

Economic impact of the film, television, and online video services industry in India, 2019

May 2020

Note: The contents of this report (including forward-looking estimates) were finalised before the COVID-19 situation, and do not reflect the impact that COVID-19 has had (and is expected to have) on the industries covered in the report.

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Foreword

India's film, television, and online video services industries (together referred to as "creative industries" in this report) represent a combined revenue of about INR 93k cr (US\$ 13.3 bn) – a little over half of the country's total media and entertainment (M&E) industry revenue. They generate a gross output of INR 115k cr (US\$ 16.5 bn), and employ 8.5 lakh (850,000) people. This is the direct impact created by these industries. But their total impact is far more.

In an earlier report, we discussed that the creative industries generate a total impact that is disproportionate to their direct impact – the multiplier effect. Including indirect and induced effects, we estimate that these industries generate a gross output of as much as INR 349k cr (US\$ 49.9 bn) i.e. 3 times direct gross output, and employ as many as 26.6 lakh (2.6 mn) people i.e. 3.1 times direct employment!

In addition to this, creative industries also create an impact in several important ways that are not captured by just the numbers above. These industries can connect people, cut across cultural and political divides, act as a source of identity and expression, and shape attitudes and thought processes. They are uniquely powerful tools to aid national integration, deliver social messages and project India's culture and influence on the global stage.

India has a vibrant film, television and online video services industry, and is brimming with potential. It is the largest producer of movies in the world and has the largest DTH and the second-largest pay TV subscriber base in the world. The online video services sector is poised for rapid growth. Smartphones with screen sizes exceeding six inches are available in India for just INR 7,000 (US\$ 100). Connectivity is cheap, with an average price per GB for wireless data of INR 7.0 (US\$ 0.1) - the lowest in the world by far! This has unlocked an insatiable appetite for data, with Indian wireless subscribers consuming on average 10.4 GB of data per month. Data usage strongly correlates with video consumption, and the rapid increase in the number of video streaming services (from 9 in 2012 to more than 35 in 2019) indicates the massive potential that market participants see in India.

The government and policy makers have demonstrated positive intent in many ways, including designating the Audio - Visual Service Sector (under the M&E industry), as a "Champion Service Sector", forming effective bodies such as the Maharashtra Cyber Digital Crime Unit (MCDU) and passing novel and practical rulings like the recent Delhi High Court judgement to tackle the problem of mirror/redirect/alphanumeric websites.

However, hurdles and challenges remain. To put the creative industries on a higher growth trajectory, the government and stakeholders could consider the following three key recommendations.

1. Create a culture that respects and values intellectual property (IP). This could borrow core elements from the powerful "Swachh Bharat Abhiyan", which set about creating a culture of cleanliness and responsibility. If India wants to promote innovation, creating an environment that cherishes IP is non-negotiable.
2. Opt for "light touch" regulations, let market forces run their course and avoid frequent tweaks to regulations, thus enabling the industry to plan ahead rather than to react.
3. Continue the focus on ease of doing business. Enable the opening of new movie screens and help to better India's under-screening problem, and focus on simplifying processes that can ease film shooting in the country.

Now is also the opportunity to adopt the forward-thinking ideas contained within the 2016 National IPR Policy. Implementation of this policy in letter and spirit may result in India having one of the most vibrant IP jurisdictions in the world.

Lastly, the key takeaway from our last report continues to remain relevant. Policy makers and stakeholders could consider the total impact created by the creative industries and note that growth (positive or negative) in these sectors is expected to produce a magnified impact on the economy through the multiplier effect.



Siddharth Roy Kapur
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Executive Summary

Scale and outlook for the film, television, and OVS sectors in India

The film, television, and OVS industries (together referred to as “creative industries” in this report) in India represent a combined revenue of about INR 93k cr (US\$ 13.3 bn)¹. Against the backdrop of a sluggish economy, these industries on aggregate have been resilient and performed well. The film sector is expected to post a growth of about 20 percent in FY2020², and the OVS industry remains in strong investment mode. The TV industry is in transition due to regulatory changes. Even the advertising revenue in FY2020 has been affected by the economic slowdown as the Indian economy moves towards formalisation.

India’s young population and rising incomes are expected to translate into rapid growth in discretionary spends. Unlike several developed markets, we expect traditional video to continue growing in India and OVS to have an additive (as against a disruptive) impact (at least in the medium term). In our base case, we expect the creative industries to grow at a CAGR of 10–11 percent over

the next 3–4 years. However, creating a supporting environment could put these industries on a higher growth trajectory of 14–15 percent. This higher growth can unlock a correspondingly larger indirect and induced impact on the overall economy.

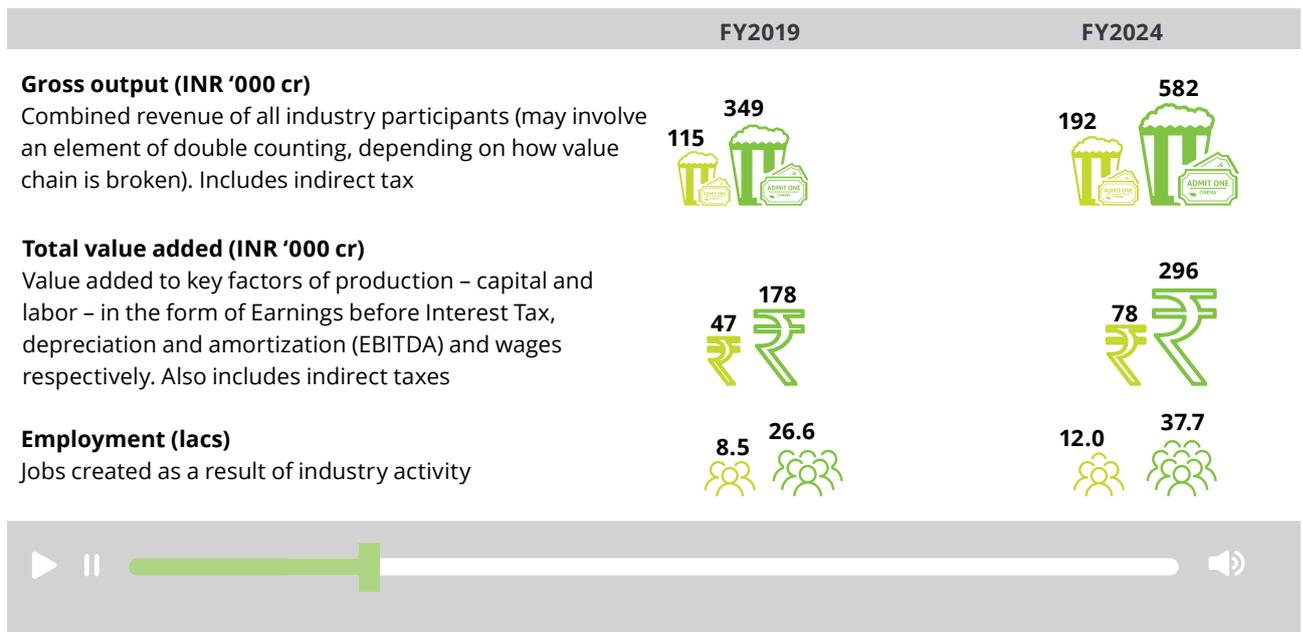
Economic impact of the film, TV, and OVS sectors in India

The creative industries are estimated to generate a direct gross output of INR 115k cr (US\$ 16.5 bn), and provide direct employment to 8.5 lakh (848k) people³. Accounting for indirect and induced effects, the industry is estimated to generate a total gross output of INR 349k cr (US\$ 49.9 bn) and a total employment of 26.6 lakh (2.6 mn)⁴.

We estimate that the industry could add INR 233k cr (US\$ 33.3 bn) of total gross output and 11.1 lakh (1.1 mn) total jobs over the next five years (base case growth)⁵. If the creative industries follow a high growth path, these estimates could be 40–50 percent higher.

The representation shows the direct and total economic impact of the industry.

Snapshot of direct and total (i.e. direct + indirect + induced) economic impact



Source: Deloitte analysis

Note: The smaller icons in yellow denote the direct impact of the parameter mentioned. The larger icons in green denote the overall (direct + indirect + induced) impact of the same parameter.

