



Immediate Release

Media & Entertainment Industry projected to grow at 13% over next five years to INR 1091 bn: FICCI-KPMG report

The industry, which is dependent on advertising for almost 38% of its revenues, was hit last year due to shrinking ad budgets

2009 was a year of focus on cost efficiencies and sustainability of business models

Mumbai, March 16, 2010: The Indian Media and Entertainment (M&E) industry stood at INR 587 billion in 2009, a growth of 1.4 percent over the previous year. Over the next five years, the industry is projected to grow at a Compound Annual Growth Rate (CAGR) of 13 percent to reach the size of INR 1091 billion by 2014, says a **FICCI & KPMG report** released at FRAMES 2010. The report however, highlights that the industry went through a tough phase due to economic slowdown and cut down in advertising spends. However, the industry witnessed a recovery in the last quarter of the year and this is expected to continue going forward. 2010 is expected to see the industry coming out of the shackles of the slowdown and ad spends increasing. Incidentally, the subscription revenues of TV and print grew by 8.5% in 2009 to reach INR 241 billion.

Some sectors were impacted more than the others like OOH, Films and Radio, which registered a negative growth during the year. In 2010, they are expected to recover somewhat with a moderate growth rate. Last year Print showed a very moderate growth, whereas TV industry showed a good growth rate. Music, Internet, Gaming and Animation, brought reasons to cheer for the industry with their growth rates touching double digits, albeit on a smaller base.

Advertising spends grew at CAGR of 10 percent in the past three years with almost flat growth in 2009. Going forward, it is expected to exhibit a robust growth rate CAGR of 14 percent over the next 5 years. Potential upsides could take this higher.

Growing potential of the regional markets, penetration of newer digital TV distribution platforms, increasing competition, innovation across product, processes, marketing and distribution models and growing importance of pay audiences were some of the key highlights of the previous year. However, it was DTH which proved to be a very successful medium and helped in increasing the Pay TV subscriber base even during challenging market conditions. IPL as a sports property has grown from strength to strength and is here to stay with advertising revenue growth of 80% to reach ~Rs 4.5 billion in 2009.

Commenting on the highlights of the report **Dr. Amit Mitra, Secretary General, FICCI** said, "The media & entertainment industry represents the face of consumers in India. It is a part of our daily life and touches the maximum number of people. Despite the challenging last year, I am excited by the potential of the industry to perhaps grow beyond 13 percent per annum over the next few years.

Commenting on the highlights of the report, **Rajesh Jain, Head Media & Entertainment, KPMG in India** said, "*The year 2009 saw M&E industry growing through a tough phase as advertising revenues were impacted in line with the challenging economic scenario. However, the subscription revenues continued to grow. Industry players looked at sustainable cost optimization and sought means to better connect with their customers. The untapped potential for growth in media reach, impact of digitisation and convergence, better*

consumer understanding, sustained efforts in innovation, and enhanced penetration of regional markets all augur well for the industry”

The projected 13 percent growth rate per annum for the sector for next 5 years will be driven on the back of factors like favorable demographics, expected recovery in the GDP growth rate, strong long term fundamentals of the Indian economy, expected rise in advertising to GDP ratio compared to developed economies and increasing media penetration.

Given the industry’s changing landscape and emerging challenges, the focus of industry players too is changing; with a stronger focus on profitability. Hence, media companies are increasingly concentrating on cost optimization, strengthening existing operations and processes, talent and human capital management, innovation and assessing options for growth through consolidation. Factors like Digitisation, Regionalisation, Convergence of new media etc are some of the trends in the industry and are expected to drive growth going forward.

Television:

The industry is estimated to have reached a size of INR 257 billion, a growth of 6.8 percent over 2008. This was on account of growth in TV penetration and an increase in the number of digital homes leading to rise in subscription revenues for the distributors and broadcasters. The broadcasters also benefited from a 7% growth in the advertising revenues.

The television industry is projected to grow at the rate of 15 percent over 2010-14 and reach a size of INR 521 billion in 2014. This growth will be driven by a rise in subscription and advertisement revenues for the industry.

Filmed Entertainment:

The filmed entertainment sector is estimated to have grown at a CAGR of 5 percent over the past 3 years. The industry has clocked revenues of around INR 89 billion in size in 2009, a de growth of 14 percent over 2008. The sector suffered a setback due to the multiplex – producer stalemate, plans of expansion by multiplex players being shelved, impact of IPL, poor content and dismal performance of movies at the box office. The last quarter saw some light with success of a few films boosting the flagging morale of

Trends in M&E industry:

Digitalisation - Availability and penetration of newer distribution platforms like Digital Cable, DTH and IPTV, digitization of newspapers, magazines, films and sale of online and mobile music are some of the ways in which the industry benefited from digitization

Regionalization – Advertisers are increasingly focusing on regional markets as these are growing pockets of consumption.

Convergence and Impact of new media – New media is bringing about a revolution by merging the functionalities of customer and end terminal devices. For example, IPTV, Online newspapers and magazines, podcasts, Wi-Max, new video formats, internet streaming etc. Also digitalisation in TV homes through DTH, cable and IPTV are helping bring in better quality to consumers who can pay for the same.

Innovation – Makes an impact in the increasingly competitive market place. Advent of social networking sites like Facebook, Twitter and LinkedIn is an innovation that enabled brands and advertisers to attract attention.

Consumer research - With increasing fragmentation of audiences and competition, companies are increasing spends on consumer research. Whilst several players do market research, this needs to be taken to the next level.

Institutionalization of HR function - There are variations in the extent of institutionalization of HR practices across various sectors in the industry, however the need for organization design and development and HR function optimization is felt in general.

