 49 per cent for all radio stations.[08] Several players in the industry have made representations to increase this to 100 per cent for non-news channels, while retaining 49 per cent for news channels, mirroring the television sector. If successful, this development would spur new investments into the sector, with foreign players looking to expand their foothold in the Indian market.

Diversification of print into radio

Print and radio enable advertisers to reach out to audience in a specific region. As the slow pace of growth in the print segment is affecting large players, they have started diversifying into the radio segment. For example, the Times Group operates Radio Mirchi, the Dainik Bhaskar group runs radio stations in 17 cities under the brand My FM, Sun Group owns and operates 48 radio channels across India under the name Suryan FM and Red FM, and HT Media Ltd operates Fever 104 FM radio channels across metropolitan cities in India. Following this trend, Jagran Prakashan Ltd. completed the acquisition of Music Broadcast Ltd. for INR5,000 million in May 2015 from India Value Fund Advisors Pvt. Ltd. This acquisition consolidated Jagran Prakashan's position in the media and communication industry.[09]

Following is the post deal presence of radio stations in India:

Company	Pre-deal presence	Post-deal presence
Jagran Prakashan Ltd	0	28
Entertainment Network India Ltd	32	39
Music Broadcast Ltd	20	28

06. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016
07. CRISIL Research, "Radio - Phase III auctions awaited; seen as key driver for revenues", 2015
08. FDI raised for FM radio and news television channels to 49 per cent, Radio and Music Biz, 10 November 2015, http://www.radioandmusic.com/biz/regulators/151110-fdi-raised-fm-radio-and-news-television-channels-49-cent, accessed on 17 February 2016
09. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

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Print

Deal activity in the print media segment was driven by portfolio diversification and digitalisation.

The print segment is fragmented with several players offering newspapers in regional markets. With the advent of digital segment, the growth of print segment is expected to slow down. This trend could ideally result in consolidation of smaller players with larger players. However, consolidation would be challenging as the smaller companies are unwilling to sell their businesses that their families have run for many years. Hence, the traditional print media companies would look to raise funds and grow organically.

Portfolio diversification

Looking to grow organically, Amar Ujala Publications Ltd. raised INR500 million through a public offering, in March 2015. Amar Ujala Publications would use the funds for expansion of existing printing capacity, purchase hoardings to expand into the OOH segment and invest in the expansion of its digital business.[10]

S. Chand & Company Pvt. Ltd. announced that it would receive INR1,200 million in a round of funding from International Finance Corporation. The proceeds would be used to diversify the company's product offerings and explore new avenues of publishing, such as regional language, foreign language and hobbies.[10]

Digitalisation

HT Digital Information Private Ltd acquired the multi-media content management undertaking from Hindustan Media Ventures Ltd for an undisclosed amount, in October 2015. This transaction would allow HT Digital Information Private Ltd to use the content curated by Hindustan Media in their Hindi publication 'Hindustan' to reach a Hindi-speaking audience through digital platforms, such as their website and other mobile applications.[10]

Star India Pvt. Ltd. acquired 'Screen', the India-based weekly film magazine, from The Indian Express Ltd for an undisclosed consideration. As part of the transaction, Star India would get an exclusive ownership of the Screen brand franchise, including the entertainment editorial suite and transfer of key employees. Upon completion, Screen would be available in a digital form with audio and video content, adding to the textual content, thereby marking the end of Screen's print form.[10] In the long run, print companies would need to diversify into different areas, such as radio or OOH, else embrace digitalisation to sustain growth.

Films

Transactions in the cinema exhibition space are in line with 2014's trend of consolidation and regional expansion through mergers and acquisitions. PVR Ltd. acquired DT Cinemas for INR5,000 million in June 2015 and added 67 screens to their portfolio. Similarly, Carnival Films Pvt. Ltd. acquired Stargaze Entertainment Pvt. Ltd. in January 2015 for an undisclosed amount to increase their screen count.[10]

In the next five years, the growth in the number of screens would primarily be driven by expansion to tier-II and tier-III cities. Companies would require to raise funds to facilitate this growth. PVR Ltd. raised equity of INR3,500 million from Multiples Alternate Asset Management Pvt. Ltd. for expanding to tier-II and tier-III cities.[10]

Digital and new media

Digital and new media is one of the fastest growing segments in the M&E industry. Between 2015 and 2020, the revenues for this segment are expected to grow at a compounded annual growth rate (CAGR) of around 34 per cent. The key growth drivers for this segment are[11]:

1. The number of smartphone users is expected to grow at a CAGR of 29.11 per cent between 2014 and 2020, enabling easy access to internet on smartphones.[12]
2. Improvement in telecom technologies and increase in average internet speed would increase the subscriber base. The number of active wireless internet users was 311 million in 2015 and is expected to rise to 792 million by 2020.
3. Today, easy internet payment options are offered by banks, and an increase in the use of social media and other digital platforms across various age brackets is expected to lead to an increase in the acceptability of internet.
4. Digital marketing is an easy way to reach out to the target audience, hence it is emerging as a cost-effective medium.

Digitalisation in India is still in its nascent stages, and there is a lot of scope for development and expansion. Hence, there has been significant interest in both strategic and private equity investments. In 2015, 32 per cent of all deals in the M&E industry have taken place in the digital and new media segment, constituting 12 per cent of the total deal value[10].

10. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016.
11. KPMG India Analysis
12. GSM Mobile India Report, 2015

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Strategic investments

Strategic investors primarily invested in digital marketing companies and companies focussed on news content aggregation. This consolidation is expected to continue over the next few years, until three or four larger players remain in competition. Following are some marquee strategic transactions in the digital marketing space[13]:

- Dentsu Aegis Network Ltd. acquired a 90 per cent stake for INR3,000 million in Fountainhead Entertainment Pvt. Ltd. in October 2015, a company providing digital marketing, event marketing, promotions related and other services in the brand activation domain. Fountainhead Entertainment has a strong presence in India, with a robust client base, which Dentsu would be able to harness post the acquisition.
- Dentsu Aegis Network Ltd. also acquired a 90 per cent stake for INR1,800 million in WAT Consult, a social and digital media agency, in April 2015.
- Twitter, Inc. acquired equity stake for INR1,851 million in ZipDial Mobile Solutions Pvt. Ltd. in January 2015, a company providing marketing, customer engagement and analytics solutions. This transaction is expected to be used primarily for SMS technology by Twitter.

Following are some marquee strategic transactions in the news content aggregation space[13]:

- News Corp acquired VCCircle Network, the India-based media group engaged in publishing of private equity, venture capital, and M&A related information, from Mosaic Media Ventures Pvt. Ltd. in July 2015 for an undisclosed consideration.
- HT Digital Media Holdings invested in Planet GoGo Pvt. Ltd., a company that develops a news application for android mobile phones, in December 2015.

Private equity investments

In line with the trends in 2014, private equity firms continued to fund smaller companies in the digital advertising space, primarily involved in mobile and social media marketing in 2015. These funds are expected to be used to supplement national growth, as well expansion of these companies into international markets. Furthermore, companies involved in data analytics saw traction in 2015, a trend which is expected to continue for the next five years. Major private equity transactions in 2015 were[13]:

- Amagi Media Labs Pvt. Ltd, which provides cloud-based content delivery and monetisation platforms to TV networks globally, received INR900 million of funding from Premji Invest and the existing investor, Mayfield in January 2015.
- Vserv Digital Media Services Pvt. Ltd. has raised INR679 million in funding from Maverick Capital Ventures in June 2015 for expansion and strengthening their data analytics platform.
- Baseline Ventures India Pvt. Ltd., a company that offers sports marketing, media, entertainment, and licencing services, raised INR265 million from a venture capitalist in the US in August 2015 in order to supplement expansion and growth in the South Asian region.

A shift in dynamics

Deals in the digital segment have fallen from 44 per cent of all deals in the M&E industry in 2014 to 32 per cent in 2015. The dynamics in the digital space are changing, as traditional media companies are shifting their focus to technology providers. Companies are now looking to invest in technology start-ups, which specialise in big data, data analytics and predictive analysis[13]. For example, Emtee Research and Consultants Private Ltd, a company that offers digital market research services, was acquired by MRSS India for an undisclosed amount in 2015.

Foreign Direct Investment

Segment	FDI limit
Television	74 per cent FDI is permissible for DTH, MSOs operating at National or State or District level, Mobile TV & Headend-in-the Sky Broadcasting Services (HITS); 49% FDI is permissible for Cable Network, and News & Current Affairs' Channels
Radio	49 per cent for FM FM Radio) and Up-linking of News & Current Affairs' Channels with government approval
Print	26 per cent for publishing of newspapers, periodicals and magazines dealing with news and current affairs; 100 per cent for print media with governement approval
Films	100 per cent
Digital/ New Media	100 per cent in the advertising sector through the automatic route

Source: Invest India, Media and Entertainment, http://www.investindia.gov.in/media-and-entertainment-sector/

If the government increases foreign direct investment for non-news media to 100 per cent from the current 49 per cent in radio and 74 per cent in television, these segments are expected to gain traction, and investments are likely to increase.

13. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

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Outlook

Significant growth is expected in the Indian M&E industry over the next few years. In the television space, broadcasters would continue to strengthen their bouquets by acquiring niche channels. Cable operators are likely to seek investments to fund acquisitions and capital expenditure. Content creators in the digital space may continue to attract private equity investments. In the radio and film exhibition segments, the large players would continue to consolidate and emerge as national players, and raise funds to expand in tier-II and tier-III cities.

New media businesses, such as digital marketing, and content creators and aggregators, would continue to attract high growth investments from private equities. Companies specialising in imbibing digital platforms into day-to-day life and enhancing user experience are likely to experience an increase in investments.

As the impact of digitisation continues to affect the M&E industry, investments toward native advertising are expected to increase. Therefore, companies that work to develop interactive and customisable digital content, which could be adapted to various social media platforms, are expected to receive investments.

Date	Target	PE vs Strategic	Acquirer	Deal value (INR million)
Digital				
Oct-15	Fountainhead Entertainment Pvt Ltd	Strategic	Dentsu Aegis Network Ltd.	3,000
Jan-15	ZipDial Mobile Solutions Pvt. Ltd.	Strategic	Twitter, Inc.	1,851
Apr-15	WATConsult	Strategic	Dentsu Aegis Network Ltd.	1,800
Jan-15	Amagi Media Labs Pvt. Ltd	PE	Mayfield Fund; PremjiInvest	900
Nov-15	AdIQuity Technologies Pvt. Ltd.	Strategic	Flipkart Online Services Pvt. Ltd.	750
Jun-15	Vserv Digital Services Pvt Ltd	PE	Maverick Capital Ventures	679
Aug-15	Baseline Ventures (India) Private Ltd.	PE	-	265
Radio				
May-15	Music Broadcast Private Ltd.	Strategic	Jagran Prakashan Ltd.	5,000
Jun-15	Next Radio Ltd.	PE	Rakesh Jhunjhunwala	250
Feb-15	T.V. Today Network Ltd.	Strategic	Entertainment Network (India) Ltd.	-
Oct-15	Shri Puran Multimedia Ltd.	Strategic	Music Broadcast Ltd.	-
Print				
Sep-15	Juggernaut	PE	-	150
Dec-15	Spunklane Media Private Ltd.	PE	Quintillion Media Pvt Ltd.	-
Oct-15	Hindustan Media Ventures Ltd.	Strategic	HT Digital Information Private Ltd.; HT Digital Streams Ltd.	-
Sep-15	Alphabet Media (India) Pvt Ltd	Strategic	OpenGov Asia - CIO Network Pte Ltd.	-
Dec-15	Planet GoGo Pvt. Ltd.	Strategic	HT Digital Media Holdings Ltd.; North Base Media Ltd	-

Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

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Date	Target	PE vs Strategic	Acquirer	Deal value (INR million)
Print				
Mar-15	Screen	Strategic	Star India Pvt. Ltd.	-
Mar-15	Amar Ujala Publications Ltd.	IPO	-	-
Films				
Jun-15	DT Cinemas Ltd.	Strategic	PVR Ltd.	5,000
Jun-15	PVR Ltd.	PE	Multiples Alternate Asset Management Private Ltd.	3,500
May-15	Oyeeee Media Ltd.	IPO	-	159
Dec-15	SRS Entertainment Ltd.	Strategic	SRS Ltd.	134
Nov-15	Tips Industries Ltd.	Strategic	-	68
Jul-15	P B Films Ltd.	IPO	-	50
May-15	Onesource Techmedia Ltd.	PE	-	1
Television				
Feb-15	Maa Television Network Ltd.	Strategic	Star India Private Ltd.	24,000
Sep-15	Network18 Media & Investments Ltd.	PE	-	10,000
Jul-15	Prism TV Pvt. Ltd.	Strategic	Nickelodeon Asia Holdings Pte Ltd.	9,405
Feb-15	Siti Cable Network Ltd.	IPO	-	2,211
Jan-15	Zee Media Corporation Ltd.	IPO	-	1,956
Jul-15	Sarthak Entertainment Pvt Ltd	Strategic	Zee Entertainment Enterprises Ltd.	1,150
Nov-15	Culture Machine Media Pvt Ltd.	PE	Tiger Global Management, LLC; Times Internet Ltd.	1,111
Apr-15	YoBoHo New Media Pvt. Ltd.	Strategic	BroadbandTV Corp.	609

Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 1 February 2016

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Tax and regulatory

Issues and developments

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The Indian Media and Entertainment (M&E) industry is a sunrise sector for the economy and is growing at a rapid pace. Rising income and evolving lifestyles, backed by increasing digitisation and higher internet usage, pave way for the tremendous scope of growth for almost all segments of this industry.

However, industry players face nebulous and vexatious taxation issues. Considering the positive global investor sentiments, the Indian demographics and the probability of high growth, the industry was hoping for resolution to some of the tax issues faced by it. Some of the key expectations were elimination of dual levy of tax (service tax and value added tax) on acquisition of copyright on content, clarity on applicability of Tax Deduction at Source (TDS) provisions on various expenses (programme production cost, placement fees, satellite transponder payments, discount on set-top boxes, etc.), extending benefits of set-off and carry forward of tax losses/ unabsorbed depreciation on mergers, etc.