Putting the creative industries on a high growth path

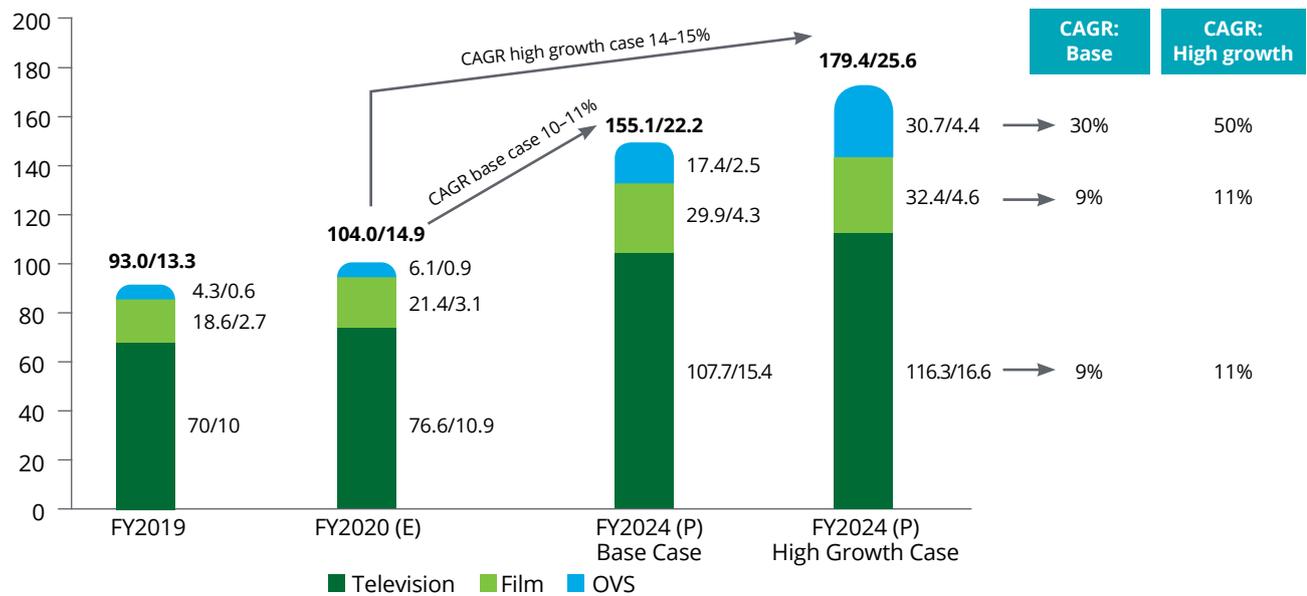
The creative industries are expected to traverse a natural growth path driven by fundamental demographics (refer to our base case growth rates below). However, a supportive environment fostered through key enablers (indicated on the right) could shift these sectors to a high growth trajectory (14–15 percent CAGR vis-à-vis the expected 10–11 percent). This would translate into a 16 percent higher industry size five years down the line, and also unlock the associated direct, indirect, and induced economic benefits. This high growth trajectory could create additional 5–6 lakh jobs five years down the line (over and above the base-case growth trajectory).

Key enablers for high growth include:

- Creating a culture that respects and values IP
- Opting for “light touch” regulations, avoiding frequent tweaks to regulations, and letting market forces run their course for the most part
- Continuing to focus on ease of doing business—notably elements that can ease opening of new movie screens, and ones that can ease film shooting in the country

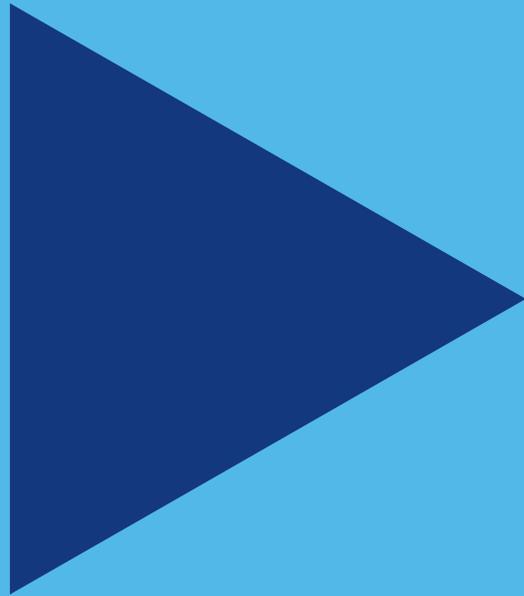
Other factors that could enable a high growth path (such as skilling) are listed later in this report.

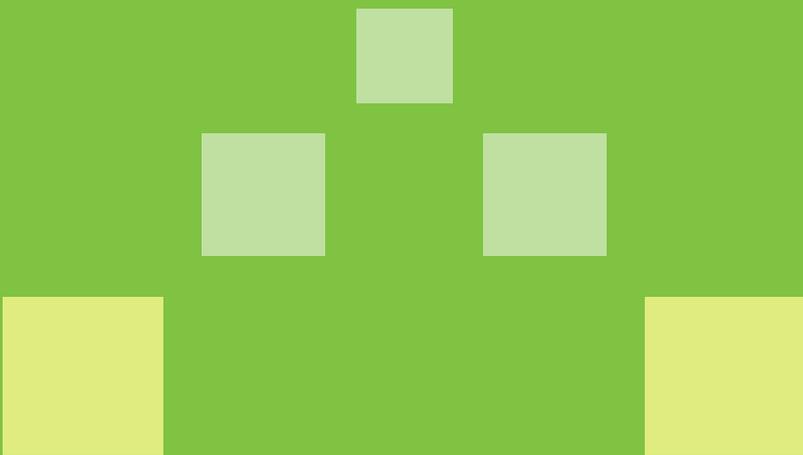
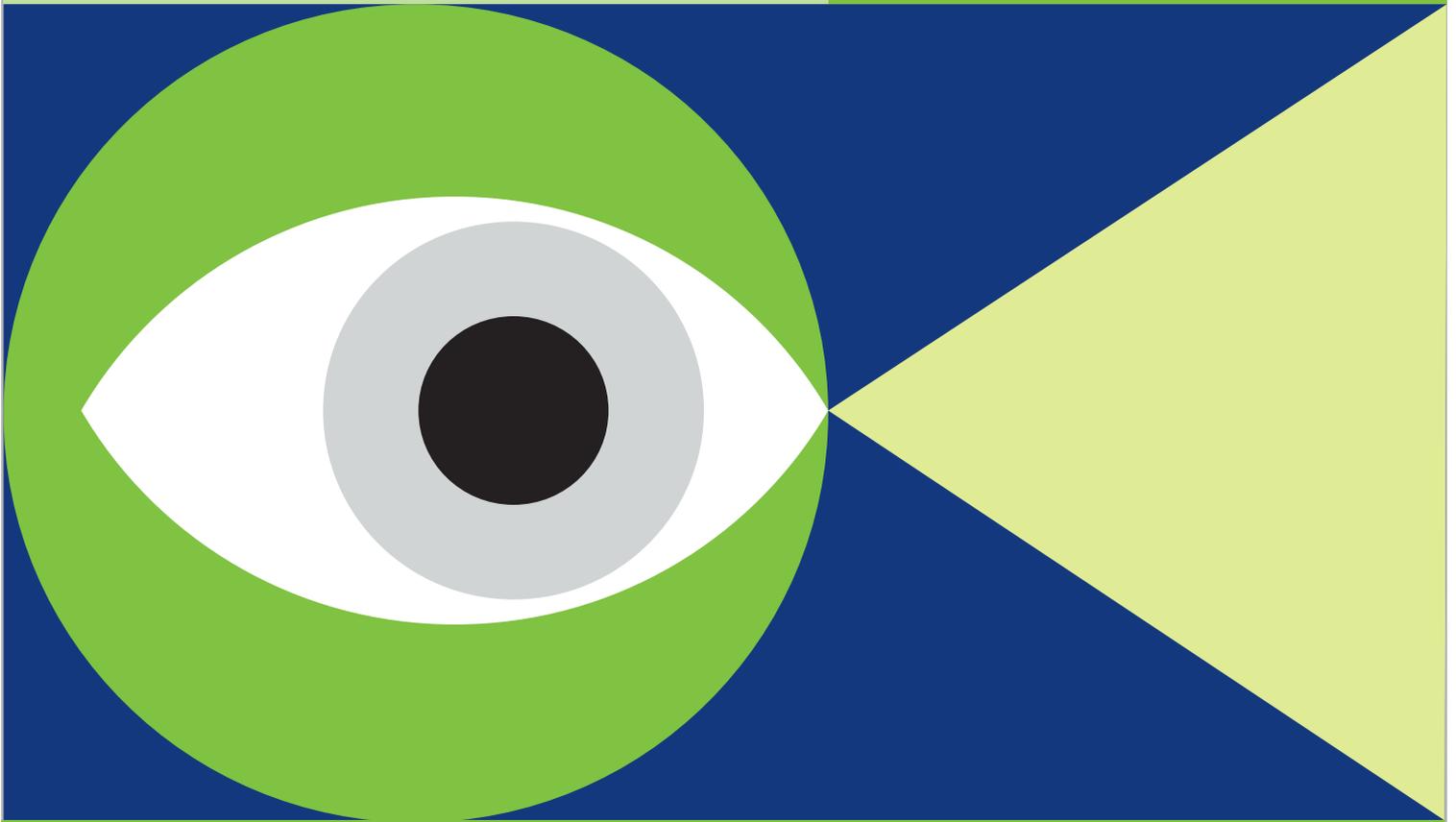
Film, television, and OVS industry revenue in India (INR '000 cr/US\$ bn)



Note: Values shown as INR '000 cr/US\$ bn

Source: Estimates detailed later in this report





Economic impact: The multiplier effect

Introduction: Direct, indirect, and induced impact

The economic impact of the creative industries is measured under three buckets:

- **Direct impact:** The output that is produced and employment that is generated by companies that are directly engaged in the film, TV, and OVS industries
- **Indirect impact:** The output that is produced and employment that is generated by suppliers to the creative industries, as a result of economic activity by these creative industries. For instance, increased activity by the film sector will drive demand for hotels, transportation, cameras, etc., which will in turn generate economic output and employment.
- **Induced impact:** The output that is produced and employment that is generated because of the consumption triggered by the direct and indirect employees above spending their wages.

We have used the concept of input-output tables to estimate the indirect and induced impact of the film, TV, and OVS industry. This is a well-accepted tool to study the impact of one sector on others, and on the overall economy.

Input-output tables provide a detailed dissection of intermediate transactions in an economy, and are thus a means to describe the supply and use of products within an economic system.