Growing importance of pay audiences - The growth in ticket prices of movies at multiplexes, increasing number of Pay TV subscribers, increasing DTH penetration, and introduction of VAS are some examples of consumers paying for content.

producers. Over the last few years, the relative importance of multiplexes for Hindi and English movies has become important and the overall distribution model is changing.

Over the next 5 years, the industry is projected to grow at the CAGR of 9 percent and reach the size of INR 137 billion by 2014. Growth drivers for the sector would include expansion of multiplex screens resulting in better realizations, increase in number of digital screens facilitating wider releases, higher C&S revenues, improving collections from the overseas markets and ancillary revenue streams like DTH, digital downloads etc which are expected to emerge in future.

Print Media:

The Indian Print Media industry is estimated to have shown a very moderate growth of 2 percent in 2009 and reached around INR 175 billion in size. There was a decline in advertisement revenues being offset by growth in circulation revenues. In the second half of the year, the sector took some steps towards recovery supported by a general perception of improvement in the overall economy. Regional markets for print showed growth, whilst the national players (particularly English) were affected.

The industry is projected to grow at a CAGR of 9 percent over the next five years and reach around INR 269 billion in size by 2014. Growth in the Print media industry is achievable through sustained growth in advertisement revenues due to increased advertising spends from emerging sectors such as Education, Organized Retail and Telecom, improving literacy levels in the country, optimization of cover prices leading to improved penetration and growth in sales volume, increasing importance of regional print etc.

Radio:

Radio industry is estimated to have grown at a CAGR of 9 percent over 2006-09. It is estimated to have reached a size of INR 7.8 billion by end of 2009, a decline of 0.3 percent over the previous year. Radio like other sectors, was affected by the recession, showing an almost flat trend during the year. However, the situation improved during the course of the year, with the industry returning to modest growth during the last quarter. The impact was felt both in terms of ad volumes and ad rates. Ad rates stabilized in the second half of 2009 and volumes started picking up after the first quarter, aided partly by the elections in April and May.

It is expected to grow at a CAGR of 16 percent over 2010-14 and reach a size of INR 16.4 billion by 2014. Increase in the number of radio stations in Phase 3, expected regulatory reforms that are likely to improve profitability and stimulate foreign investments, enhancement of current measurement systems and growth in locally targeted advertising are some of the growth drivers for the sector.

Music:

The size of the Indian music industry was estimated at around INR 8.3 billion in 2009, up from INR 7.3 billion in 2008, implying a growth of 14 percent during the period. One of the primary reasons for this growth was the increased acceptability of different digital distribution models, acceptability of music genres other than the Indian film industry, and broadcast and public performance licensing revenues, all of which compensated for declining physical sales and are expected to drive growth going forward. Overall the music industry is expected to grow at a CAGR of 16% over 2010-14 to reach INR 17.2 billion.

Out of Home (OOH):

OOH media has grown at a CAGR of 5 percent over the past 3 years, and is estimated to have reached INR 13.7 billion in size in 2009, a de growth of 15 percent over 2008. The sector's performance was affected owing to the overall economic slowdown. Till now, the growth has been centred largely in Tier 1

towns but a noticeable trend in 2009 was increased investments in Tier 2 and 3 cities. Currently, top 6 metros account for ~60% of OOH spends but only 30% of consumption presenting a tremendous latent potential for growth. It is projected to grow at a compounded rate of 12 percent over the next 5 years and reach a size of around INR 24.1 billion by 2014.

Animation:

Overall the Animation & VFX segment in 2009 has registered a growth of 13.6 percent over 2008. Indian animation industry largely relied on outsourced work and co-production deals that led to a growth rate of approximately 9 percent over 2008. While animation services registered a growth rate of 15 percent, product development saw a marginal 2 percent growth. However capacity expansion was frozen by most studios and higher value was derived from existing infrastructure. Riding high on the growing demand of VFX both in domestic and international markets, this segment registered a 40 percent growth and is estimated to be at INR 3.2 billion.

The industry is expected to grow at a CAGR of 18.7 percent in the coming years to reach INR 46.6 billion by 2014. This growth is going to be triggered by the increased consumption of animated content, focus on IP creation and growth of 3D formats.

Gaming:

Gaming is expected to be the fastest growing sector in the M&E industry. While the sector has shown a 22 percent growth in 2009, it is expected to grow at a CAGR of 32 percent in the next 5 years to reach INR 32 billion by 2014. Console gaming currently constitutes the largest share of the pie, but going forward mobile gaming platform is expected to eventually surpass levels of console games. The growth in this sector will be backed by the increase in number of casual and active games, arrival of 3G, availability of localized content, growth in ad funded gaming platforms and greater awareness of products and services.

About FICCI:

FICCI is the rallying point for free enterprises in India. It has empowered Indian businesses, in the changing times, to shore up their competitiveness and enhance their global reach.

With a nationwide membership of over 1500 corporates and over 500 chambers of commerce and business associations, FICCI espouses the shared vision of Indian businesses and speaks directly and indirectly for over 2,50,000 business units. It has an expanding direct membership of enterprises drawn from large, medium, small and tiny segments of manufacturing, distributive trade and services. FICCI maintains the lead as the proactive business solution provider through research, interactions at the highest political level and global networking.

About KPMG:

KPMG is the global network of professional services firms of KPMG International. KPMG member firms provide audit, tax and advisory services through industry focused, talented professionals, who deliver value for the benefit of their clients and communities.

KPMG in India has offices in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune and services over 5,000 international and national clients. The firms in India have access to more than 4000 Indian and expatriate professionals.

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