The Union Budget 2016 which was tabled by the Finance Minister ('FM') on 29 February 2016, was built on a transformative agenda with nine distinct pillars and intense focus on development of rural, agricultural, social sectors, including skill development, and rationalisation of tax policies. Although no tax exemptions/benefits have been made available specifically to the M&E sector, the incentives to boost growth/employment generation and simplification/rationalisation of taxation, with a focus on reducing litigation and providing certainty in taxation, should bring some respite. The government has also recently issued a couple of circulars with a view to resolve some of the ambiguities which have emerged in the tax laws. This signals a positive approach of the government to enable ease of doing business in India and instills confidence in investors. The industry can hope that in the near future, various other tax issues being faced by the M&E sector can also be put to rest.

In this chapter, we have discussed key tax and regulatory issues/recent developments relating to the M&E industry.

Film industry

Key tax issues

Deduction of expenses

The Income-tax Rules, 1962 (Rules 9A and 9B) permits deduction of expenditure incurred on production of films/ acquisition of distribution rights therein, either in the first year of release or over a period of two years, based on when the copyrights/distribution rights in the films are exploited or depending on the date of release of the film.

There are several ambiguities surrounding the applicability of Rule 9A/9B, including whether it extends to satellite, music, home video and other rights in addition to theatrical rights, whether it is directory or mandatory, whether it overrides all other provisions of the Income-tax Act, 1961 (IT Act), (for example, whether the deduction of expenditure under Rule 9A/9B is allowable irrespective of whether it is capital or revenue in nature, whether tax has been deducted at source or not), deductibility of expenses which are not covered by Rule 9A/9B, etc.

A government circular clarifying the above aspects could help dispel this uncertainty.

Another issue which has been faced time and again is whether Rule 9A/9B applies to taxpayers acquiring satellite rights in films. In this connection, the Delhi High Court has held that Rule 9B was applicable to satellite rights in films and accordingly, entire cost of acquisition of satellite rights would be allowable as deduction.

With reference to the issue of applicability of Rule 9A in respect of expenditure incurred on abandoned films, recently, the Central Board of Direct Taxes (CBDT) has issued a circular[01] clarifying that Rule 9A does not apply to abandoned films and that the expenditure incurred on such films is not to be treated as capital expenditure. It clarified that the cost of production of an abandoned film is to be treated as revenue expenditure and should be allowed as per the provisions of the IT Act.

Tax withholding on acquisition of copyright

Under the IT Act, payments to Indian residents towards acquisition of copyright on content (for example, satellite rights, home video rights, music rights, etc.) attract a 10 per cent withholding tax (under Section 194J). This withholding rate is excessive considering the profit margins prevalent in the industry and it has an adverse impact on taxpayers' cash flows. It could be worthwhile for the government to consider a lower withholding tax on such payments.

Service tax on fees of actors/technicians

Revenues earned by film producers from the licensing of copyright in cinematographic films for exhibition in cinema halls/theaters, are exempt from service tax. However, the producers of cinematographic films avail various input services (such as services of actors and technicians) which are liable to service tax. Accordingly, there is substantial loss of CENVAT credit on inputs/ input services attributable to revenue from exhibition in cinema hall/theaters. This results in a huge cost for film producers and could be avoided by exempting the input services of actors and technicians from levy of service tax.

01. Circular No. 16/2015 dated 6 October 2015.

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Judicial decisions

Amount realised under Rule 9B, would mean amount without accounting for any expenditure (like cost of positive prints, etc.)

In the case of Honey Enterprise[02], the taxpayer, a film distributor, had acquired rights for exhibition of films on a minimum guarantee (MG) basis which did not complete commercial run of 180 days (in terms of then prevalent rules) during the assessment year (AY) 1991-92 (preceding year). During such preceding year, the taxpayer claimed to have first adjusted the cost of positive prints of feature films against the gross realisation from the film and then adjusted MG royalty against the balance realisation. The unabsorbed MG royalty was thus carried forward by the taxpayer to the subsequent year (which is the year of dispute) and claimed as deduction in terms of Rule 9B in the subsequent year.

In the course of assessment proceedings for the subsequent year, the Assessing Officer (AO), however, disallowed the claim of the taxpayer.

Interpreting Rule 9B, the Delhi High Court held that the expression amount realised must be given its plain meaning i.e. amount realised without accounting for any expenditure that is incurred by the taxpayer in its business. The High Court observed that it was incorrect for the taxpayer to include the cost of prints along with the MG royalty amount while determining the amount to be carried forward in terms of Rule 9B. On the apprehension of the taxpayer that such a treatment would render other expenses incurred by it as dead expense, the High Court held that if the taxpayer had claimed such expenditure in its profit and loss account of AY 1991-92 itself (i.e. preceding year), then its income statement would have reflected a loss which would be permitted to be set-off and/or carried forward in accordance with the provisions of the IT Act.

KPMG in India's comments

The above decision could be useful to support the claim of film distributors that expenditure towards preparation of prints, advertisement expenses, which are specifically excluded from the meaning of cost of acquisition under Rule 9A/9B should be entitled as deduction under Section 37 of the IT Act in the year in which such expenditure is incurred and should not be carried forward to future years in terms of Rule 9B (i.e. if the film is not exhibited on a commercial basis for at least 90 days before the end of the financial year). This view is also supported by a recent decision of the Hyderabad Tribunal in the case of Teja Cinema[03] wherein it was held that expenses incurred for preparation of positive prints and advertisement for film production is allowable as business expenditure under Section 37(1) of the IT Act.

Broadcasting industry

Key tax issues

Tax Deducted at Source (TDS) on various payments by TV channel companies

Television broadcasting companies make significant payments to software production houses towards production of TV programmes. They also pay placement/carriage fees to DTH operators, multi system operators and cable operators towards placement/carriage of the channels. The channel companies are of the view that such payments attract TDS under Section 194C of the IT Act at the rate of 2 per cent. However, the tax authorities contend that such payments are liable for TDS at 10 per cent on the ground that the payments are towards technical services/royalty. This has resulted in protracted litigation.

However, one of the above issues as regards the applicability of provisions dealing with TDS on payments made by broadcasters or television channels to production houses for production of content or programmes have been clarified recently vide a circular[04] issued by CBDT. It has been clarified in the circular that where the content is produced as per the specifications provided by the broadcaster/telecaster and the copyright of the content programme also gets transferred to the broadcaster/telecaster, such contract is covered within the definition of the term work which is liable for deduction of tax at source under Section 194C of the IT Act. However, in the case where the broadcaster/telecaster acquires only the broadcasting/telecasting rights of the content which is already produced by the production house, there is no contract for carrying out any work, and such payments are not liable for deduction of tax at source under Section 194C of the IT Act (but may be liable to other applicable TDS provisions).

Discount given to advertising agencies by broadcasters

Generally, advertising agencies purchase advertisement airtime from broadcasters for placement of advertisements of their clients on television channels of the broadcasters. As a customary practice followed by the broadcasting industry, the invoice raised by them reflects a standard commission (i.e. discount) of 15 per cent.

The tax authorities have been contending that such discount is in the nature of commission or brokerage paid by television channels to advertising agencies and accordingly, is liable to withholding tax at 10 per cent under Section 194H of the IT Act.

02. Honey Enterprise vs CIT [2015] 65 taxman.com 35 (Delhi HC).
03. Teja Cinema vs DCIT [2015] 56 taxman.com 432 (Hyd Tribunal).
04. CBDT Circular No. 04/2016, dated 29 February 2016.

However, taxpayers believe that the aforesaid discount given to advertising agencies is not in the nature of commission or brokerage and hence, not liable for TDS under Section 194H of the IT Act. The above controversy had resulted in protracted litigation on the matter.

However, recently, the CBDT vide a circular[05] has clarified that the deduction of tax is not required on payments made by television channels/newspaper companies to the advertising agency for booking or procuring of or canvassing for advertisements.

Taxation of transponder charges

Broadcasting companies pay transponder charges to satellite companies for transmission of their TV signals. The tax authorities contend that payments made towards transponder charges are in the nature of royalty. However, in the case of Asia Satellite Telecommunications Co. Ltd. (Asia Sat)[06], the Delhi High Court has held that such payments do not constitute royalty and are not liable to tax in India.

With a view to override the above decision, the definition of royalty under the IT Act was amended vide the Finance Act, 2012 with retrospective effect, to bring within its ambit payments made for transmission of signals via a satellite. The Delhi High Court in the case of TV Today Network Limited[07] affirmed the taxability of payments towards transponder charges as royalty under the IT Act, in view of the retrospectively amended definition of royalty.

However, recently, the Delhi High Court in the case of New Skies Satellite BV and Shin Satellite Public Co. Ltd[08] has held that even post the amendment in the definition of royalty under the IT Act, payments received by foreign satellite companies for lease of transponders is not taxable as royalty under the tax treaty. Thus, relying on this decision, non-resident taxpayers can continue to take the benefit of tax treaties entered into with India to contend that such payment is not in the nature of royalty under the tax treaty and hence, not liable to tax in India.

Taxation of a Foreign Telecasting Company (FTC)

The two primary sources of revenue for FTCs are income from sale of advertising airtime on the TV channel and subscription revenues.

Taxation of advertisement revenues

Under the IT Act, advertisement revenues of FTCs are taxable in India, in case FTCs have a business connection in India. In case an FTC operates from a country with which India has a tax treaty, the advertisement revenues would be taxable in India only if the FTC has a permanent establishment (PE) in India. The taxability in such cases is only on the income which is attributable to the PE/ operations carried out in India. The circumstances in which the FTCs constitute a PE/business connection in India and the determination of income attributable to such PE/operations carried out in India, continues to be a contentious issue between the FTCs and the tax authorities.

FTCs generally appoint agents in India for marketing advertisement airtime slots. Agents also facilitate collection of advertisement revenues from advertisers and its remittance abroad. The tax authorities contend that the agent of the FTC in India constitutes its PE for various reasons.

The Bombay High Court in the case of SET Satellite (Singapore) Pte. Ltd.[09] has held that where an FTC has an agency PE in India (i.e. PE on account of its agent), a payment of arm's length remuneration by the FTC to its Indian agent extinguishes its tax liability in the country. A similar view has been taken by the Delhi High Court in the case of BBC Worldwide Ltd[10] and by the Bombay High Court in the case of B4U International Holdings Ltd[11].

However, recently, the Mumbai Tribunal in the case of NGC Network Asia LLC[12] has held that an Indian company procuring advertisement in India for a foreign company constituted a dependent agent in India. Further, it also rejected the argument that payment of arm's length remuneration to an agent extinguishes any further tax liability in India by distinguishing the decision of the Supreme Court in the case of Morgan Stanley[13] and that of the Bombay High Court in the case of SET Satellite Singapore on facts.

Taxation of subscription revenues

Subscription revenues are generally collected by the Indian distributors and are subsequently paid to the FTCs. They are of the view that the payment for grant of distribution rights is not for any copyright and hence, is not in the nature of royalty (which is taxable on a gross basis at a specified rate). FTCs take a position that the payment is in the nature of business income and is not taxable in India in the absence of any PE in India. However, the tax authorities hold a divergent view and contend that the subscription revenues are liable to tax as royalties. The issue is pending adjudication at appellate levels.

05. CBDT Circular No. 05/2016, dated 29 February 2016.
06. Asia Satellite Telecommunications Co. Ltd. [2011] 197 Taxman 263 (Delhi HC).
07. DIT vs TV Today Network Limited [2014] 221 taxman 123 (Delhi HC).
08. DIT vs New Skies Satellite BV and Shin Satellite Public Co. Ltd (ITA No 472, 474, 500/2012 and 244/2014) (Delhi High Court).
09. Set Satellite (Singapore) Pte. Ltd. vs DDIT(IT) [2008] 173 Taxman 475 (Mum HC).
10. DIT vs BBC Worldwide Ltd. [2011] 203 Taxman 554 (Delhi HC).
11. DIT vs B4U International Holdings Ltd [2015] 57 taxman.com 146 (Bombay High Court).
12. NGC Network Asia LLC vs CIT [2015] 64 taxman.com 289 (Mumbai Tribunal).
13. DIT vs Morgan Stanley & Co [2007] 292 ITR 416 (SC) Set Satellite (Singapore) Pte. Ltd vs DDIT [2008] 307 ITR 453 (Bombay High Court).

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Judicial decisions

Payments received by foreign satellite companies for lease of transponders is not taxable as royalty under the tax treaty

In case of New Skies Satellite BV and Shin Satellite Public Co. Ltd[14], the taxpayers (satellite companies) earned income from leasing of transponder facilities to broadcasters. However, such income was not offered to tax by the taxpayers in India. The tax authorities, however, held that the income arising from the leasing of the transponders should be taxable as royalty under Section 9(1)(vi) of the IT Act, as well as the respective tax treaties.

The Delhi High Court held that the retrospective amendment brought by the Finance Act, 2012, which introduced the definition of process in Section 9(1)(vi) of the IT Act, cannot be read along with tax treaties and should not be used to interpret them. The court categorically observed that it is not open to the Parliament to change the terms of the tax treaty. It held that the Finance Act, 2012 will not affect Article 12 of the tax treaties.

It further observed that the decision of the Madras High Court in the case of Verizon Communications (wherein it was observed that the meaning of the term process subsequently introduced by the Finance Act should also be used to interpret the tax treaties) cites no reason for extension of the amendments in Section 9 of the tax treaty. The High Court did not give a finding whether such retrospective amendment would be applicable to cases preceding the Finance Act, 2012 and where there does not exist any tax treaty.

KPMG in India's comments

This is a welcome ruling not only for the broadcasting industry, but other industries involving payments for connectivity. While there have been other High Court decisions which have also held that amendments to the IT Act cannot be read into a treaty, this judgment is of particular significance for broadcasters since it is very specific to transponder payments, and the only High Court ruling directly on the issue, post the amendment to the definition royalty in Section 9(i)(vi) of the IT Act (Asia Satellite being a decision in the context of the IT Act, and that too, prior to the amendment in Section 9).