The tables attempt to answer the question: If an industry has to grow its output by INR 1, how much should the output of all the industries in the economy grow by? This is best explained through a simplified example.

Suppose the TV industry requires only two inputs to produce an output worth INR 100, viz. INR 20 worth of

cameras and INR 10 worth of catering. Now, if the TV industry were to increase its output by INR 10, the camera industry would need to increase its output by INR 2 and the catering industry by INR 1. This total increased production of INR 3 by suppliers to the TV industry is called the first-round effect.

However, to increase output by INR 2, the camera industry would, for example, require the plastic industry to raise output by INR 0.2, and the lens industry to raise its output by INR 0.3. Thus, there is a second order effect of INR 0.5. Those sectors, in turn, will have backward linkages for their increased output. This is essentially an iterative process through which the input-output table is calculated. The input-output table enables us to determine the overall impact after full set of iterations. Similarly, they allow us to estimate the induced impact.

More details about the input-output tables and our methodology are provided in the appendix.

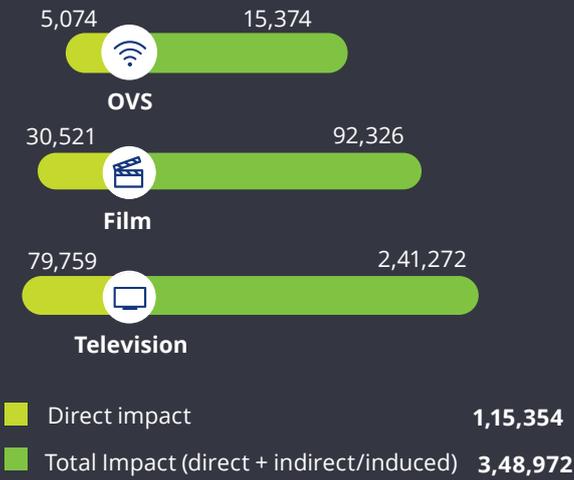
Snapshot of direct, indirect, and induced impact by sector

A snapshot of the direct and total impact (direct + indirect + induced impact) of the film, TV, and OVS industries is provided below. The key metrics presented are as follows:

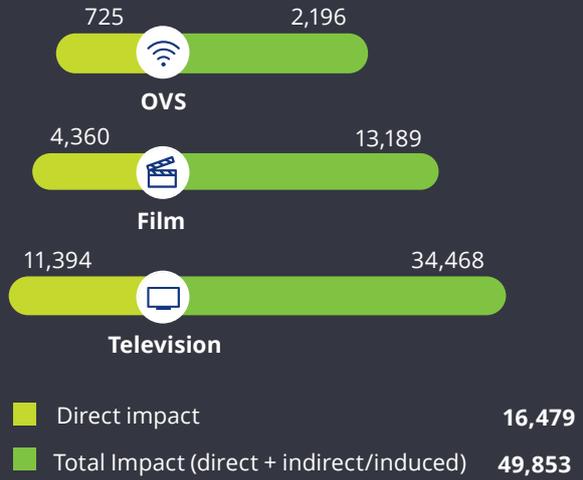
- **Gross output:** This is the combined revenue of all industry participants. It involves an element of double counting, depending on how the value chain is broken. It includes indirect tax.
- **Total value added:** This includes the GVA, i.e., the value added to key factors of production—capital and labour—in the form of EBITDA and wages, respectively. This also includes indirect taxes.
- **Employment:** This represents the jobs created because of industry activity.

Snapshot of economic impact by sector

Gross output (INR cr)

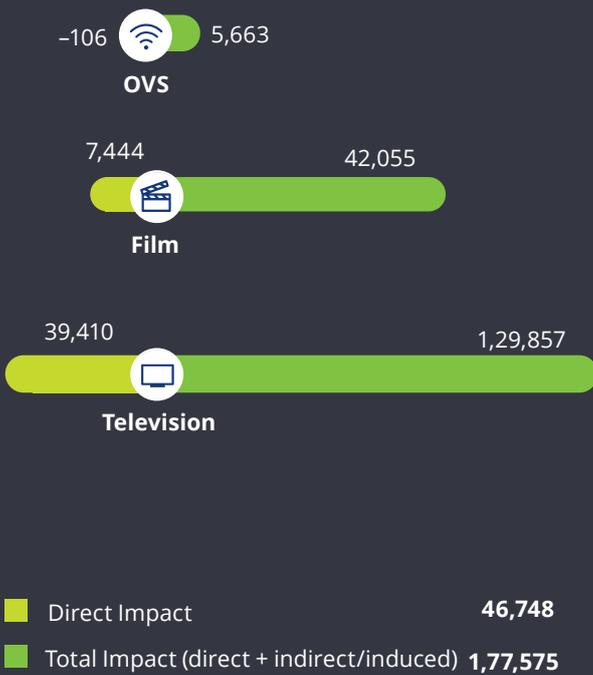


Gross output (US\$ mn)



Snapshot of economic impact by sector

Total value added (INR cr)

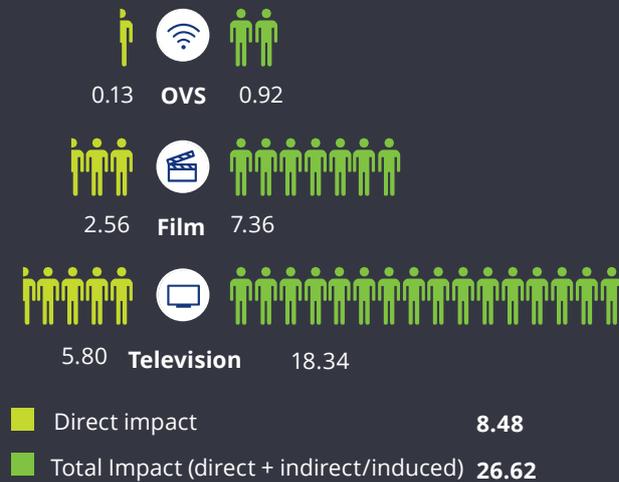


Total value added (US\$ mn)

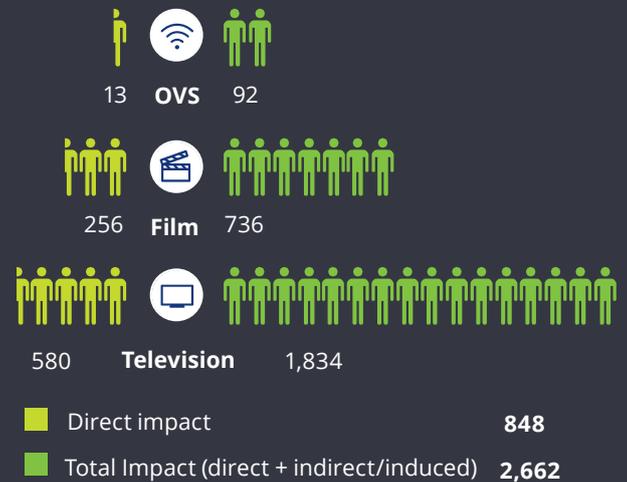


Snapshot of economic impact by sector

Employment (lakhs)



Employment ('000)



Source: Deloitte analysis

Note: Additional detailed analysis by sub-sector is presented later in this report

Multiplier effect in action

Spurring demand

Creative industries represent a powerful means to shape perception and influence demand. Demand could be spurred through several mechanisms, including the following:

- **Build awareness:** Create awareness and interest about something the viewer may not know about. For instance, introduction of new locations through scenes in movies and TV series.
- **Build familiarity:** Reduce intimidation or unfamiliarity by displaying frequent usage of a product/service, or by having a relatable character use the product/service. For instance, positive scenes in an airport or in an aeroplane setting could make the prospect of flying less intimidating for someone who has never flown before.
- **Build aspiration:** Create an aspirational value for a product/service by displaying it in a luxuriant manner,