Acquisition of satellite rights of a film for 99 years not royalty and hence not liable to TDS

In case of Aishwarya Art Creations[15], the taxpayer made payments to satellite right holders/film producers towards purchase of satellite rights in films without deducting tax at source. The taxpayer contended that the rights were acquired for a period of 99 years without any restriction and the producer had assigned all the rights without retaining any rights for itself. Thus, such payments were in the nature of outright sale and hence, outside the ambit of royalty under the IT Act.

The AO, however, considered this amount as royalty and since the taxpayer had not deducted any tax at source on these payments, the AO treated the taxpayer as assessee-in-default and levied an interest and a penalty on it.

The Tribunal concluded based on the agreement that the payment made for acquiring satellite rights is towards outright sale, distribution or exhibition of cinematographic films, which are specifically excluded from the definition of royalty under the IT Act. Further, the Tribunal relied on the decision of the Madras High Court in the case of K. Bhagyalakshmi[16] wherein the court considered an identical nature of payment. It was observed that though the agreements speak of perpetual transfer of 99 years, in terms of Section 26 of the Copyright Act, 1957, in the case of cinematographic film, a copyright shall subsist only until 60 years. Therefore, since the agreement is beyond the period of 60 years for which the copyright would be valid, the document could only be treated as a one of sale. Accordingly, such payments towards sale of cinematographic films would fall outside the scope of royalty.

KPMG in India's comments

This judgment reiterates the view taken in various other decisions that payment made for outright acquisition of a satellite/negative rights on a perpetual basis is in the nature of sale, which is specifically excluded from the definition of royalty under the IT Act. Similar rulings have been delivered, recently, in the case of Ganapathy Media (P.) Ltd[17] and V. Rama Krishna[18]. Taxpayers having similar transactions can rely on these rulings to contend that payment made for acquiring a satellite/negative rights on a perpetual basis is not taxable under the IT Act.

Indian company procuring advertisement in India for a foreign company constitutes its dependent agent in India

In case of NGC Network Asia LLC[19], the taxpayer a U.S. company, was engaged in the business of broadcasting TV channels in various countries, including India. It entered into an advertisement sales agreement with NGC India for sale of advertisement and sponsorship time on the channels to NGC India for a lump sum consideration, on a principal-to-principal basis.

The taxpayer contended the income earned from sale of airtime was not liable to tax in India, in the absence of its PE in India. The tax authorities however, held that NGC India was, in essence, an agent of the taxpayer, resulting in a dependent agent PE of the taxpayer in India.

14. DIT vs New Skies Satellite BV and Shin Satellite Public Co. Ltd (ITA No 472, 474, 500/2012 and 244/2014) (Delhi High Court).
15. ITO vs Aishwarya Art Creations ACIT [2015] 53 taxmann.com 221 (Hyd Tribunal).
16. [Tax case (Appeal) No .748 of 2013].
17. DCIT vs Ganapathy Media (P.) Ltd [2015] 60 taxman.com 420 (Chennai Tribunal).
18. DCIT vs V. Rama Krishna [2015] 61 taxman.com 307 (Hyd Tribunal).
19. NGC Network Asia LLC vs CIT [2015] 64 taxman.com 289 (Mumbai Tribunal).

The Mumbai Tribunal observed that advertisement airtime cannot be classified as goods (which are capable of purchase and sale) since it is not capable of being stored and is not capable of being consumed or used unless the advertisement material is telecasted by the broadcaster. Hence, the taxpayer cannot be considered to be selling any goods and in effect, NGC India was acting as an agent of the taxpayer for canvassing the advertisements on its behalf. The Tribunal held that since NGC India was given full authority to conclude the contracts in India which were binding on the taxpayer, NGC India constitutes a dependent agent PE of the taxpayer in India.

As regards the argument of the taxpayer that even if it has a PE in India, payment of arm's length remuneration to NGC India extinguishes its tax liability, the Tribunal rejected such argument, distinguishing the decision of the Supreme Court in the case of Morgan Stanley[20] and that of the Bombay High Court in the case of SET Satellite Singapore on facts. Accordingly, the advertisement revenues earned by the taxpayer were held to be taxable in India.

Another important issue before the Tribunal was whether the distribution revenues earned by the taxpayer was taxable as royalty. The Tribunal has referred the matter back to the AO, with a direction to examine the issue afresh in light of amended definition of royalty under the IT Act, particularly referring to Explanation 6, which defines the term process. Further, the AO was directed to also take into account the fact that the taxpayer is having a dependent agent PE in India while examining this issue.

KPMG in India's comments

The above decision of the Tribunal could impact other foreign broadcasters having similar arrangements for sale of airtime to Indian advertisers. It will be interesting to see if NGC Network will challenge the decision of the Tribunal in the High Court and the High Court's verdict thereon.

Till then, other foreign broadcasters may rely on the Morgan Stanley/SET Satellite decisions to contend that even if there is a dependent agent PE in India, payment of arm's length remuneration to their Indian agents extinguishes their tax liability in India. This view is also supported by the recent decision of the Bombay High Court in the case of B4U International Holdings Ltd[21] where it was held that where the Indian affiliate was not a decision-maker nor it had authority to conclude contracts, it could not be treated as a dependent agent. Even if it is a dependent agent and it has paid an arm's length remuneration, nothing can be attributed to the foreign taxpayer.

Indian company distributing news and financial information products does not create a dependent agent of the foreign entity and hence revenue earned from the same is not taxable in India

In the case of Reuters Ltd[22], the taxpayer, a U.K. company was engaged in the business of providing worldwide news and financial information products. In India, under a distribution agreement, the taxpayer provided Reuters products to its Indian subsidiary, Reuters India Private Limited (RIPL), which in turn distributed the same to subscribers in India on an independent basis. The distribution fees received by the taxpayer were claimed to be not taxable in India in absence of a PE in India. The tax authorities, however, alleged that RIPL was a dependent agent of the taxpayer and hence, the entire distribution fee was taxable in India on a gross basis. The tax authorities similarly alleged that one of the employee who was deputed to India as the Bureau Chief also created a service PE of the taxpayer in India and hence, the entire distribution fee was taxable in India on a gross basis.

The Mumbai Tribunal, however observed that the qualified character of an agency is authorised to act on behalf of somebody else so much as to conclude the contracts. It was held that as per the terms of the distribution agreement, RIPL did not negotiate or conclude contracts on behalf of the taxpayer. RIPL had substantial income from its own dealing with third party customers and also independently filed suits for recovery of debts from subscribers. Thus, activities of RIPL cannot be said to be devoted wholly or almost wholly on behalf of the taxpayer. Hence, it was held that RIPL cannot be said to be a dependent agent of the taxpayer. Further, the Tribunal held that presence of Bureau Chief cannot constitute as service PE of the taxpayer in India as he/she has not furnished any services in India on which the taxpayer has earned the distribution fee.

KPMG in India's comments

This is a welcome ruling reaffirming the position, that as long as the Indian subsidiary acts independently on a principal to principal basis, does not negotiate and conclude contracts on behalf of the non-resident, and bears the entrepreneur risk, it should not be considered as creating a dependent agent PE in India. This decision can be used by various industry players having similar distribution arrangement to support their contention that such activities should not be taxable in India.

20. DIT vs Morgan Stanley & Co [2007] 292 ITR 416 (SC) Set Satellite (Singapore) Pte. Ltd vs DDIT [2008] 307 ITR 453 (Bombay High Court).
21. DIT vs B4U International Holdings Ltd [2015] 57 taxman.com 146 (Bombay High Court).
22. Reuters Ltd vs DCIT [2015]63 taxman.com 115 (Mumbai Tribunal).

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Amount received for live coverage of Indian Premier League (IPL) cricket matches is not taxable as FTS/royalty under the India-U.K. tax treaty

In case of IMG Media Ltd[23], the taxpayer was a U.K. based entity engaged in the field of multimedia coverage of sports events. The taxpayer had a service PE in India on account of few of its personnel visiting India for more than 90 days for live coverage of IPL matches and also for recce/inspection activities. It offered its income attributable to the PE in India on a net income basis.

The tax authorities, however, took a view that the services made available fell under the purview of technical plan or design and hence, qualified as FTS. Further, it was held that the income was also in the nature of royalty and hence the entire amount of gross receipt is taxable in India.

The Tribunal held that merely because technical aspects were specified in the agreement, it does not mean that the taxpayer has supplied the technology involved in the production of live coverage feed to the broadcasters. Technical aspects were mentioned to ensure that programme content is broadcasted at the same quality in which it was produced. Thus, the essential condition of make available in the FTS clause under the tax treaty fails i.e. BCCI cannot on its own perform the services of live coverage without recourse to the taxpayer and hence, the services do not qualify as FTS under the India–U.K. tax treaty.

Further, the decision of the Delhi Tribunal in the case of Nimbus Sport International Pte Limited[24], wherein it was held that production and generation of live televisions signal qualify as FTS, was distinguished on the basis that the make available criterion was not examined in that case. Further, it was held that the payments are not in the nature of royalty since the taxpayer did not retain ownership rights over programme content.

KPMG in India's comments

The above decision of the Mumbai Tribunal wherein it held that rendering the service of covering live events does not satisfy the make available criteria under the applicable tax treaty. This ruling is expected to provide some relief to the taxpayers who earn income from coverage of live matches in India.

Placement charges, programme production charges on commissioned basis, event management fees, equipment hire charges paid for production units liable to TDS at 2per cent under Section 194C of the IT Act

In case of Zee Entertainment Enterprises Ltd[25], the taxpayer made various payments such as placement charges, programme production charges, etc. on which tax was withheld by it under Section 194C. Also, the assesse reimbursed the dealer's commission to Zee Turner without deducting tax. The AO alleged that the taxpayer ought to have withheld tax from all payments at 10per cent. Accordingly, the AO held that the assesse was in default under the provision of the IT Act for shortfall in TDS.

For each payment, the Mumbai Tribunal held as under:

- Payment to cable operator/MSO for placement charges: Based on the decision of the Mumbai Tribunal on this issue in the case of UTV Entertainment[26], the Tribunal observed that the payment is a standard fee for providing choice of desired placement of the channels and is not for availing technical services. It held that the payment is in the nature of work as defined in Section 194C, which includes broadcasting and telecasting.
- Payment for producing programmes on a commissioned work basis: Following its decision in the case of Sahara One Media & Entertainment[27], which followed the Delhi High Court's decision in the case of Prasar Bharti[28], the Tribunal held that the payment is covered under Section 194C. It noted that Section 194C specifically includes payments for production of programmes for broadcasting/ telecasting within the ambit of work, whereas the provisions of Section 194J are general in nature; thus, Section 194C prevails over Section 194J of the IT Act.
- Event management fees: The Tribunal observed that Notification 88/2008, which states that an event manager's fees are covered by Section 194J, is prospective and cannot be applied to earlier years and hence these payments are also covered by Section 194C.
- Equipment hire charges: The Tribunal relied on CBDT's Circular Nos. 681 of 1994 and 715 of 1995 to support the contention that Section 194C applies to all types of work contracts.
- Reimbursement of dealer's commission: The Tribunal held that in the absence of any profit element, there was no liability to deduct TDS by the assesse on the reimbursement of such commission.

KPMG in India's comments

The above decision of the Mumbai Tribunal supports other favourable rulings on the issue that the liability to deduct tax with respect to the above payments typically made by broadcasters is under Section 194C of the IT Act at 2per cent and not 194J/194H at 10per cent on a gross basis.

23. IMG Media Ltd vs DDIT [2015] 60 taxman.com 432 (Mumbai Tribunal).
24. Nimbus International Pte Ltd vs DDIT [2012] 18 taxman.com 105 (Delhi Tribunal).
25. DCIT vs Zee Entertainment Enterprise Ltd [2015] 61 taxman.com 138 (Mumbai Tribunal).
26. ACIT(TDS) vs UTV Entertainment Ltd [IT Appeal No. 2699/Mum/2012] (Mumbai Tribunal).
27. Asst CIT(TDS) vs Sahara One Media and Entertainment [2014] 41 taxman.com 488 (Mumbai Tribunal).
28. CIT vs Prasar Bharti (Broadcsting Corpn. Of India) [2007] 292 ITR 580 (Delhi High Court).

DTH industry

Key tax issues

Withholding tax on discount on sale of Set Top Boxes (STBs)/Recharge Coupon Vouchers (RCVs)

From an income tax perspective, an issue arises vis-à-vis applicability of withholding tax on the amount of discount given to distributors on the sale of STBs/RCVs. The tax authorities are of the view that discount on sale of STBs/RCVs is in the nature of commission, subject to withholding tax at the rate of 10 per cent under Section 194H of the IT Act. However, the industry is of the view that the discount is not in the nature of commission and hence, Section 194H is not attracted thereon. This view is supported by the decision of the Supreme Court in the case of Ahmedabad Stamp Vendors Association[29]. In that case, stamp vendors bought stamp papers from state government at a discounted price. The tax authorities claimed that the vendors were agents of the state government and the discount was nothing but commission or brokerage, liable to withholding tax under Section 194H. The Supreme Court held that tax need not be withheld on the discount given to vendors since it is not in the nature of commission or brokerage. The DTH industry is of the view that the ratio of this decision should equally apply to discount given to distributors for sale of STBs/RCVs.

Recently, the Karnataka High Court in case of Bharti Airtel Ltd.[30], held that the discount given to distributors on sale of SIM cards/RCVs does not generate income in the hands of the distributor since the distributors derive income only on subsequent sale of prepaid cards. However, the High Court held that if, in the books of accounts of the taxpayer, the discount is reflected separately, then the liability of deducting taxes under Section 194J of the IT Act arises on the taxpayer. Though the said decision is in the context of the telecom industry, the ratio of this decision may also apply to the DTH industry.

It could benefit the industry if the government issues a suitable clarification that discount on sale of STBs/RCVs is not in the nature of commission/brokerage and not subject to withholding tax, so as to avoid unnecessary litigation across the DTH sector.

Dual levy of tax on DTH service

The DTH industry is subject to a variety of taxes on various transactions, such as VAT on sale of STBs, service tax and entertainment tax on subscription revenues, etc. Customers are charged STB installation charges and activation charges, on which service tax is being levied.

Providing DTH services is the predominant objective of DTH operators. Therefore, to build their subscriber base, a majority of DTH players have shifted from the model of selling STBs to the customers to providing the STBs on an entrustment basis, without charging any consideration for the same. While there should be no VAT applicable on such a transaction effected without consideration, the VAT authorities of various states are seeking to levy VAT on such transactions on the ground that the installation and activation charges recovered from the customers include the price of STBs. This leads to double taxation of the same consideration (i.e. VAT and service tax), thereby causing significant strain to the industry.

Since installation and activation charges are service revenues and service tax is being levied thereon, they could be kept outside the purview of VAT.

Taxability of RCVs

Taxability of RCV for subscriptions has long been a matter of dispute, particularly around whether this qualifies as a good or a service.

The industry has been adopting a position that the RCVs are in the nature of actionable claims and cannot qualify as goods. Moreover, the intrinsic value of RCVs is insignificant and they are used in the course of provision of services. However, VAT authorities of various states have been seeking to levy tax (VAT as well as entry tax) on such RCVs on their face value, treating them as goods.

While there are judicial precedents which have held that RCVs do not qualify as goods, it could benefit the industry if the respective state governments issue a clarification and makes suitable amendments to VAT schedules, so as to avoid litigation across India on this issue.

Judicial decisions

Levy of VAT on STBs

The Tripura High Court in case of Bharti Telemedia Ltd[31] has held that STBs provided as part of DTH services are subject to VAT. The High Court has observed that:

- The company has not sold STBs to customers but has transferred the right to use STBs to the customers. It observed that nothing is given free of cost and that the cost of such STB is obviously included in the activation charges and/or the monthly subscription.
- The STBs are in total control of the customer, they are installed in the customer's house resulting in his/her effective control. It was also observed that the customer can use the STB whenever he/she wants to, he/she can use it to view whichever channel he/she wants to or may or may not use the STB at all. The company does not even have the power of entering the premises of the customer.

29. CIT vs Ahmedabad Stamp Vendors Association [2012] 25 taxmann.com 201 (Supreme Court).
30. Bharti Airtel Ltd. vs DCIT [2014] 228 Taxman 219 (Karnataka HC).
31. Bharti Telemedia Ltd vs The State of Tripura [2015] 79 VST 561 (Tripura High Court).

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- As per the terms of the agreement, the company is responsible for the functioning of the STBs only for a period of six months as that's how long a warranty lasts for. Therefore, if a STB of a customer is spoiled after six months he/she will have to pay for repair or replacement of the same. Hence, this amounts to transfer of the right to use goods.
- Further, the High Court observed that the value of STBs as given in the books of accounts of the company is the value of goods, the right to use of which has been transferred to customers. The same is separable and discernable and the state has authority to levy VAT on the sale part of the transaction i.e. value of STBs.

KPMG in India's comments

In case of DTH services, the intention of the parties is to provide and receive these services. The intention of the customer is to view the channels offered by the DTH service provider and not to purchase the STB. The STB is only made available to the customer so that he/she is able to receive uninterrupted DTH services. Further, the customer also does not have any control over the STB, it always remains the property of the DTH service provider. The DTH service provider can stop the DTH services remotely by controlling the STB with help of the viewing card placed in the STB. If this is done, the STB will not function and will be of no use to the customer. Therefore, the customer has no control over the functioning of the STB and hence, it cannot be said that the DTH service provider grants right to use the STB to the customers.

A number of DTH service providers are receiving notices from various state VAT authorities demanding VAT on the STBs made available to the customers as a part of DTH services. The aforementioned decision of the Tripura High Court levying VAT on the STBs made available to customers as a part of DTH services, may have further adverse impact on the DTH service providers.

Valuation of STBs for levy of CVD

Recently, the Mumbai Customs Excise and Service tax Appellate Tribunal (CESTAT) in the case of Bharti Telemedia Ltd[32], held that, CVD on Retail Sale Price (RSP)/ Maximum Retail Price (MRP) basis in terms of Section 4(A) of the Central Excise Act, 1944 cannot be levied on imported STBs.

The CESTAT observed that, for levy of CVD on basis of RSP/MRP following two conditions need to be satisfied:

- Imported goods must be specified in the notification issued under Section 4A(1) of the Central Excise Act, 1944; and
- Under the Legal Metrology Act, 2009, RSP should be required to be declared on the package. In the given case, STBs were specified in the said notification, however, the same were imported specially for the purpose of serving DTH industries and not meant for retail sale. Accordingly, there was no requirement of declaring RSP on the STBs at any time. Thus, it was held by CESTAT that since one of the condition was not satisfied, CVD was not leviable on the basis of RSP/MRP.

Further, the CESTAT held that, sale as defined in Legal Metrology Act should have taken place. In the present case, there was no transfer of property or hire/purchase system or payment by installments, thus, there was no sale of STBs to the ultimate customer. The CESTAT also observed that, the definition of 'sale' as per CST Act, 1956 which includes deemed sale by way of transfer of right to use goods, cannot be relied upon when CVD is to be levied as basis of Legal Metrology Act. Accordingly, CVD is not leviable on the basis of RSP/MRP.

KPMG in India's comments

The CESTAT held that, what is relevant for levy of CVD on RSP/MRP basis is the requirement of printing the RSP/ MRP on the packages and not the nature of sale. In the present case, the importers are not selling STBs either to the dealer or to the customer. The same were being entrusted to the customers for providing the DTH service. Further, CESTAT also emphasised that if a company has recovered damages from the subscribers in case STBs are damaged and replacement boxes are sold to the subscriber at cost, then, element of sale is involved. In such cases, CVD would be payable under Section 4A of the Act.

The DTH service providers usually import STBs which are required for provision of DTH services to the customers. This decision of Mumbai CESTAT is likely to give respite to DTH service providers from frequent valuation related disputes at the time of import of STBs.

32. M/s Bharti Airtel Telemedia Ltd. vs Comm of Customs (Import Nhava Sheva (TS-486-CESTAT-2015 (Mum)-CUST).

Music industry

Key tax issues

Deductibility of cost of music right

Deductibility of acquisition cost of licence in music rights has been a controversial issue. The issue is whether such costs are entitled to depreciation (at the rate of 25 per cent on written down value basis), or are in the nature of revenue expenditure, deductible in the first year or are to be amortised over the period of licence. The Delhi High Court in the case of Krishan Kumar[33], the Mumbai Tribunal in the case of Tips Cassettes & Record[34] and the Calcutta Tribunal in the case of Gramophone Company of India[35] have held that the payment for acquiring music rights is in the nature of acquiring raw materials and hence, deductible as revenue expenditure. Given that it is a timing issue, it could help the cause of the industry and avoid litigation if the government can issue a circular/ clarification confirming this position.

Judicial decisions

Payment for obtaining rights of reproduction of audio sound and music allowable as revenue expenditure

In the case of Krishan Kumar[36], the taxpayer was engaged in reproduction of audio sound and music from the master plate provided by the film producers and distributors. The taxpayer contended that royalty paid (both lump sum payment and recurring payment) for obtaining rights of reproduction was an allowable revenue expenditure. The AO however, held that it was capital in nature.

The Delhi High Court, relying on its decision in the case of Super Cassettes Industries (P.) Ltd[37], observed that music/film do not have a long life and hence, each year the taxpayer incurs a lump sum expenditure to acquire and procure similar rights in new music. Thus, it is recurring in nature and similar to acquiring and purchasing raw material. It was further observed that popularity of songs fades away in sometime and hence there is no enduring benefit from them. Accordingly, payment for reproduction rights for songs (both lump sum and recurring expenditure) cannot be capital in nature.

KPMG in India's comments

The above decision supports the contention that payment for acquiring music rights whether lump sum or recurring payment, is in the nature of acquiring raw material and hence, deductible as revenue expenditure.

Digital media/Out of Home (OOH) industry

Service tax implication on sale of space or time slots for advertisements

Selling of space or time slots for advertisements, other than advertisements broadcast on radio or television, was exempt from levy of service tax by way of an entry in the negative list. However, the said entry has been amended with effect from 1 October 2014 by the Finance Act, 2014 to include only selling of space for advertisements in print media. This amendment has widened the service tax base to include sale of space for advertisements on internet websites, out-of-home media, on film screen in theatres, bill boards, conveyances, buildings, cell phones, Automated Teller Machines(ATMs), tickets, commercial publications, aerial advertising, etc.

Withholding tax on payment of advertisements on a portal

From an income tax perspective, an issue arises as to whether payments made by Indian entities to a foreign company for uploading and display of banner advertisements on its portal would be liable to tax in India in light of the retrospective amendment in the definition of royalty under the IT Act.

Prior to retrospective amendments in the IT Act, there have been some decisions[38] wherein it has been held that unless control and constructive possession of the equipment was handed over to the payer, the payments could not be said to have been made for the use or right to use any industrial, commercial or scientific equipment and hence, payments for online advertisement on the portal of a foreign company should not be taxable as royalty under the IT Act and tax treaty. However, in view of the retrospective amendment in the IT Act, clarifying that payments would qualify as royalty irrespective of the control and possession of the equipment, one would need to analyse whether there would be any impact on the position under the tax treaty.

However, non-resident taxpayers can continue to take the benefit of tax treaties entered into with India to contend that such payments should not be taxable as royalty/FTS.

33. CIT vs Krishan Kumar [2015] 53 taxman.com 273 (Delhi High Court).
34. Tips cassettes & Record Co. vs ACIT [2002] 82 ITD 641 (Mum Tribunal).
35. Gramophone Co. of India Limited vs DCIT [1994] 48 ITD 145 (Calcutta Tribunal).
36. CIT vs Krishan Kumar [2015] 53 taxman.com 273 (Delhi High Court).
37. Super Cassettes Industries (P.) Ltd vs CIT [1992]41 ITD 530 (Delhi High Court).
38. Yahoo India P. Ltd. vs DCIT [2011] 11 taxman.com 431 (Mum Tribunal), Pinstorm Technologies Pvt. Ltd. vs ITO [2012] 24 taxman.com 345 (Mum Tribunal), ITO vs Right Florists Pvt Ltd. [2013] 25 ITR(T) 639 (Kolkata Tribunal)

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Radio industry

Key tax issues

Deductibility of licence fees

Radio broadcasters are required to pay licence fees (one time entry fee and recurring annual fees) to the government as per licence terms. The issue that has arisen is whether such fees are in the nature of revenue expenditure to be claimed as deduction in the year in which they are incurred or are in the nature of capital expenditure, entitled to depreciation. Since the annual licence fee is payable for each year of operation, it could be allowed as revenue expenditure. Further, the one time entry fee could be allowable as a deduction over the period of license. However, another view is that the payment for the one time entry fee could be treated towards license acquisition, specifically covered as an intangible asset, eligible for depreciation at the rate of 25 per cent. This has resulted in a dispute between the taxpayer and the tax authorities. The government could issue a circular or clarification on this aspect so as to avoid protracted litigation.

Service tax on sale of advertisements

From a service tax perspective, selling space or time slots for advertisements other than advertisements broadcast on radio or television was exempt from the levy of service tax by way of an entry in the negative list. However, the said entry had been amended with effect from 1 October 2014 by the Finance Act, 2014 to include only selling of space for advertisements in print media. Thus, the sale of space or timeslots on radio continues to remain liable to service tax in spite of the fact that radio is a cost-free and easy medium of mass communication even to the illiterate population unlike print media. Therefore, the industry is of the view that, the aforesaid benefit of exclusion from the levy of service tax which is granted to print media but not to radio industry, is an unfair treatment to the radio industry. The government may consider extending the benefit to the radio industry as well.

Judicial decisions

Additional depreciation allowable on new machinery used in production of radio programmes

In the case of Radio Today Broadcasting Ltd[39], the taxpayer was in the business of FM radio broadcasting and producing various radio programmes. During the year under consideration, the taxpayer claimed an additional depreciation on new plant and machinery purchased by it for production of radio programmes. The AO, however, disallowed the claim of the taxpayer.

The High Court observed that in light of the definition of thing as per Black's Law dictionary and definition of manufacture under Section 2(29BA) of the IT Act, production of radio programmes involve processes of recording, editing and making copies prior to broadcasting. Accordingly, it held that when the radio programme is made there comes into existence a thing which is intangible. Accordingly, the High Court allowed additional depreciation to the taxpayer on new machinery used in production of radio programmes.

Separately, the court allowed a depreciation claim on licence fees paid as one time entry fee for FM channels, being an intangible asset, on the basis that the assets were kept ready for use in the business.

KPMG in India's comments

The above ruling wherein additional depreciation has been allowed to the taxpayer engaged in FM radio broadcasting towards new machinery used by it in the production of radio programmes. On a similar basis, broadcasting companies may rely on this ruling to claim additional depreciation on new machinery used in production of programmes that would be broadcasted on channels, etc.

Sports

The importance of sports in the country has increased over a period of time with various international sports events being conducted in India (such as cricket, golf, Formula One, etc.). Taxation of sports associations, sportspersons and foreign teams participating in such sporting events (for example, taxability of broadcasting revenue earned by the sports associations, taxability of participation fee received by sportspersons, advertisement and sponsorship income earned by the participating teams, attribution of income in India, etc.) is a vexed issue.

The issue regarding whether payment for acquiring rights to telecast a live event is in the nature of royalty subject to tax in India, which was a subject matter of prolonged litigation has been dealt with by the Delhi High Court. The Delhi High Court has held that since there is no copyright on live events, the payment for broadcast of live races is not in the nature of royalty.

As regards taxability of foreign sports bodies, the Calcutta High Court in the case of PILCOM[40] has held that any amount including the guaranteed amount paid to any non-resident sports association in relation to any match played in India, were liable to withholding tax in India.

As regards taxability of foreign teams, in the case of INDCOM[41], the Calcutta High Court has held that amounts paid to a foreign team for participation in a match in India as prize money were taxable in India.