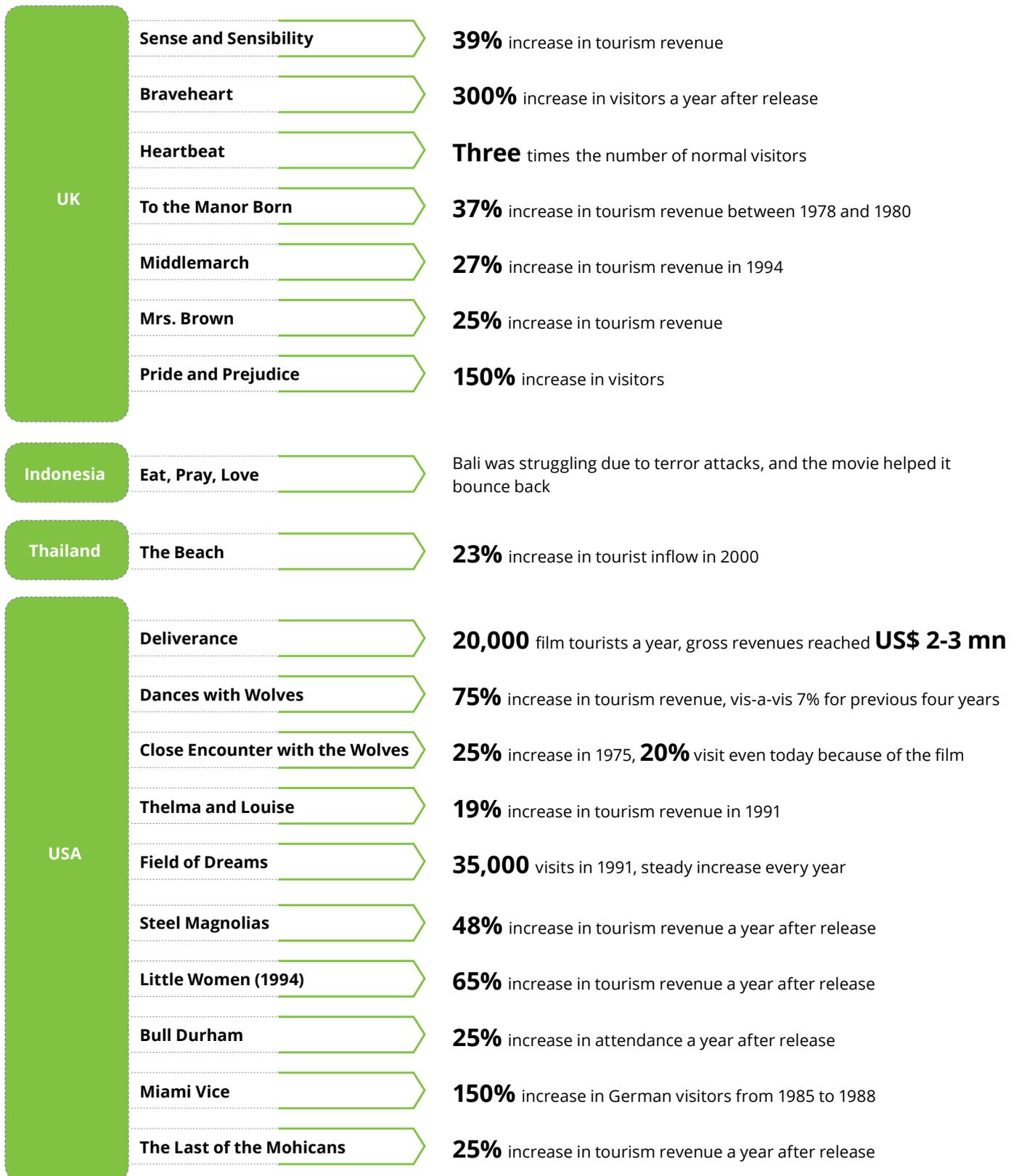
or by having an admirable character use the product/service.

The power of creative industries to spur demand is explored below through the lens of tourism, as well as a broader set of products and services.

Spurring demand: Impact on tourism

In an earlier report,²⁹ we had discussed the impact of film shooting on tourism, and presented several examples. We also estimated that a medium-large budget movie (total production budget of INR 55–60 cr, excluding payment for lead actors) with box office collections of INR 80 cr could spur an 80 percent additional revenue from tourism, and generate tourism related employment of 37 times the size of the production crew. These estimates were made assuming that the movie would increase tourist footfalls by ~30 percent.

Examples of impact of movies on tourism



Source: "Competitiveness of Tourism Sector in India with Selected Countries of the World" - Ministry of Tourism, Government of India

We had discussed India related examples in our earlier report. In the table above, we have listed several international examples of the impact of movies on tourism, which lend further credence to the role of shooting and movies on tourism. These examples make a case for encouraging film shooting in India. The inclusion of both the audio-video and tourism sectors in the “Champion Service Sector” umbrella is an indicator that the government is cognizant of this impact, and shows the positive intent of the government. Creation

of such incentives, as well as timely disbursement of funds earmarked under these initiatives are expected to encourage participation by industry, and lead to realising the benefits of film shooting.

Creative industries offer a platform to drive demand for a variety of products and services. Examples of creative industries driving demand for products/services (varying from sunglasses to recruitment for defence forces) are discussed in the table below.

Some of the firms shaping choices across the years

Film	Product/service	Comment	Impact
Risky Business (1983)	Wayfarer sunglasses (Ray Ban)	A popular comedy that launched lead Tom Cruise’s career. His character wore Wayfarers in the movie.	Two years prior to the movie, Ray Ban sold just 18k pairs of Wayfarers and was contemplating to discontinue the product. Ray Ban’s product placement firm got the sunglasses into 60 films and TV shows over the next five years, including Risky Business. By 1986, Ray Ban sold 1.5 mn Wayfarers (360k coming in the year Risky Business was released).
E.T. the Extra-Terrestrial (1982)	Reese’s pieces (Hershey)	Frequently making it to “greatest film of all time” list, E.T. became the highest grossing film of all time when it released (surpassing Star Wars), and held the record for 11 years. In the movie, the alien E.T. is lured into the house by a trail of Reese’s pieces.	Jack Dowd, then Director, New Products Development, recalled that the resulting sales far exceeded expectations. ³⁰ According to a 1983 People magazine article, Hershey’s profits rose 65% because of E.T.
The Italian Job (2003)	Mini Cooper car (BMW)	This heist movie was only moderately successful. However, more than 30 cars that BMW provided for the production were prominently featured.	BusinessWeek reported that since the film’s 2003 release, the car experienced a 22% increase in sales over the previous year.
Top Gun (1986)	Aviator sunglasses (Ray Ban) US Navy recruitment	This popular film featuring dazzling aerial footage starred Tom Cruise as a US Navy pilot who wore Aviators.	The film is estimated to have boosted Aviator sales by 40%. The US Navy also experienced a notable increase in pilot applications.

Film	Product/service	Comment	Impact
Goldeneye (1995)	Z3 car (BMW)	This James Bond film featured BMW's Z3 instead of an Aston Martin model, which was used in the preceding 16 Bond movies. This Z3's appearance was the first in a three-picture deal that BMW had made.	BMW received 9,000 orders for the Z3 the month after the film opened.
Transformers (2007) Transformers: Revenge of the Fallen (2009)	Modified Chevrolet Camaro Car (General Motors)	The Transformers series depict a war between two alien races of robots, the Autobots and the Decepticons, and both can change into cars. General Motors contributed a modified Chevrolet Camaro to the production.	The modified Camaro did not exist in the market, and the series created a demand for the car. General Motors brought the modified car to the market in 2009 and sold 60,000 units by the end of the year.
Lost in Translation (2003)	Suntory whisky	This critically acclaimed comedy-drama featured Bill Murray as an aging screen legend who visits Tokyo to film a commercial for Suntory Whisky.	Masaki Morimoto, General Manager for Suntory's premium-spirits marketing department, was quoted as saying, "It was a great boost for us. Our company got famous internationally."
The Firm (1993)	Red Stripe beer	This film based on John Grisham's thriller novel has a scene where the protagonist and his mentor drink Red Stripe beer and the product is prominently displayed and named.	According to Business Week, sales of the Jamaican beer increased by more than 50% in the US. Just a few weeks after that, the company's owners sold a majority stake in their brewery to Guinness Brewing Worldwide for US\$ 62 mn.
Sideways (2004)	Pinot noir wine (particularly Blackstone) Merlot wine	This unexpected hit about two men in the wine country of California featured scenes of wine tasting sessions.	Sales of pinot noir increased in the US in the months following the film's release. In particular, the Blackstone brand's sales rose by 150%. The film's main character is vocal in his distaste for merlot. Following the film's release, US sales of merlot dropped by 2%.

Source: CNBC article on "10 Big Successes in Product Placement"



Case study: Amazon Prime Video—a hat tip to the multiplier effect?

Amazon offers a varied spectrum of products and services. There is a popular book about the company titled “The Everything Store”. Some industry watchers believe that Amazon may look to take a cut of all economic activity. Amazon’s popular membership programme “Amazon Prime,” which has over 150 mn members,³¹ is an important part of the company’s strategy. According to a study by Consumer Intelligence Research Partners, Prime members spend 2.3 times as much as regular customers on Amazon.³² There are two key benefits for Prime members that Amazon specifically calls out in its U.S. SEC 10-K filings.³³ The first is unlimited free shipping on more than 100 mn items. The second is access to unlimited

streaming of thousands of movies and TV episodes, including Amazon original content (collectively called “Amazon Prime Video”). Amazon spent US\$ 7.8 bn on video and music content in the year ended 31 December 2019 (US\$ 6.7 bn the previous year).³⁴

One could argue that the level of attention and spend on creative content by Amazon — a company which could be likened to a mini-economy — indicates that such content produces an indirect impact greater than what might be apparent on the surface. In conclusion, one could say that a large part of the business case for Amazon Prime Video derives from the multiplier effect it produces on the “Amazon economy”.

Impact beyond the numbers

“You can’t manage what you can’t measure.”

Apocryphally attributed to management guru Peter Drucker, this phrase captures the essence of our tendency to focus on quantification and measurement across fields—be it sports, medicine, or public policy. This proclivity to quantify everything makes us susceptible to the “streetlight effect”. We may behave a bit like a drunk who has lost his key in the dark, but is looking for it on the other side of the street under a lamppost—because that’s where the light is.

Our natural desire to focus where the light is brightest, where data is available, and where things can be quantified, may cause us to miss the most important issues that need to be taken into account.³⁵

Creative industries can connect people, bridge cultural and political divides, act as a source of identity and expression, and shape attitudes and thought processes. These are

some areas where the impact of creative industries cannot be measured in numbers. Some examples of the impact of creative industries beyond the numbers are discussed below.