Clarity on the issues faced by the sector coupled with certain tax incentives could contribute towards the development of sports in the country.

39. CIT vs Radio Today Broadcasting Ltd [2015] 64 taxman.com 164 (Delhi High Court).

40. PILCOM vs Commissioner of Income Tax [2011] 198 Taxman 555 (Cal.).

41. INDCOM vs Commissioner of income Tax(TDS) [2011] 11 taxmann.com 109 (Cal.).

Other developments/issues impacting the M&E industry

Service tax on licence fees paid to the Ministry of Information and Broadcasting (MIB)

The FM vide the Finance Act, 2015, brought under service tax net all services provided by the government or local authority. Further, the government has been defined to mean department of central government, state government and its departments, Union Territories and its departments. The government recently has issued a notification, appointing 1 April 2016 as the date with effect from which all the services provided by government (as defined above) or local authorities to business entities will be subject to service tax.

In view of the aforementioned amendment, it is likely that licence fees payable by broadcasters and DTH service providers to the Ministry of Information and Broadcasting will be subject to service tax under the reverse charge mechanism in the hands of broadcasters and DTH service providers. This may result into huge CENVAT credit accumulation for the broadcasters and DTH service providers.

Levy of Swachh Bharat Cess (SBC)

The government in the Finance Act, 2015, had inserted a provision empowering the government to impose SBC on all or any of the taxable services at the rate of 2per cent of the value of taxable services. The central government has further, vide a notification, appointed 15 November 2015 as the date with effect from which SBC at the rate of 0.5per cent will be levied on value of all taxable services.

Further, as per the FAQs issued by CBEC in connection to SBC, since SBC is not integrated in the CENVAT credit chain, the credit of SBC will not be allowed. Also SBC cannot be paid by utilising credit of any other duty or tax i.e. the same will have to be paid in cash. Hence, the same will be a cost to the taxpayers.

Further, SBC will be leviable at abated value (wherever abatement is applicable) and also on services where service tax is payable under reverse charge mechanism.

Clear road map for implementation of Goods and Services Tax (GST)

Post the broad agreement with the states on several of the issues concerning the implementation of GST, the date for implementation of GST was expected to be 1 April 2016. The Constitution Amendment Bill (bill) on GST has been passed in the Lok Sabha on 6 May 2015, moving closer to the rollout of an ambitious indirect tax reform. The bill has been tabled in the Rajya Sabha for approval.

Rajya Sabha has referred the bill to the Select Committee to provide recommendations on GST. The said committee has provided their recommendations on GST rates, compensation to states, dispute settlement authority, etc. and currently, the bill is pending with the Rajya Sabha for its approval.

Further, the Empowered Committee has also put up four reports on business process for registration, payments, returns and refunds under GST.

As a part of movement towards GST education cess and secondary higher education cess has been subsumed vide Finance Act, 2015. Further, service tax rate has been increased from 12.36 per cent (inclusive of cesses) to 14.5per cent (including SBC vide Finance Act 2015) and from 14.5per cent to an effective rate of 15per cent per cent (including SBC and Krishi Kalyan Cess vide Union Budget 2016).

The FM in the Finance Act 2015 had affirmed the government's intention of implementing GST by April 2016. However, the government has missed the said deadline. Nonetheless, the industry is hopeful that GST will see the light of day anytime in 2016 once the Constitution Amendment Bill is passed.

The introduction of GST could go a long way in reducing the tax costs of the industry, as credit for taxes paid on purchase of goods would be available for set off against taxes payable on services and vice versa.

Further, the problem of dual taxation (i.e. levy of service tax as well as VAT on certain transactions) is expected to be clarified with the implementation of GST. Also, since it is proposed to subsume entertainment tax at state level under GST, the industry can hopefully breathe sigh of relief.

Therefore, the industry expects the government to come up with a definitive constructive road map towards implementation of GST at the earliest. Nevertheless, the government will have to give the industry sufficient time for effective implementation of GST.

Value Added Tax and service tax on copyright

The Finance Act, 2012, had exempted the licensing of copyright in cinematographic films from service tax. However, effective 1 April 2013 the benefit of the said service tax exemption has been restricted to licensing of copyright in cinematographic film for exhibition in a cinema hall/theaters. Accordingly, licensing of copyright in cinematographic film (for other than theatrical exhibition) is liable to service tax. Separately, the government of various states have made copyright liable to VAT, treating the same as intangible goods.

Therefore, the dual levy of service tax and VAT on the same transaction/consideration pertaining to copyright in cinematographic films continues, which needs to be addressed by the government.

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Judicial decisions

The Bombay High Court, in the decision in case of Tata Sons Limited[42] (the petitioner), has held that transfer of right to use goods of incorporeal or an intangible character such as trademarks, copyrights, patents, etc. is exigible to state value added tax and that there need not be any exclusive and unconditional transfer.

Further, the High Court held that, the transaction should attract sales tax even if there may be multiple transferees and the transferor continues to use goods and that the Lease Tax Act does not indicate that the right to use the incorporeal/intangible goods should be exclusively and unconditionally transferred in favour of the transferee. The High Court has distinguished the Supreme Court's decision in the case of Bharat Sanchar Nigam Limited (BSNL) on the ground that it dealt with an altogether different controversy.

KPMG in India's comments

The issue of taxability of transaction of transfer of right to use intangibles has always been a matter of litigation. The decision of the Bombay High Court has re-raised the controversial issue of transfer of right to use intangibles. In light of this High Court judgment, the existing issue of dual taxation on transactions of transfer of right to use intangibles, with or without exclusive and unconditional transfer, is likely to re-open the debate regarding the meaning of transfer of the right to use goods.

This is expected to further increase the existing litigation on the issue of dual taxation on licenses in respect of intellectual property such as trademarks, copyrights, patents, etc. which are already subject to service tax.

Transfer pricing

The Indian Transfer Pricing (TP) regulations require a taxpayer to undertake international transactions with associated enterprises on an arm's length basis. Further, the regulations mandate the use of one of the six prescribed methods as the Most Appropriate Method (MAM) for the determination of the arm's length price (ALP). From a compliance perspective, the regulations prescribe maintenance of mandatory documentation by taxpayers on an annual basis in relation to their international and Specified Domestic Transactions (SDTs) and also cast a compliance obligation on the taxpayers, which involves filing of an annual TP certificate (known as Accountant's Report) with the tax authorities disclosing details of such transactions in a prescribed format.

Recent developments

The TP environment has undergone a significant change over the past 12 months. The Organisation of Economic Co-operation and Development (OECD) released the final package on all Action Plans of the Base Erosion and Profit Shifting (BEPS) Project in October 2015. As a member of G20 and an active participant in the BEPS project, India has in its Budget 2016 proposed to introduce the three-tiered transfer pricing documentation structure consisting of master file, local file and CbyC report in line with the recommendations contained in the OECD report on Action 13 of the BEPS Action Plan.

BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations resulting in little or no overall corporate tax being paid. Consequently, implementation of Action Plan 13 will have a significant impact on the way Multinational Enterprises (MNEs) in India are maintaining the documentation, providing information to tax authorities as also on their TP policies i.e. consistency of their TP policies for various jurisdictions. Further, in light of the increased collaboration of foreign M&E players with the Indian ones, collation and reporting of information under various transfer pricing provisions could pose a significant challenge.

Additionally, the tax authorities have taken various measures to improve the TP landscape in India during the last year. The Indian government has consciously put the APAs on a fast track which has helped in boosting taxpayer confidence in the government's APA programme. Further, the CBDT has also issued final notifications on the use of range concept and multiple year data as well as guidelines for reference of matters to TPOs bringing about momentous changes in the dynamics of TP in India.

Key transfer pricing issues for the M&E industry

The increased cross–border activity coupled with the peculiarities of the nature of transactions undertaken in the M&E industry poses several practical challenges in establishing the fact that the transactions undertaken between related parties are at arm's length. The sections below provide an overview of TP related issues faced by the M&E industry.

Comparability for distinct transactions

The Indian TP regulations provide that the comparability of an international transaction with an uncontrolled transaction should be judged with reference to:

- The specific characteristics of the property transferred or services provided in the transaction
- Functions performed, taking into account assets employed or to be employed and risks assumed, by the respective parties to the transactions

42. Tata Sons Limited and another vs State of Maharashtra and another (2015-(ST1)-GJX-0619-BOM).

- The contractual terms (whether or not such terms are formal/in writing) of the transactions which lay down explicitly or implicitly how responsibilities, risks and benefits are to be divided between the respective parties to the transactions
- Conditions prevailing in the markets in which the respective parties to the transactions operate, including the geographical location and size of the markets, laws and government orders in force, costs of labour and overall economic development and level of competition and whether the markets are wholesale or retail.

In view of the above mentioned parameters, if the nature of international transactions entered into between parties in the M&E industry are analysed, it can be seen that they are distinct and peculiar and are not comparable to those undertaken in any other industry, mainly on account of the nature of assets or intangibles being traded between the parties. The following examples will help in providing a better understanding of the above.

- An Indian TV broadcasting company purchases film rights from a related party situated abroad. However, the price paid may vary significantly for various films and would depend on factors such as whether a film is being telecast on television for the first time, the timing of telecast, etc.
- Similarly, in the case of an Indian company which owns a channel being telecast in a foreign country and which grants advertisement rights on a revenue split basis to related parties abroad, the proportion of split may vary significantly depending upon various economic and commercial factors.

Given the nature of transactions undertaken, it poses peculiar challenges from a benchmarking perspective. Firstly, it is usually difficult to gather information from the public domain on similar independent transactions undertaken in this industry. Secondly, even if some data is available on certain similar transactions undertaken between unrelated parties, they can seldom be used for benchmarking the related party transactions because of material differences between the two transactions being compared.

Difficulty in application of prescribed methods

The Indian TP regulations have prescribed six methods under the law (as prescribed by the CBDT) for the purpose of determination of the arm's length price, viz., (1) Comparable Uncontrolled Price (CUP) Method (2) Resale Price Method (RPM) (3) Cost Plus Method (CPM) (4) Profit Split Method (PSM) (5) Transactional Net Margin Method (TNMM) and (6) Other Method (notified by the CBDT on 23 May 2012 vide a Notification and Rule 10AB inserted in the Income-tax Rules, 1962 (the Rules) thereafter).

Rule 10AB describes the other method as 'any method which takes into account the price which has been charged or paid, or would have been charged or paid, for the same or similar uncontrolled transaction, with or between non-associated enterprises, under similar circumstances, considering all the relevant facts.' This Rule has come into force from financial year (FY) 2011-12 onwards.

Given the distinctiveness of international transactions entered into between related parties in the M&E space, it is often felt that the benchmarking analysis may not always be possible within the purview of the five methods prescribed under the law.

With the introduction of the 'other method', taxpayers may have a little more flexibility to use tender documents, third party bids, proposals, valuation reports, standard rate cards, price quotations and commercial and economic business models, etc. to demonstrate arm's length intent. The application of the 'other method' could be particularly helpful in cases where application of the other five specific methods is not possible due to difficulties in obtaining comparable data due to distinctiveness of transactions such as intangible transfers, etc.

Introduction of Country-by-Country (CbyC) norms in the Budget 2016

Union Budget 2016 was announced on 29 February 2016 in India and one of the most important developments from a TP perspective therein is the introduction of CbyC norms for TP documentation from Assessment Year (AY) 2017-18 i.e. FY 2016-17. These norms are based on recommendations issued by the OECD's BEPS Action Plan 13. Many countries have already introduced the said norms in their local regulations.

A new provision for CbyC reporting has been introduced under Section 286 of the IT Act.

The CbyC provisions apply to all entities resident in India including Permanent Establishments (PE). The compliance requirements for an Indian parent entity of a multinational group are higher and more onerous as compared to the responsibilities of a subsidiary/PE of any multinational group headquartered outside India.

- **Where Indian entity is the parent entity of the multinational group:** Every Indian parent entity of a multinational group, which satisfies the conditions prescribed for applicability of CbyC provisions, is required to file the CbyC report for an FY before the due date of filing of Return of Income i.e. 30 November of the AY relevant to the FY. For e.g. where CbyC provisions are applicable to an entity, it would be required to file a CbyC report for FY 2016-17 by 30 November 2017.

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- **Where Indian entity is a subsidiary/PE of a multinational group headquartered outside India:** Where the multinational group is headquartered outside India, the Indian entity of the said group would be responsible for notifying the tax authorities with details of the parent entity/any other entity designated by the parent entity for furnishing of the CbyC report. However, the Indian entity will have to file the CbyC report in India where the tax authorities are unable to obtain the CbyC report filed by the parent entity through automatic exchange of information route.

The CbyC report is required to furnish the following information:

a. Aggregate information in respect of the amount of revenue, profit or loss before income-tax, amount of income-tax paid, amount of income-tax accrued, stated capital, accumulated earnings, number of employees and tangible assets not being cash or cash equivalents, with regard to each country or territory in which the group operates;

b. Details of each constituent entity of the group including the country or territory in which such constituent entity is incorporated or organised or established and the country or territory where it is resident;

c. Nature and details of the main business activity or activities of each constituent entity;

d. Any other information as may be prescribed.

The Finance Minister in his budget speech announced that the threshold for filing the CbyC report is EUR750 million and it is proposed in the Memorandum to the Finance Bill, 2016 that the OECD prescribed template will be adopted.

Further, a proviso to Section 92D(1) of the IT Act has been introduced which mandates preparation and maintenance of certain prescribed information and documents. While Rules in this regard are awaited, the information and documents as mentioned in the said proviso could be the master file as prescribed by Action Plan 13 of the OECD BEPS project. Further, a new sub-section viz. sub-Section 4 to Section 92D is proposed to be introduced which mandates that the information and documents prescribed under the proviso to Section 92D(1) of the IT Act is to be filed with the tax authorities by the due date which will be prescribed.

The above documentation requirements are in addition to the local TP documentation requirements as outlined in Section 92D of the IT Act.

KPMG in India's comments

Earlier the prescribed TP documentation was only to be prepared by the due date of filing the return and was to be furnished only a few years later during assessment proceedings. However, the CbyC report has to be furnished along with the return of income. This requirement coupled with the limited time period allowed from the end of the financial year (i.e. eight months - April to November) to prepare such extensive documentation could pose a challenge to the Indian headquartered multinational taxpayers especially since formats and procedures have not yet been prescribed and the said taxpayers would be preparing the CbyC report for the first time. The master file is also to be prepared and filed by the said taxpayers with the tax authorities. It is imperative that the taxpayers identify and mobilise resources for collation of information required to be furnished under the CbyC provisions at the earliest.

Further, under certain circumstances, Indian subsidiaries/PEs of multinational groups headquartered out of India would be responsible to file the CbyC report in India which otherwise will be filed by the Parent entity of the multinational group.

In addition to the CbyC report, additional documentation requirements (master file) have been imposed on the said Indian subsidiaries/PEs. The exact nature of documentation and information requirement would be clear once the Rules in this regard are prescribed. It is important to note that the penalty for failure to furnish the aforementioned information would attract a penalty of INR500,000.

Devising a consistent TP policy for all jurisdictions is very challenging for M&E MNEs. Under these conditions, complying with the requirements of BEPS could further place a significant burden on MNEs with regard to documentation and justification of variable transfer prices for similar transactions in various jurisdictions. Compliance of BEPS provisions requires maintenance of consistent and contemporaneous TP documentation. This entails meticulous planning, oversight and consequently considerable resource strength on the part of the MNE group.

Additionally, it is important to note that steep penalties have been instituted against defaults committed with regard to CbyC reporting ranging from INR5,000 per day to INR500,000, for non-submission, incorrect submission of BEPS related documents, non-adherence of timelines for submission of BEPS related documents, as per conditions prescribed. Thus, BEPS provisions cast a heavy responsibility on the taxpayers in terms of compliance and formulation of TP policies.

Update on Advance Pricing Agreements (APAs)

With a view to address the increasing TP litigation in India; the Indian government had introduced APA provisions with effect from 1 July 2012. Consequently, augmentation of the APA team and the introduction of the roll-back provisions put the Indian APA provisions at par with international standards.

CBDT has concluded more than 40 APAs, out of which 38 are unilateral and three are bilateral. In several other cases position papers have already been sent to CBDT for approval/recommendations.

The first bilateral APA was signed with a Japanese MNE, within 18 months of introduction of the APA programme and subsequently, two others were signed with Indian group entities of a U.K. based MNE[43]. Tax treaties with Germany, France, Singapore, Italy and South Korea are likely to be re-negotiated to enable filing of bilateral APAs with these countries.

Further, the Advance Pricing and Mutual Agreement office (APMA), a representative office of the U.S. Competent Authority, has started accepting Bilateral Advance Pricing Agreements (Bilateral APA) from India from 16 February 2016.

APAs entered into by the Indian government cover a range of international transactions including interest payments, corporate guarantees, non-binding investment advisory services, contract manufacturing, logistics service providers, animation industry players, services provided by pharma company to its parent, etc.

The two bilateral APAs which were concluded with the U.K. were significant as they address the issue of management charges and brand royalty. The APAs involved significant amounts spread over a span of seven years i.e. five future years and two rollback years. In December 2015, India and the U.K. also concluded MAP proceedings on transfer pricing of management charges and brand royalty in case of two companies.

KPMG in India's comments

As is observed, the Indian APA programme has matured considerably. While hitherto, APAs that were signed pertained to mainstream industry transactions, the recent trend of APAs have been signed for complex and litigious transactions. Especially the APAs signed for management cross charges and royalty have helped in boosting the confidence of the taxpayer community in India's APA programme.

M&E players in India have significant intercompany transactions in the nature of royalty given their ties with international M&E entities and nature of their operations. While the recent APA and MAP for brand royalty was not signed for an entity in the M&E industry, payment of brand royalty being a contentious TP issue in Indian TP audits, conclusion of an APA/MAP on the same is a welcome move and M&E players could benefit from the precedent set by the said APA.

Further, providing an option of entering into a bilateral APA with the U.S. would be of relevance to the M&E industry, given that major international players in the M&E industry have ties with players based in the U.S.

Introduction of use of the range concept and use of multiple year data

In acknowledgement of the distinct TP laws prevalent in India, which have caused significant hardship to the taxpayers and led to long drawn litigation, the Finance Act (no. 2), 2014 introduced the use of range concept, instead of an arithmetic mean, for benchmarking of the intercompany transactions under review and also use of multiple year data. The government notified amended rules in this regard for determining arm's length range in October 2015.

The amended regime will be applicable for computation of arm's length range of international transactions and SDTs undertaken on or after 1 April 2014[44]. The amended rules allow for introduction of a range concept for determination of ALP and use of multiple year data for undertaking comparability analysis in transfer pricing cases. Further, the notification specifies the use of weighted average of prices/data for determination of ALP.

- **Use of multiple year data:** The notification states where RPM, CPM or TNMM is utilised as the MAM for determination of ALP of international transactions or SDTs, comparability will be conducted based on:
  - Data relating to the current year; or
  - Data relating to the financial year immediately preceding the current year, if the data for the current year is not available at the time of filing of return of income.

  However, it is important to note that it has been provided that if data pertaining to the current year becomes available subsequently during the assessment proceedings, the same shall be considered for determination of ALP, irrespective of the fact that current year data was not available to the taxpayer at the time of filing of return of income.

  Thus, it is important to note that the benefit of using multiple year data will only be available if the MAM is RPM, CPM or TNMM and the same is not available in other cases. Certain additional conditions are required to be fulfilled for availing the benefit of use of multiple year data. Thus, it will be important to closely analyse the comparables being selected for comparability purposes.
- **Application of range concept:** The notification specifies that the range concept will be applicable on fulfillment of the following conditions:
  - A minimum of six comparables would be required in the dataset;
  - Concept of range will not be applicable in cases where MAM is selected to be PSM or other method.

43. Press release by Government of India, dated 1 February 2016.
44. Notification No. 83/2015 [F. No. 142/25/2015-TPL] / S.O. No. 2860 (E) dated 19 October 2015.

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The notification specifies the methodology of computing the arm's length range with the help of three simple illustrations. An arm's length range beginning from thirty-fifth percentile of the dataset (arranged in ascending order) and ending on sixty-fifth percentile will be considered. If the price at which international transaction or SDT is undertaken is within the thirty-fifth to sixty-fifth percentile of the dataset, the transaction would be considered to be at arm's length.

If the price at which international transaction or SDT is undertaken is outside the aforementioned range, the ALP of the transaction would be considered to be the median of the dataset.

It is important to highlight that where number of comparables is less than six, or the MAM is PSM or other method, the ALP will be determined based on the arithmetic mean of the said comparables. Further, the benefit of 3per cent variation would continue to be available to the taxpayer in such cases.

KPMG in India's comments

Though the use of range and multiple year data involves satisfaction of a lot of pre-requisites and the range of thirty-fifth tosixty-fifth percentile provided is not at par with globally accepted range of twenty-fifth to sevety-fifth percentile, it still provides a window of flexibility to the taxpayers in determination of the ALP.

A challenge that taxpayers may continue to face is the use of current year data during the assessment proceedings where the same was not used during TP documentation, as generally it is difficult to obtain current year data by the time of furnishing of return of income.

Also, the taxpayers need to closely analyse the comparables selected to help ensure that the said comparables fulfill all the conditions prescribed in the notification to enable the taxpayer to avail the benefit of the aforementioned concepts.

Specified Domestic Transactions

Vide the Finance Act 2015, the threshold for applicability of TP regulations on transactions between domestic related parties where certain tax holidays are claimed and in respect of payments (expenditure) to domestic related parties was increased from INR50 million to INR200 million.

KPMG in India's comments

The erstwhile threshold of INR50 million was considered too low and led to an undue increase in compliance burden on the taxpayers. Rationalisation of this threshold is thus a positive step in this regard.

FDI in the M&E sector

The current FDI limits relating to the M&E sector are as under:

Sr. No.	Segment	Existing limits/approval route
1	Teleport/DTH/HITS/mobile TV	100% Up to 49% -automatic route Beyond 49% - government route
2	Cable TV networks Cable Networks (MSOs) operating at national or state or district level and undertaking up gradation of networks towards digitalisation and addressability) Cable Networks (Other MSOs not undertaking upgradation of networks towards digitisation with addressability and Local Cable Operators (LCOs))	
3	Downlinking of TV channels	100% automatic route
4	Uplinking of non news and current affairs TV channels	
5	Uplinking of news and current affairs TV channels	49% government route
6	FM radio	

Source: Consolidated FDI policy (effective from 12 May 2015) as amended by Press Note No. 12 (2015 Series).

Key Budget 2016 proposals

Equalisation levy

- In order to tax e-commerce transactions of non-residents, an equalisation levy is to apply in line with the recommendation of the OECD BEPS project.
- Equalisation levy of 6 per cent introduced by way of deduction from payments to non-residents from Indian residents/Indian PEs of non-residents in relation to online advertising and other services as may be notified if the aggregate amount exceeds INR100,000 in a year for each payer. Such income of the non-resident proposed to be exempt under the act.
- The payer will not be entitled to a deduction of such payments to non-residents if the equalisation levy is not withheld or after withholding it is not deposited with the government by due date. Such expenditure is to be allowed as deduction to the payer in the year of payment of equalisation levy.
- The equalisation levy is to be governed by a separate chapter which is a code in itself covering establishment of statutory authorities, filings, assessments, penalty and other procedures.

Levy of Krishi Kalyan Cess (KKC)

The government has proposed to impose a new levy by way of KKC with effect from 1 June 2016, on all or any of the taxable services at the rate of 0.5per cent of the value of taxable services. The said levy is for the purposes of the union for financing and promoting initiatives to improve agriculture or for any other purpose relating thereto.

Further, the as per the clarification issued the credit of KKC paid on input services shall be allowed to be used for payment of the proposed cess leviable on taxable services provided by a service provider. However, there is no corresponding notification issued at present which provides for availment of credit of KKC against payment of such cess to service providers.

Further, the KKC paid by manufacturers/traders on input services will be a cost to them, since they would not have any output service tax liability towards taxable services.

Customs exemption for inputs used in manufacturing of STBs

In an attempt to encourage local manufacturing and deter imports of STBs, the government has provided customs duty exemption on import of the parts, components and accessories for use in the manufacture of routers, broadband modems, STBs for gaining access to internet, STBs for TV, digital video recorder (DVR)/network video recorder (NVR), etc.

Further, customs duty exemption has also been provided on sub-parts for use in manufacture of parts, components and accessories of specified consumer premise equipments such as routers, broadband, STBs for gaining access to internet, etc.

Appeal against the directions issued by the Dispute Resolution Panel (DRP)

While the directions issued by the DRP are currently appealable by the taxpayer as well as by the tax authorities, pursuant to the amendment proposed, the tax authorities will have no right to appeal against the instructions issued by the DRP.

Other important proposals

- Corporate tax rates remain unchanged for FY 16-17. Domestic companies with turnover less than INR50 million for FY 14-15 to be taxed at 29 per cent (excluding surcharge and cess)
- Reduced corporate tax rate of 25 per cent (excluding surcharge and cess) for domestic companies set up post 1 March 2016 and engaged in manufacturing of article/thing to applicable, if such companies do not claim specified investment/profit linked deductions.
- Provisions of Place of Effective Management (POEM) to determine tax residence of overseas companies in India deferred by one year. The government to introduce transition mechanism to address issues relating to advance tax, TDS applicability, set-off of losses, transfer pricing provisions, etc. for companies having POEM in India.
- Various withholding tax provisions are rationalised by increasing the threshold limit for commission, brokerage, contractual payments, etc. and reducing the WHT rates on commission/brokerage to 5 per cent
- Royalty income of a resident patent holder in respect of patent developed and registered in India to be taxed at the concessional tax rate of 10 per cent (excluding surcharge and cess).
- Non-residents would not be liable to a higher initial withholding tax rate of 20 per cent on non-furnishing of PAN, if the conditions to be prescribed are fulfilled.
- 100 per cent deduction of profits for three out of five years for start-ups incorporated upto 31 March 2019.
- Additional deduction of 30 per cent allowed for three years with respect to new employees (whose total emoluments does not exceed INR25,000 per month) employed during the year.
- On Consumer Premise Equipments (CPEs) such as routers, broadband modems, set-top boxes for gaining access to internet, reception apparatus for

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television but not designed to incorporate a video display, digital video recorder (DVR)/network video recorder (NVR), option is given to pay excise duty at the rate of 4per cent (without CENVAT) or 12.5per cent (with CENVAT).

- The services by a performing artist in folk or classical art form of music, excluding services of artist as a brand ambassador were outside the purview of service tax levy, by way of entry in the Mega Exemption Notification up to limit of INR0.1 million per performance. The FM has proposed to increase such limit to INR0.15 million per performance with effect from 1 April 2016.

Conclusion

The Indian M&E industry has witnessed tremendous growth in the last few years and the growth momentum is expected to continue. The M&E landscape is becoming highly dynamic, with the digital segment being among the fastest growing segments. Though there are certain tax and regulatory issues as highlighted in this report, which remain to be addressed by the government. With the positive approach of the government towards simplification and rationalisation of tax laws in India, the M&E industry can hope for quicker resolution of the same which could enable it to achieve greater heights worldwide.