- **National Integration:** India is a diverse country, with 22 official languages and several rich and varied sub-cultures. The output of creative industries can transcend cultural differences, offering a powerful means to enhance “unity in diversity” and national integration. Consider the movie “Mission Mangal”, which was about India’s Mars Orbiter Mission. This movie celebrated India’s incredible success in putting an orbiter around Mars in its first attempt (the only country to achieve this feat) and at a cost of under US\$ 75 mn.³⁶ The movie resonated with audiences across the country and fostered a sense of pride in the nation. It also sparked interest in astronomy and raised awareness about ISRO and its “Chandrayaan 2” lunar mission.

- **Social messages:** Creative industries offer a means to deliver messages that stick. As India rises from a low to a middle-income economy, video offers an option to transmit important social messages around topics, such as health and nutrition, cleanliness, and environment to its population (25 percent of which is not literate).³⁷ The power of creative industries to shape culture and behaviour can be used to generate positive social outcomes for the country. For instance, the movie "Padman" addressed the sensitive topic of menstrual hygiene through its real-life story of social entrepreneur Arunachalam Muruganantham. Several recent films have explored other sensitive issues, such as infertility ("Vicky Donor", "Shubh Mangal Saavdhan"), and premature balding ("Bala"). These movies have laced the sensitive topics with light humour, making the messages more palatable and memorable whilst also enjoying commercial success.
- **Spreading culture and influence (soft power):** Content generated by creative industries is one of the key windows through which the world views and develops a perception about a country. Creative industries thus, represent a compelling vehicle to expand a country's influence. With online video services making distribution largely frictionless, creative output can instantly reach a world-wide audience. India could use creative industries to showcase Indian products (such as khadi or yoga). Soft power could also be realised in other ways. China rapidly expanded movie screens, adding an average of 19 new screens per day from 2012 to become the country with the highest number of screens (surpassing the US) in 2017, with 45,000 screens.³⁸ By the end of 2018, China was estimated to have 60,079 screens. Today, China is the second-largest movie market in the world.³⁹ There is a subtle incentive for Hollywood and other foreign films to portray China in a positive light—the desire to be successful in the large Chinese market.



The government needs to harness the cultural impact the industry has, for value creation in the economy.

Rahul Puri
Managing Director, Mukta Arts Limited

Enabling high growth: The large needle movers

Our discussions with industry participants have surfaced challenges and obstacles to growth. While there is a long list in a later section of this report, we discuss here three key factors that could have a large role to play in creating a high-growth environment.

The government and policy makers have already shown support for the industry and demonstrated their positive intent in many ways. Some of these include the following:

- Designating the Audio - Visual Service Sector (under the M&E industry) as a “Champion Service Sector”
- Forming effective bodies, such as the MCDCU
- The High Court of Delhi’s recent (novel and practical) ruling on dynamic injunction to tackle the problem of mirror/redirect/alphanumeric websites in a better manner

Addressing the three factors listed in this section could play a key role in shifting the industry to a high-growth trajectory.

#1 Creating a culture that cherishes IP

The innovation imperative

India has a popular culture of “jugaad”, which is sometimes used interchangeably as a proxy for innovation. Jugaads are typically quick-fix solutions to obstacles, and involve a fair deal of ingenuity. However, one must understand a distinction between true and sustainable innovation and jugaad—which is a coping strategy. Some people suggest that jugaad is a reflection that the circumstances of a society are such that its smart people are doing what smart people in other civilisations do not have to do.⁶

Sustained innovation is a key reason for the success and dominance of the United States and is the foundation of American economic growth and national competitiveness.⁷ India understands the need for innovation. The Indian Prime Minister has often endorsed the value of innovation

through mantras such as IPPP – Innovate, Patent, Produce, and Prosper.⁸ He has also expressed his desire to see India within the top 25 in the Global Innovation Index (India currently ranks 57, up from position 81 in 2014).^{9,10} India’s planning think-tank NITI Aayog recently released an India Innovative Index (III) to create synergies between different stakeholders in the innovation ecosystem.¹¹

IP and innovation joined at the hip

A culture that cherishes IP is a pre-requisite to foster innovation. The United States is “the innovation centre of the world”, according to Francis Gurry, Director General of the United Nations World Intellectual Property Organization. The US Chamber of Commerce believes this to largely be the result of a rigorous system of IP laws.¹² The US society also values and respects IP. The head of a leading global entertainment company who did not wish to be named mentioned that his focus would always be on the US because “the US consumer values IP and is willing to pay for content.”¹³

Owners of successful IP are sometimes seen as making supernormal profits, but this needs to be viewed in the context that building successful IP is incredibly difficult. Failure is very common in the innovation process just like businesses, where eight out of ten entrepreneurs who start businesses fail within the first 18 months.¹⁴ IP provides the incentives for the world’s most innovative minds to develop cures for deadly diseases, productivity-enhancing software, safe and plentiful food supplies, and clean energy technologies; enhances our cultural life by encouraging creative works, such as books, movies, music, and art.¹⁵

The US Chamber of Commerce releases an IP Index, and ranks 50 countries on this index. India ranks 36th in this index, below the Asia average. At the same time, in-line with the country’s increasing attention to IP, India’s score has improved – it was in 44th place in 2018.

India on the IP index (percentage of maximum score for IP index)



Source: International IP Index – 7th Edition by the Global Innovation Policy Center (US Chamber of Commerce), February, 2019

Driving a cultural shift

The illustration on the following page shows the key factors that could build a supportive environment for IP. Some of these factors pertain to regulations and policing. These tend to dominate discussions around IP, and they can certainly influence and create an IP-friendly culture. However, two of these factors are cultural in an intrinsic manner (highlighted in the illustration). Focusing on these factors could complement existing initiatives to boost IP. The government has successfully nudged the country to a cultural shift towards cleanliness—which is discussed as a case study in this report. Many aspects from that playbook could be leveraged to foster an IP friendly culture in India.

Cultural shift: Reducing the stigma of failure

In response to a question about his missteps, Thomas Alva Edison, an American inventor, is once reported

to have said, “I have not failed 10,000 times—I’ve successfully found 10,000 ways that will not work.”¹⁶ The significant failure rates that accompany innovation mean that cultures that do not stigmatize — or better still, embrace — failure are more likely to be successful in innovation. Often overlooked in the success of American start-ups is the even greater number of failures. “Fail fast, fail often” is a Silicon Valley mantra, and the freedom to innovate is inextricably linked to the freedom to fail.¹⁷

In India, failure is considered a stigma.¹⁸ In business, like any other aspect of life, failure is looked down upon and the stigma of failure can act as a significant barrier. The social pressure of being financially stable can be troublesome for those pondering to embark on their journey. The fear of being branded as a failure could deter people from innovating.¹⁹

The Prime Minister of India is aware that, in order to innovate, the possibility of failure needs to be accepted and embraced. In an interaction with young scientists at the 107th session of Indian Science Congress, he insisted that scientists should continue to experiment and utilise budgets allocated to them. He remarked that scientists dedicate their precious lives and time (much more precious than funds) to research and innovate.²⁰

Building a deliberate schedule of such interventions and messages could improve the acceptance of failure in Indian society.

Cultural shift: Improving awareness

Lack of awareness is often cited as a reason for piracy. The CIPAM conducts several awareness programmes. However, a wider programme with a broader set of awareness ambassadors could complement these programmes. Awareness could be raised on the following two fronts:

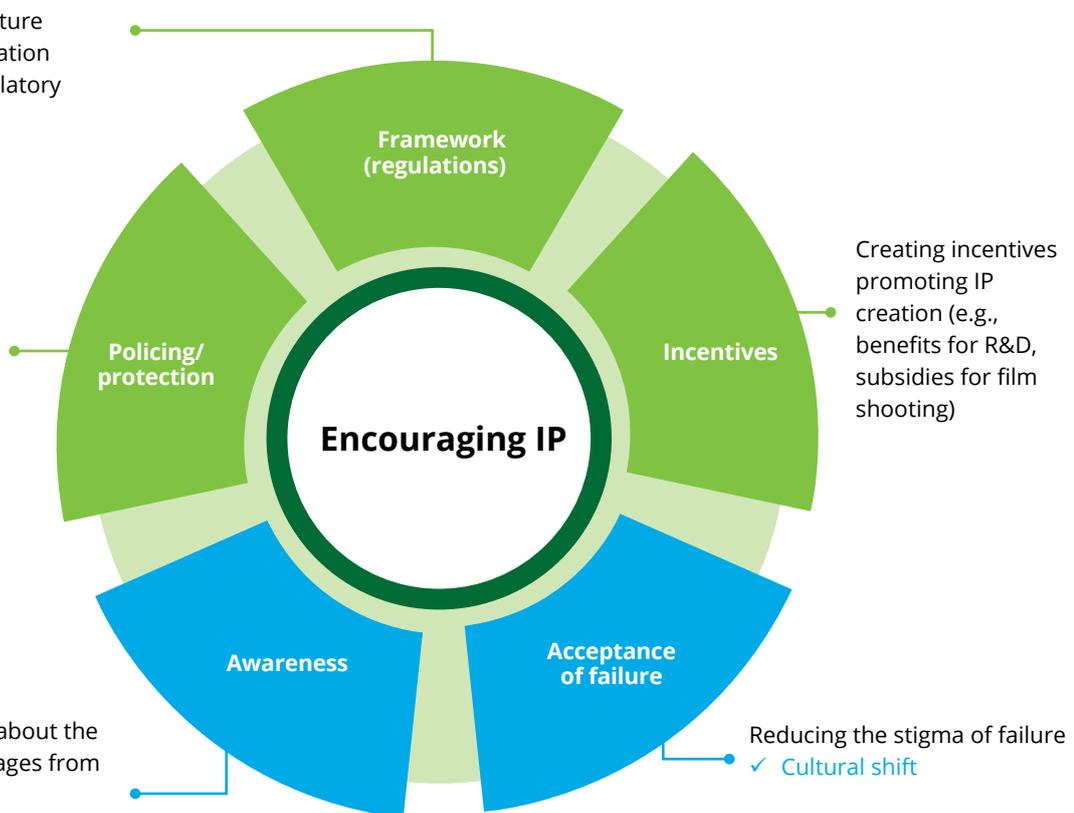
1. **Legality:** This involves educating people on what constitutes piracy, and highlighting that piracy is illegal. This is useful and often the focus of current awareness campaigns.
2. **Impact and emotional messaging:** This involves educating people on the long-term impact of piracy. Campaigns that incorporate an emotional message can be more effective. For instance, campaigns and messages around buying Indian traditional lamps (“diyas”) instead of Chinese lights for Diwali resulted in a dip of 30-45 percent in sales of Chinese lights.²¹ A survey by ASSOCHAM found that the demand of electronic items, such as LCDs, mobile phones, and other items made in China also declined by 15–20 percent.²² A shop in Hyderabad echoed the sentiment, “Unlike five years ago, the mood has changed a lot amongst the customers. For the past 2–3 years, we have not stocked up Chinese lights and other decorative items. Before buying anything, people nowadays enquire if the stuff is Indian.”²³

Illustration: Encouraging IP

Laying down a structure that supports IP creation (e.g. a rigorous regulatory framework)

Executing on the regulations (e.g., forming and empowering agencies such as Telangana Intellectual Property Crime Unit i.e., TIPCU)

Building awareness about the value of IP and damages from piracy
 ✓ Cultural shift



Source: Deloitte Analysis



Case study: Swachh Bharat Abhiyan (Clean India Campaign)—The success of this campaign made it a Jan Andolan (i.e., peoples’ revolution)

SBA is one of the largest sanitation mass-movement initiatives by the Government of India, which aims to create a behavioural change at the national level. Through this initiative, India became open defecation-free in 2019 in the span of just over five years. The obvious challenge that the government faced was to go out and build 90 mn toilets (it over-achieved this and built 100 mn toilets).²⁴ The more difficult task was to convince people to use toilets since people can be reluctant to change old habits.²⁵ The Bill and Melinda Gates Foundation awarded the Indian Prime Minister with the Global Goalkeeper award for the SBA.

The major driving force for the success of this initiative was its campaigning method using the IEC (Information, Education, and Communication) model. It is estimated that the government, private sector, and the development community together spent about INR 3,500–4,000 cr in the five years since the launch of the project in October 2014 for IEC activities.²⁶

The campaigning strategy of the SBA was large scale and enthusiastic. It included social media challenges involving leading public figures and politicians, and outreach in terms of mobile messages to individual citizens.

Some of the effective modes used to campaign and drive the cultural change were:

- Social media coverage for the SBA: A tagging challenge was created to pick up a broom and

clean an area. Public figures were nominated and became role models for the citizens.

- Involvement of the Prime Minister: His “Mann ki Baat” (i.e., speak from the heart) sessions, the incorporation of sanitation in his Independence Day speech, and his picking up the broom to sweep a street, displayed his personal involvement in furthering the message and cause.
- Brand ambassadors: The concept of Team Swachh Bharat was effectively used by involving influencers, such as renowned cricket player Sachin Tendulkar, with targeted 30-second video advertisements and public cleanliness drives. The supporters of this mission had their own sub-missions. For instance, NDTV created their mission with renowned actor Amitabh Bachchan as the brand ambassador, and conducted events celebrating sanitation warriors and workers.
- Involvement of the M&E industry, NGOs, and other sectors: Several TV programmes had taken up the cause and modified their scripts to incorporate the mission to generate awareness. Some of them, such as the producers of the popular programme “Tarak Mehta ka Ulta Chasma” even felicitated groups of individuals who worked and brought in a change in the field of sanitation, at the end of their episodes. Similarly, other sectors and corporates through CSR and NGOs joined hands to bolster the message and drive the change.
- Incentivising change in behaviour: The Swachh Bharat Survekshan, the world's largest cleanliness survey, puts both, the cities and rural areas on a national ranking system. This led to healthy competition amongst states to outdo each other and also beat their own past performance.

National Intellectual Property Rights Policy 2016: The right sapling; can this be nurtured?

The National Property Rights Policy was formulated by the Department for Promotion of Industry and Internal Trade (erstwhile Department of Industrial Policy and Promotion) in 2016. The policy document acknowledges the benefits of creating a strong intellectual property rights (IPRs) environment, and aims to foster creativity, improve India’s IP output, and protect public interest by creating an IP ecosystem that operates at its full potential. The policy document lays out a holistic approach through the following:

- i. Creating public awareness about the economic, social, and cultural benefits of IPRs among all sections of society
- ii. Stimulating generation of new IPRs
- iii. Creating a strong legal and legislative framework

- iv. Modernising and strengthening service-oriented IPR administration
- v. Commercialising IPRs
- vi. Strengthening the enforcement and adjudicatory mechanisms for IPR infringements
- vii. Ensuring human resource development for training, research, and skill building in IPRs

The policy underlines the importance of India’s IP System, and lays down objectives and the need for integration of IP with national initiatives. The provisions mentioned in the policy document have been widely acknowledged by the industry. Industry participants acknowledge that implementation of this policy in letter and spirit may result in India having one of the most vibrant IP jurisdictions in the world.

#2 Opting for “light touch”, stable regulations

The creative industries in India have been perseverant and active, and have managed to entertain the masses even under challenging circumstances. The film industry produces about 2,000 movies a year, even though India is under-screened.²⁷ The 60,000+ local cable operators in India are grassroots level entrepreneurs who have brought pay TV to about 100 mn households. The broader TV industry in India has brought a large volume of content to more than 150 million households at affordable price levels of ~US\$ 3–4 per month, making India the second-largest pay TV market in the world (in terms of subscriber base).²⁸

At a broad level, industry participants expressed during our discussions that the players as well as market forces have acted so that customers received value and affordable price points. Hence, they have represented that:

- Market forces be allowed to continue to shape prices and industry evolution for the most part.
- Regulations be minimal so that disruptions and distortions are minimised. Pricing regulations in particular, affect the revenue optimisation (and recovery of investments), but not the cost side— which can throw financial plans awry and discourage investment.
- Frequent changes in regulations be avoided, so that industry participants can plan ahead, rather than remain in reaction mode.
- Self-censorship be encouraged, notably on online video services. This would be in-line with other philosophies that respect internet freedom, such as net neutrality.

Industry participants will also need to reflect, collaborate, and make concerted efforts to solve their own problems rather than seek outside intervention.

#3 Continuing the focus on ease of doing business

The government has taken several steps to enable ease of doing business for the creative industries. In particular, FFO is a key enabler for the film industry. The key areas

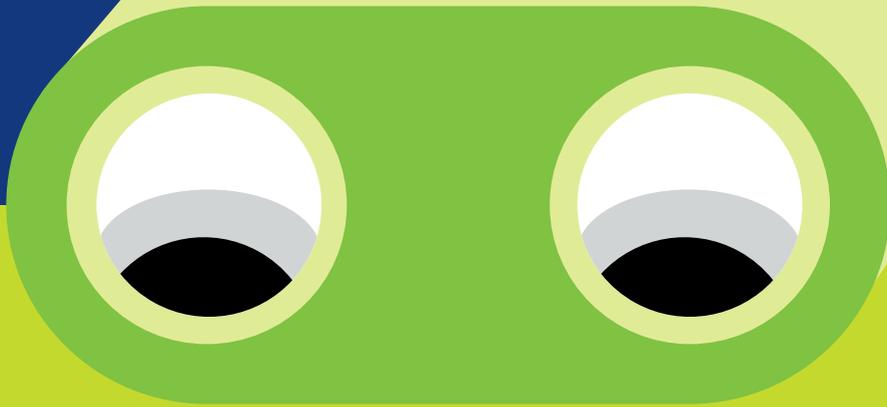
where the government and policy holders could further play a role include the following:

- Continue to increase co-production treaties and deals.
- Release funds earmarked for the Audio - Visual Service Sector (part of the M&E industry) under the Champions Service Sector Fund.
- Encourage improvement in screen density. Suggestions include:
 - Improving simplification and flexibility:
 - Ease the process of opening screens (simpler and faster clearances). For instance, Andhra Pradesh offers single-window clearance and deemed approval beyond a 21-day threshold.
 - Allow flexibility of use (e.g., flexibility to use the entire or some part of the cinema hall for broader entertainment).
 - Ease clearances for installing screens in housing societies. This may also help the residential real estate sector (which is currently facing headwinds) and offer greater value to customers.
 - Providing benefits and subsidies:
 - Provide infrastructure status to screens. This can open up access to a wider range of funding sources, as well as better interest rates.
 - Provide power at industrial rates. Power is often a substantial cost, representing ~12–15 percent of revenue at 30 percent occupancy levels for a multiplex. Further, this cost does not drop with drop in occupancy. States and the centre could work together to provide lower power cost for screens.
 - Provide land on 99 year lease at affordable rates, as some states do currently.
 - Provide a tax holiday for new screens. It is suggested that rather than direct tax, indirect tax benefits can create the requisite impact. Screens typically have payback periods of more than 7 years, and thus usually don't have enough profits to take advantage of direct tax benefits for several years. Some states offer a set-off against SGST, which could be a good model.
 - Development of more cities may be a long-term solution that will naturally create demand for screens in a sustainable, profitable manner.