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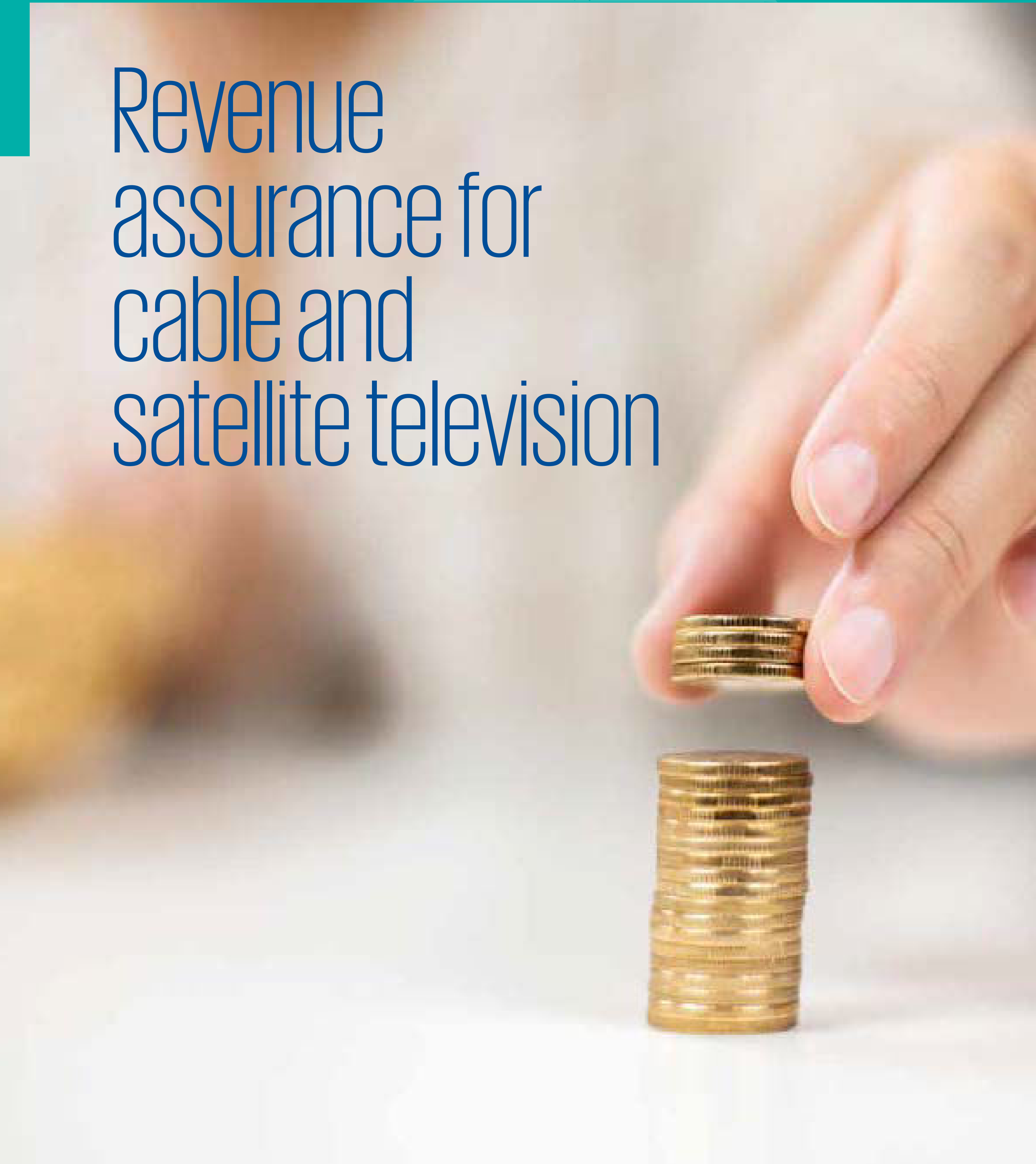
Revenue assurance for cable and satellite television



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Introduction

The television industry in India is broadly segmented into the following categories:

Content producers

These are the entities which produce content to be aired on TV channels. Broadcasters typically engage TV content producers to produce content for them in a cost-plus model.[1]

Broadcasters

TV broadcasting entities who are responsible for developing content and programing for individual channels under their portfolio. These channels are then provided to Cable & Satellite (C&S) operators for distribution to subscribers.

Distributors

Cable operators:

Cable television consists of an ecosystem comprising of Multi System Operators (MSO) and Local Cable Operators (LCO). TV signals are received from broadcasters by MSOs and subsequently relayed to LCOs. LCOs then provide the feed to end subscribers through cable. Cable continues to be one of the largest route for delivery of television content to Indian subscribers. As part of mandatory digitisation under the government's Digital Addressable System (DAS) policy[2], the largely analog cable distribution system is being digitised, but the process has been delayed multiple times, with the latest deadline for completion 31 December, 2016.[3] More than 60 per cent of the cable subscribers continue to be analog and digitally not addressable.[1]

Direct to Home (DTH) operators (also referred to as satellite television operators)

DTH is an alternate platform for delivering television content to subscribers. In a DTH environment, content is delivered to the end subscriber directly by the DTH operator. The personal dish antenna at the subscriber's premises enables the receipt of channels transmitted by satellites operated/leased by DTH operators.

The size of Indian television industry is estimated at INR542 billion in 2015 and expecting to grow at a compound annual growth rate (CAGR) of 15 per cent to reach INR1,098 billion in 2020.[1]

Revenues for broadcasters are largely driven by growth in advertising revenues and subscription revenues.

Revenues for distributors are largely driven by growth in subscription revenues and carriage/distribution fees.

The paid C&S TV subscribers (excluding DD FreeDish) are expected to grow to 175 million by 2020, representing 87 per cent of TV households in India[1].

Given that Indian subscribers have been used to low price points for cable television, cable and satellite television operators are under pressure to maintain lower subscription fees. This has resulted in an average revenue per user (ARPU) of only ~USD4 for C&S TV operators in India as opposed to an ARPU of approximately USD60–100 in advanced economies like Europe and U.S..[4]

The DTH market in India is prepaid in nature wherein subscribers' balance is deducted periodically. For subscribers not on long duration packs, this deduction is done on a daily basis. This further places pressure on DTH ARPUs as subscribers often fail to recharge their accounts before due dates. On an average, 20 to 30 per cent of the subscribers are off-air for at least three days a month on account of not recharging before the due date resulting in an opportunity loss of approximately INR3 billion annually.[1]

With a projected increase in subscriber growth and evolving cost models, C&S television operators could turn their focus on **enhancing revenues and in turn protecting their margins.**

01. KPMG in India's analysis 2016 based on data collected from industry discussions
02. Notified in November 2011
03. MIB notifies new DAS deadline, Phase 3 and 4 extended, Televisionpost.com, 17 September 2014
04. Will Netflix's entry shake up the Indian OTT market?, Television Post, http://www.televisionpost.com/special-reports/will-netflixs-entry-shake-up-the-indian-ott-market accessed on 26 February 2016

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Ecosystem for cable and satellite television industry

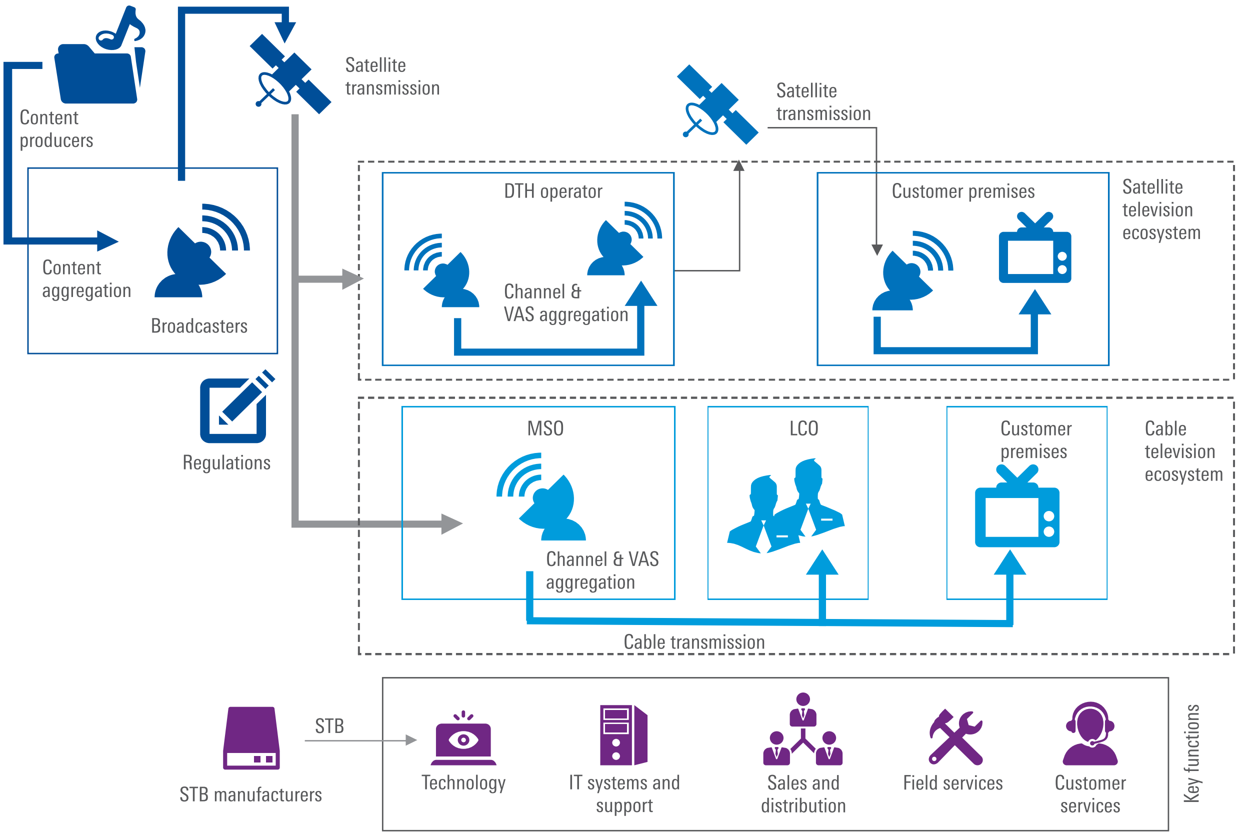

Fig: Cable and satellite television ecosystem

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The C&S television operators in India may focus on the following components of the ecosystem to potentially gain competitive advantage:

Content procurement

- Gain content at competitive prices from channel broadcasters and Value Added Service (VAS) providers.
- Negotiate carriage fees from channels with lesser viewership.

Transmission

- Ensure availability of requisite satellite transponder capacity, efficient compression and transmission technology.

Technology

- Forecast and procure a healthy mix of various categories of Set Top Boxes (STB) based on the latest technology and subscriber preferences.
- Adopt emerging technologies (e.g. Over the Top services) that can enable easier distribution of content to wider audiences.

Sales and distribution

- Attain an efficient mix of digital and traditional channels to augment subscriber reach.
- Implement robust processes to convert upsell and cross sell opportunities.

Field services

- Introduce mechanisms to address subscriber installation and service requirements in a prompt and efficient manner.
- Incentivise field agents to increase first time resolutions and limit repeat complaints.

IT systems and support

- Invest in IT systems (CRM, Billing system, Subscriber Management System etc.) that cater to the operator's subscriber base and business objectives.
- Review existing Service Level Agreements (SLA) and Turn Around Times (TAT) with IT vendors to align with industry leading practices.
- Build a robust IT security framework capable of protecting attacks directed at the Quality of Service (QoS) degradation, denial of Service and unauthorised access to confidential information.
- Evaluate the benefits of various support models before deciding on system integration vendors and contract structure.

Customer services

Strengthen capabilities in subscriber analytics to:

- Improve channel packaging and pricing.
- Enhance subscriber service experience.

Regulations

- Cable and satellite television is a highly regulated industry. It is paramount that operators are abreast with the latest regulations and comply with them to avoid any regulatory penalties.

Revenue and cost elements

The C&S television operators in India have individual departments that oversee the functioning of processes within its department. However, there is a need to oversee processes that cut across multiple departments so as to have a single view of the value chain. This could enhance organisations' ability to prevent revenue and cost leakages.

Some of the key sources of revenue and cost for cable and satellite operators are as under:

Revenue

Subscription fees

Revenue from subscriptions continue to remain the primary source of revenue for cable and satellite television operators. Subscription revenues can be further sub divided into the following categories.

Recurring charges

These are monthly charges paid by the subscribers for:

- Linear content (content on which viewer has no navigational control. For example: TV shows, movies, etc.
- Nonlinear content (interactive content such as video games, self-paced computer based training).
- Value Added Services such as HD access, recording features etc.

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Non-recurring charges

These are charges paid by subscriber for:

- Service activation fees.
- Long duration packs.
- Relocation and other work order related fees.

Usage-based charges

These are charges paid by subscriber for:

- Video on Demand (VoD).
- Operator initiated content/channels.

Carriage fees

With rapid progression in the number of new channels, C&S television operators are expected to generate revenues on account of carriage fees. Carriage fees for existing channels are expected to remain stable over the next two to three years. The increasing number of new channels being carried by each MSO is expected to result in carriage fee continuing to increase by 10 to 15 per cent for MSOs[6]. With the increase in satellite transmission bandwidth, DTH operators are also in a position to monetise carrying of channels with lesser viewership by levying carriage charges.

Cost

The cost structure of the DTH industry makes it even more challenging for operators to enhance margins. Few key cost elements of cable and satellite operators are listed below:

Operating costs

The C&S TV industry has high operational expenditure. In addition to license fees, the cable and satellite television industry is also subjected to numerous taxes and levies.

Additionally, new subscriber is provided with a Set Top Box (STB) and dish antenna. This results in very high supply chain costs mainly driven by inventory, warehousing and logistics. Average landed cost per STB is approximately INR2000 which today is mainly driven by Standard Definition (SD) STBs[5]. However, as subscribers shift towards High Definition (HD) STBs, this cost is estimated to increase exponentially.[5]

Content cost

Content payout is one of the highest contributor towards costs incurred by C&S television operators. Content prices are currently negotiated with broadcasters based on number of subscriptions than actual viewership. Content costs have been observed to be on an increasing trend for the past few years.[5]

One of the challenges faced by operators is the unavailability of the feedback mechanism built into STBs. The current STBs in the market, limits cable and satellite television operator's ability to measure actual viewership patterns - which could play a significant role in price negotiations with broadcasters. The newer Wi-Fi enabled boxes are however expected to reverse this trend.

Subscriber Acquisition Cost (SAC)

With subscriber acquisition costs ranging from INR 1600 to INR2500, the breakeven period is estimated to be four years[6]. However, the competitive nature of the industry contributes to high churn, limiting average lifetime of subscribers to approximately two years.

STBs are capitalised and not sold to subscribers. However, subscribers' perception of having purchased the asset limits C&S operator's ability to retrieve these STBs from the market, thus lowering asset utilisation.

As per industry reports, 62 per cent of the total subscriber base is revenue generating. This implies that at least 38% (considering one STB per subscriber) of STBs are not generating any revenue for the operators[6]. Asset refurbishment and the management of reverse supply chain are some of the other challenges which limit the operators from utilising the assets to their full potential.

Further, payouts to dealers towards commissions for new connections and installations are also factored in the subscriber acquisition cost.

Dealer and Distribution costs

Since a majority of the Indian satellite television industry is prepaid, network of dealers and distributors are incentivised to promote the sale of operators' recharge cards. The commission structure usually varies depending on sale channel (IVR, digital, physical cards, etc.).

05. KPMG in India's analysis 2016 based on data collected from industry discussions
06. Whats eating DTH operators, livemint.com, http://www.livemint.com/Opinion/FZSrjf1jqZbye9k0MsBGhP/Whats-eating-DTH-operators.html accessed on 07 May 2015

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Need for revenue assurance

A complex industry value chain and dynamic technology environment makes the industry susceptible to multiple operational, legal, subscriber lifecycle management and fraud related risks that can impact operators' revenues and margins.

Operational risks

The cable and satellite television industry has a very complex operational structure and is subject to several operations risks. Few examples include:

- Mismatch between services configured in Conditional Access System (CAS) and Subscriber Management System (SMS) resulting in delivery of channels free of cost.
- Incorrect configuration of price plans in SMS resulting in undercharging.
- Provisioning of discounted packs to in-eligible subscribers.
- Overcharging by channel partners such as Dealers, Distributors and Installation Service Providers (ISPs).
- In-correct dunning of subscribers.
- Failure in service deactivation for subscribers opting for Long Duration Packs (LDP), post expiry of contract period.
- Cost leakages on account of incorrect declaration of subscription figures, commission payouts, partner settlement etc.

Fraud risks

Risks associated to abuse and exploitation by stakeholders, internal or external to the organisation

- Cloning of smart cards/viewing cards.
- Exploitation of IT systems on account of weak cyber security measures.
- Incorrect governance mechanisms resulting in re-use of recharge vouchers.
- Fraudulent distribution of recharge PINs.
- Excess payout of commissions to dealers & distributors.
- Fraudulent credit & rebates.

Legal risks

Risks related to non-compliance to regulatory norms laid out by the governing bodies

- Non-compliance to pricing regulations laid out by TRAI.
- Non-adherence to 'free to air' channel transmission.
- Discretionary bundling of channels leading to exclusion of broadcasters.

Subscriber lifecycle management risks

Risks related to managing subscriber across lifecycle with the operators

- Opportunity loss on account of delays in new subscriber activation.
- Non availability of set-top boxes resulting in lost sales.
- Ineffective complaint/dispute handling.

MSOs face additional risks associated with managing Local Cable Operators (LCO). Since the MSO primarily drives a B2B model with LCOs, they have very limited control on key subscriber touch points and subscriber experience delivery. MSOs have very limited visibility on subscriber billing and service provisioning. Additionally, LCOs often under report subscription figures to MSOs leading to revenue leakages.

The ability of an operator to effectively control these risks can directly impact revenue and margins.

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Introducing Revenue assurance as a function

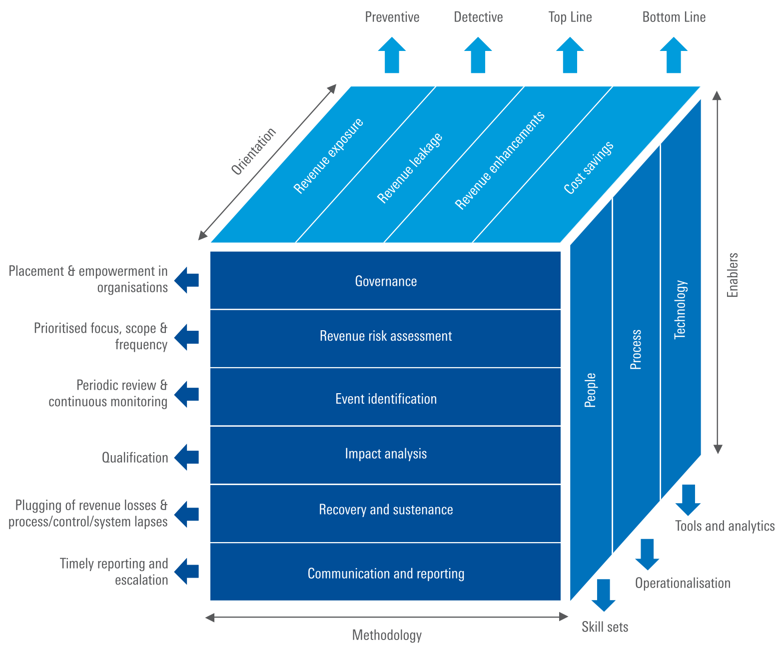

Fig: RA framework

A robust revenue assurance framework is built on three key components:

Enablers

Right people, efficient processes and relevant technology continues to form the basis of the Revenue assurance framework

Orientation

A Revenue assurance function at an operator level has the following objectives:

- Prevent revenue exposure.
- Detect revenue leakage.
- Improve top line by identifying revenue enhancement opportunities.
- Increase bottom lines through cost saving measures and margin enhancements.

Methodology

This defines the Revenue assurance operating framework, providing guidance from governance to management reporting.

Key activities that can be performed by the Revenue assurance function in the DTH environment are listed below:

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Revenue leakage detection

Given the complexity of the value chain, IT systems and interfaces, RA function can assist in reconciling data from multiple sources against an event to identify completeness and accuracy of revenues. Similarly, such an analysis could help identify opportunities for revenue enhancement by looking at the entire value chain and processes that cut across multiple functions and departments. As part of their responsibilities, they can provide subscriber and service provisioning assurance, validate accuracy of balance depletion, validate accurate and timely service de-provisioning of de-active subscribers etc.

Cost assurance

Apart from protecting business from revenue leakages, the RA function also plays an important role in validating cost payouts to assure/enhance margins. They could validate payouts to broadcasters and VAS partners, validate commissions/incentive payouts for dealers and distributors, help ensure tax-efficient contracts etc.

Product assurance

Price changes and new product launches involve configuration/updates on multiple systems including Subscriber Relationship Management (CRM) system, Subscriber Management System (SMS), Conditional Access Systems (CAS), Self-care systems, Billing Systems etc. RA teams can validate business cases to help ensure profitable margins and align product configurations to original business intent. Few interesting products include

- Loan service where subscriber can request some balance from operator for a nominal service fee if he/she runs out of balance and didn't get an opportunity to recharge before the due date
- Live TV services where subscribers can view channels in their subscription package by via internet.

Subscriber analytics

The Revenue assurance function can also perform activities providing insights into subscriber usage and preferences. This information can be used to analyse product profitability and open avenues for 'Below the Line' marketing.

Fraud management

The Revenue assurance function can also execute controls to detect fraudulent activities by dealers with special focus on any system/commission structure exploitation. Focus on subscriber fraud is relatively low in the cable and satellite industry.

Accounting and reporting assurance

The Revenue assurance function also performs controls to help ensure the accurate reporting of revenues in operator's financials. Since a majority of DTH operators are prepaid in nature, there are several complex accounting rules pertaining to revenue recognition.

Measurement and KPIs

The Revenue assurance function also tracks and measures Key Performance Indicators (KPI) including daily new connections, recharges, package subscription trends, de-active subscriber trends etc. This is done via customisable dashboards with user specific access having features to alert relevant stake holders in case any KPI is breached. This function is pivotal in monitoring the overall business health of DTH operators.

Although the concept of Revenue assurance as a function is being gradually accepted by DTH players, adoption of Revenue assurance as a function in the cable television industry is still in a nascent stage. This is because in an MSO environment, subscriber lifecycle management including onboarding, installation, repairs and payment collections are being carried out by LCOs. Since these processes vary among operators and with an MSO having very limited visibility on the activities performed by LCOs, Revenue assurance as a function is yet to gain traction in the cable industry.

The MSOs on their part have adopted the following approach to streamline efficiencies that can help to introduce Revenue assurance as a concept:

Introduce prepaid cable

Post a TRAI directive (No. 16-2/2012-B&CS dated 02-December-2013), MSOs have been experimenting with the concept of prepaid cable. This is expected to increase transparency in dealings with LCOs and assure MSOs their rightful revenues.

Support LCO operations using MSO staff

In a bid to reduce costs for LCOs, MSOs have entered into agreements where traditional LCO operations are conducted by employees of MSOs without any financial implication to the LCO.

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Challenges faced by the Revenue assurance function

Although the relevance and importance of Revenue assurance function has been accepted by major DTH operators, there are still areas for improvement that could further extend the effectiveness of this function.

Few of the challenges are listed below:

Need for institutionalisation of the Revenue assurance function

Operators need to integrate RA into the organisation's culture and structure. This can be done by formalising a RA charter which clearly outlines the roles and responsibilities, SLA & TAT, operation scope and escalation matrix.

Adoption of cognitive technology

The RA function currently in place is designed to primarily be a detective function. Operators may consider investing in technologies that involve self-learning and pattern recognition to transform RA into a preventive function. Introduction of such technology can enable the resources to save time from performing mundane activities and invest time in expanding revenue assurance activities in other areas.

Consider RA as a part of the team rather than an audit function

Operators must position RA as a business partner rather than an audit function. This can help enable a more open and honest working relation with other functions within the organisation.

Equip RA with resources having relevant skills and the right tools

Resources in the RA function should be technically adept having a strong business understanding, knowledge of systems and big data analytical capabilities. Further, they must be supported with the right analytical tools that can be leveraged to provide operators with valuable insights.

Assign the right reporting framework

Effectiveness of Revenue assurance is enhanced by a reporting structure that assists in the prompt resolution of issues identified. This function has traditionally reported to CFO and in many communications industries, the reporting is enhanced by exposure to the Audit Committee and the Board of Directors[7]. Operators need to evaluate the correct fit for Revenue assurance as a function in their organisations.

Way forward

The Indian C&S television industry is set to continue to migrate from scheduled television and packaged programming services to a more on-demand and tailored television environment. Factors influencing this change are listed below:

- Digitisation in TV distribution.
- Explosion in the type and quantity of available content.
- Shifting subscriber preferences often leading to shorter content lifecycles.
- Progression in TV technology (HD, UHD, 4K, Internet enabled) and increase in television penetration has introduced various distribution channels for content – internet, mobile applications, etc.

In a scenario of such rapid change, cable and satellite television operators are increasingly dependent on data driven insights to help monitor performance, improve monetisation and optimise costs. Revenue and margin assurance is expected to be a key differentiator and operators who implement and utilise this effectively are expected to have distinct advantage over their competitors.

" Revenue assurance is not about transactions covering the Technical and Business Support systems while connecting them and finding leakages but more about the Strategic Output that this area allows one to Provide to an Organisation. Since access to RA is from Basic acquisition to data tracing across the customer life cycle to write-offs while stitching various analytical points like a central nervous system it enables effective Decision making. "

Bharat Pandit

Senior VP, Revenue assurance and Business Intelligence
Tata Sky

07. Entering a new era, KPMG Revenue Assurance Survey-2012

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Acknowledgements

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We acknowledge the efforts put in by:

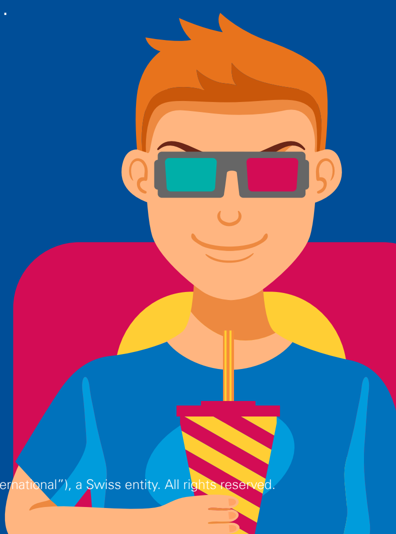
Aashruti Kak
Aditya Rath
Aman Mehta
Aniruddha Abhyankar
Ankit Redkar
Apoorva Chhabra
Arjun Kariyal
Ashwini Hegde
Avichal Joshi
Chintal Patel
Darshini Parikh
Dev Khandwala
Diamond Antoo
Divya Ganapathy
Gavin Remedios
Girish Menon
Harsimar Singh
Harshit Desai
Hussain Rahat
Jaijit Bhattacharya

Karan Dasaor
Madhavan Vilvarayanallur
Madhur Mangal
Manigandan G
Neha Narain
Neha Pevekar
Nikhilesh Shetty
Nikita Rastogi
Nimit Soni
Nirvi Desai
Nisha Fernandes
Pankhuri Dave
Prashanth Rao
Pratik Chawla
Pratima Parab
Prince Arora
Priyanka Agarwal
Radhika Goel
Rahil Uppal
Ritika Parasrampuria

Rohan Lobo
Rugved Raje
Safwan Rais
Sameer Garg
Sameer Hattangadi
Sharon D'silva
Sharvin Bhatt
Shashvat Garg
Sheekha Panwala
Shilpa Taneja Shruti
Gupta Shveta
Pednekar Smita
Jain Soumo
Ganguly Sriram C
Suchitra Laxman
Vivek Jala
Yogita Negi

Special thanks to **Prasanto K Roy** for his contribution towards the segment – Tomorrow begins…

We would also like to thank:
Anant Goenka, Indian Express (Director & Head - New Media)
Rajiv Makhni, Managing editor, NDTV
Raju Narisetti, Senior VP News Corp
Sree Srinivasan, Chief Digital Officer, Metropolitan Museum
Sruthijith KK, Editor-in-chief, HuffPost India
Vikram Chandra, Group CEO, NDTV
for their valuable contribution towards the aforementioned segment.



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Printed in India. (056_THL0316)