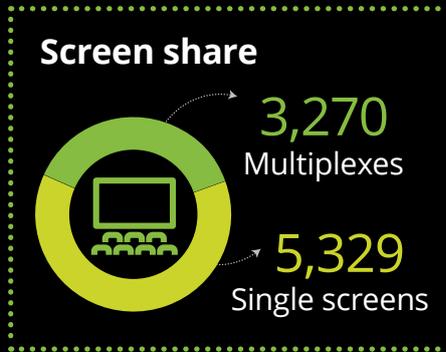
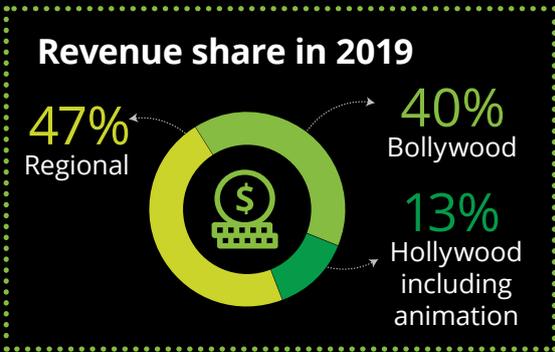
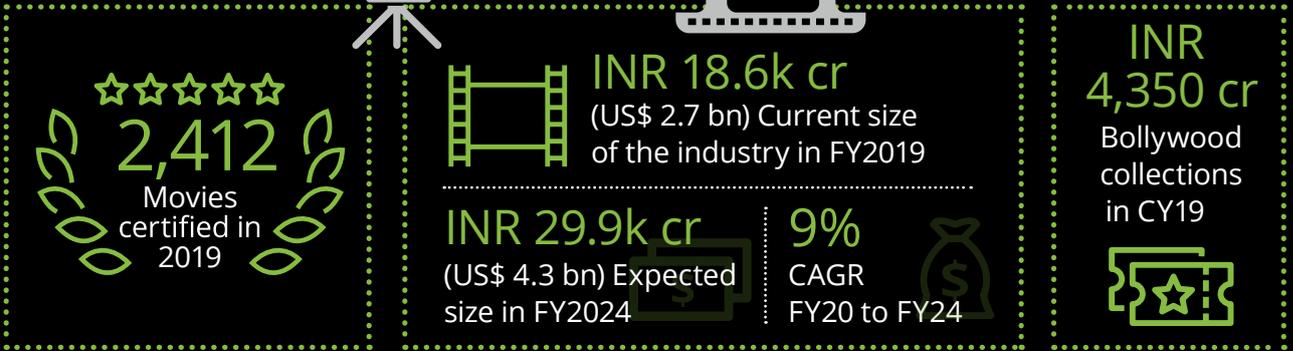
Bringing the media and entertainment sector under Section 72A of the Income Tax Act will encourage merger and acquisition activity, which can improve the overall strength and health of the sector.

Nitin Nadkarni
CFO, Sony Pictures Networks India



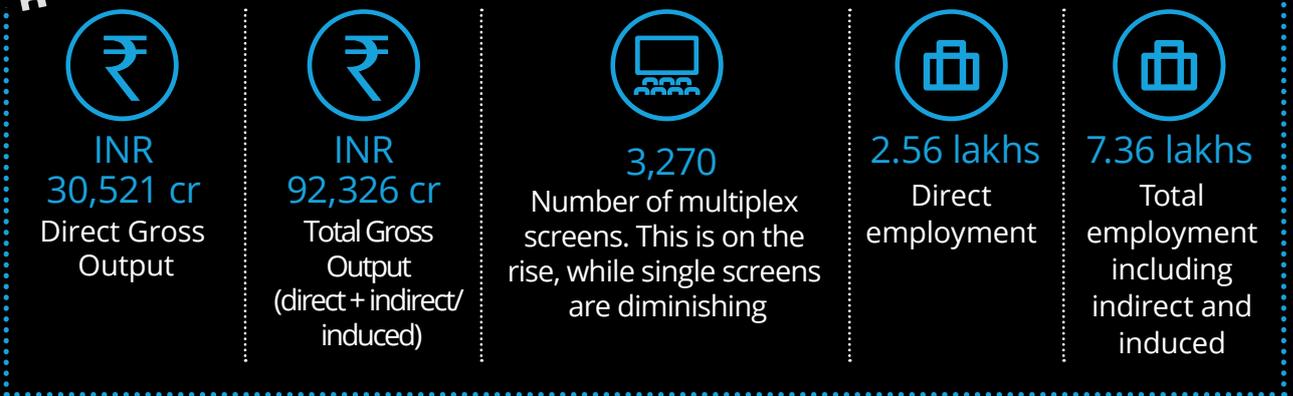
Indian Film Industry

Key Takeaway



sources: Revenue share of box office by local/Hollywood etc.

\$ Economic Impact



<p>Reduced period of exclusive theatrical windows. 45-90 days from 6 months a few years ago.</p>	<p>Food and Beverage sales are expected to grow. Trends of on-seat butler services and kids arena on the rise.</p>	<p>New media platforms creating demand for new set of skills – notably around analytics and cloud</p>	<p>High potential for animated films</p>
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Exploring the sub-sectors

Film

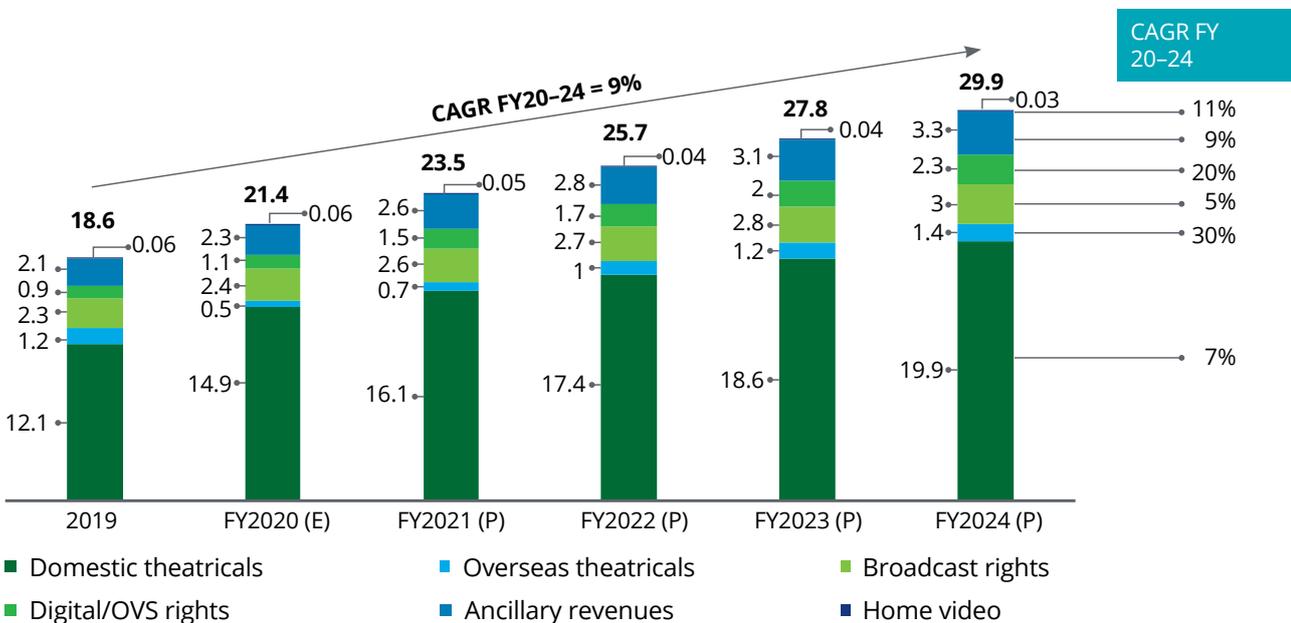
Industry size and growth

The Indian film industry was sized at around INR 18.6k cr (US\$ 2.7 bn) in FY2019⁴⁰. In FY2020, against the backdrop of a sluggish economy, the film industry has displayed resilience and is putting up a strong performance. We expect the film industry to post growth of around 15 percent in FY2020, and thereafter grow at a CAGR of 9 percent to reach INR 29.9k cr (US\$ 4.3 bn) in FY2024. The revenue breakdown and expected growth are presented in the chart below.

It may be noted that although Bollywood (Hindi language film industry) is expected to register the highest domestic collections ever in FY2020, the performance of these movies overseas has not been as good. However, regional movies from India have been successful in foreign markets.

While we have broken out cable & satellite (C&S) and digital rights, we noted an increasing trend of bundling of rights — combining the C&S and digital rights, or sometimes even the music rights. We have discussed other key trends and drivers in the pages that follow.

Estimated growth and market size of the film industry (INR '000 cr)



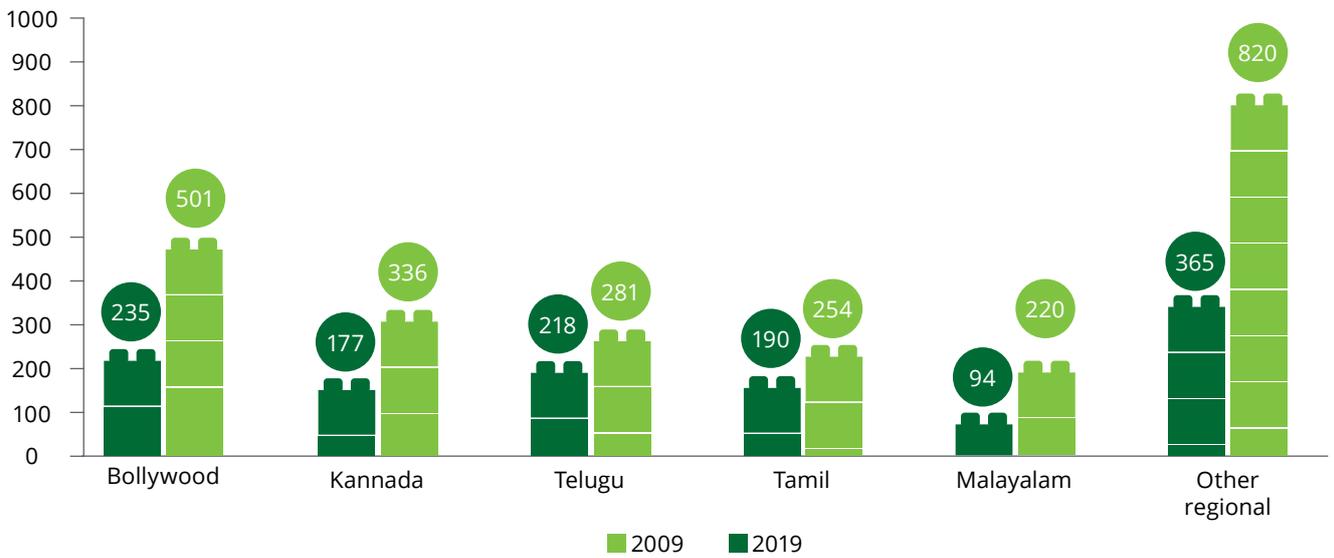
Note: Digital rights account for only movies that have had a theatrical release and not for the movie-web series/OVS movies
Source: Media reports; Discussions with industry participants; Deloitte analysis

Key trends and drivers

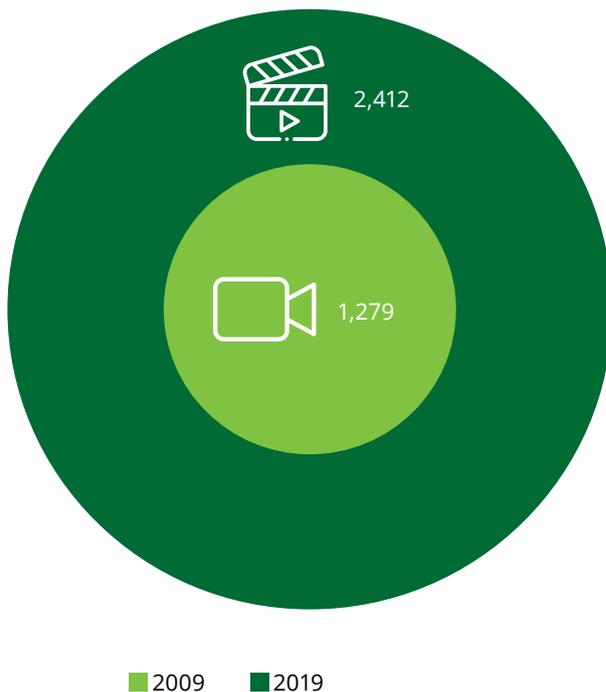
Scale and evolution

India produces the most number of movies in the world, and this number is growing. Over the past decade, the number of movies certified in India has grown by 89 percent (a CAGR of 6.5 percent); from 1,279 in 2009 to 2,412 in 2019. Malayalam, Kannada, Bengali, and Marathi were amongst the languages that registered the highest growth. Movies in some new regional languages, including Nagamese, Manipuri and Chhattisgarhi, were certified in 2019 with 11, 15, and 18 certifications, respectively.⁴¹

Number of movies certified in India: Evolution over a decade



Total number of movies certified in India: Evolution over a decade



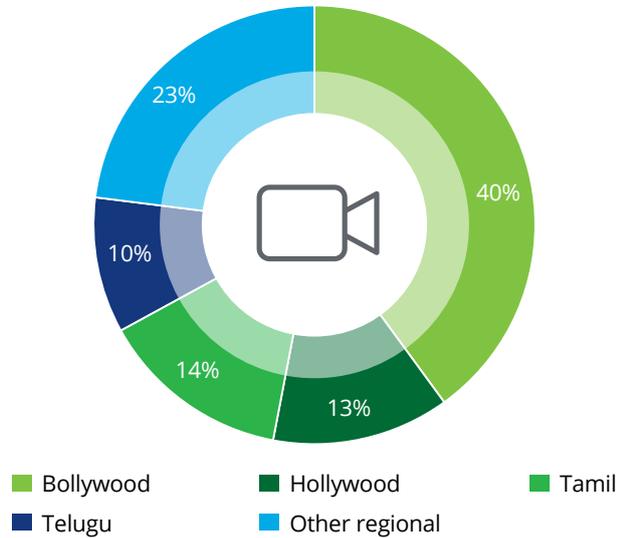
Source: Producers Guild India

The “industries”—Bollywood, Regional, and Hollywood/Foreign

The revenue share of the various industries is presented in the chart alongside.

Regional films have continued to witness a surge in investments from major film studios. Regional filmmakers have developed the risk appetite in dealing with unrepresented topics, such as the Marathi movie "Bucket List"; or dealing with big projects, such as "Sye Raa Narasimha Reddy", drawing inspiration from the success of "Baahubali 2".⁴² This trend has seen further growth this year and regional cinema, in turn, has led to an increased contribution to the revenue in comparison to Bollywood. Hollywood/foreign films have also shown good growth, with "Avengers: Infinity War" and "Avengers: Endgame" proving to be very popular in India.

Revenue share by industry—language

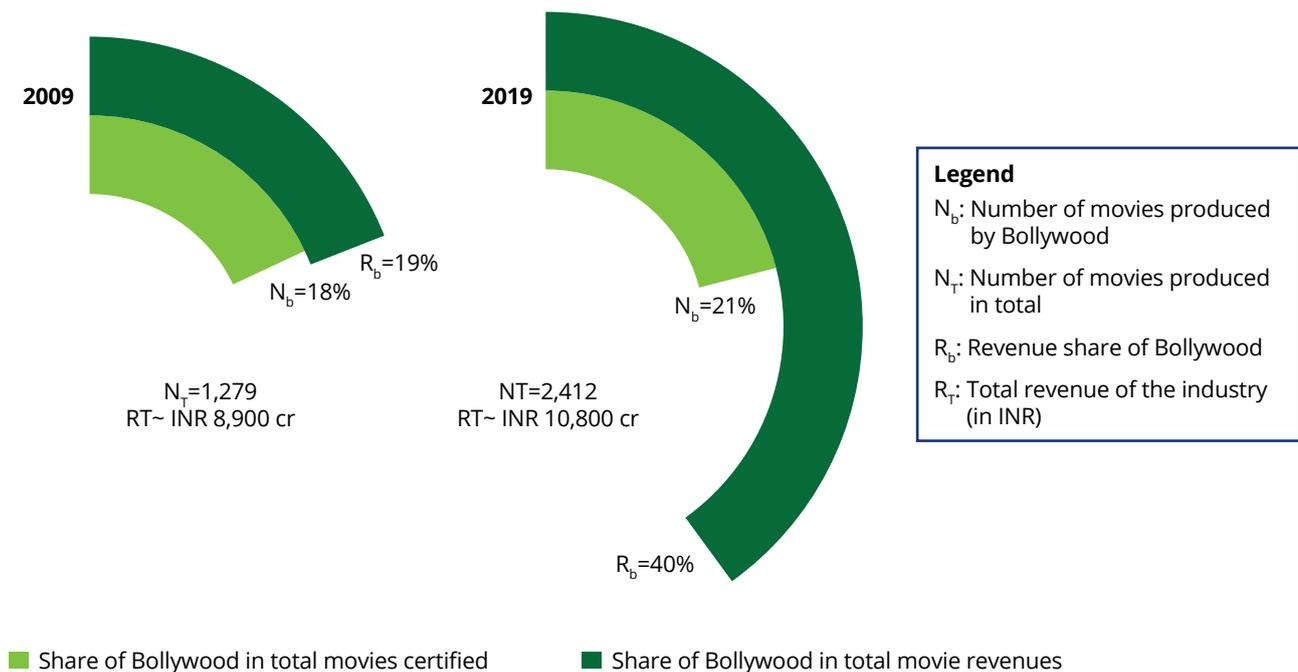


Source: Bollywood Hungama, KoiMoi, Deloitte analysis

Bollywood movies operating at higher revenue intensity

In 2009, Bollywood represented 18 percent of all movies made in the country and accounted for 19 percent of the total movies revenue. Today, while Bollywood represents 21 percent of all movies made in the country, it accounts for 40 percent of the revenue.⁴³ In 2019, Bollywood is estimated to have accounted for a first-ever net collection of about INR 4,350 cr.⁴⁴

Number of movies produced vis-a-vis revenue share: Evolution over a decade



Note: % of movies certified is not equal to the number of movies released for the year; 2019 values until 1st week of December 2019
 Source: Producers Guild India; Bollywood Hungama; Deloitte Analysis

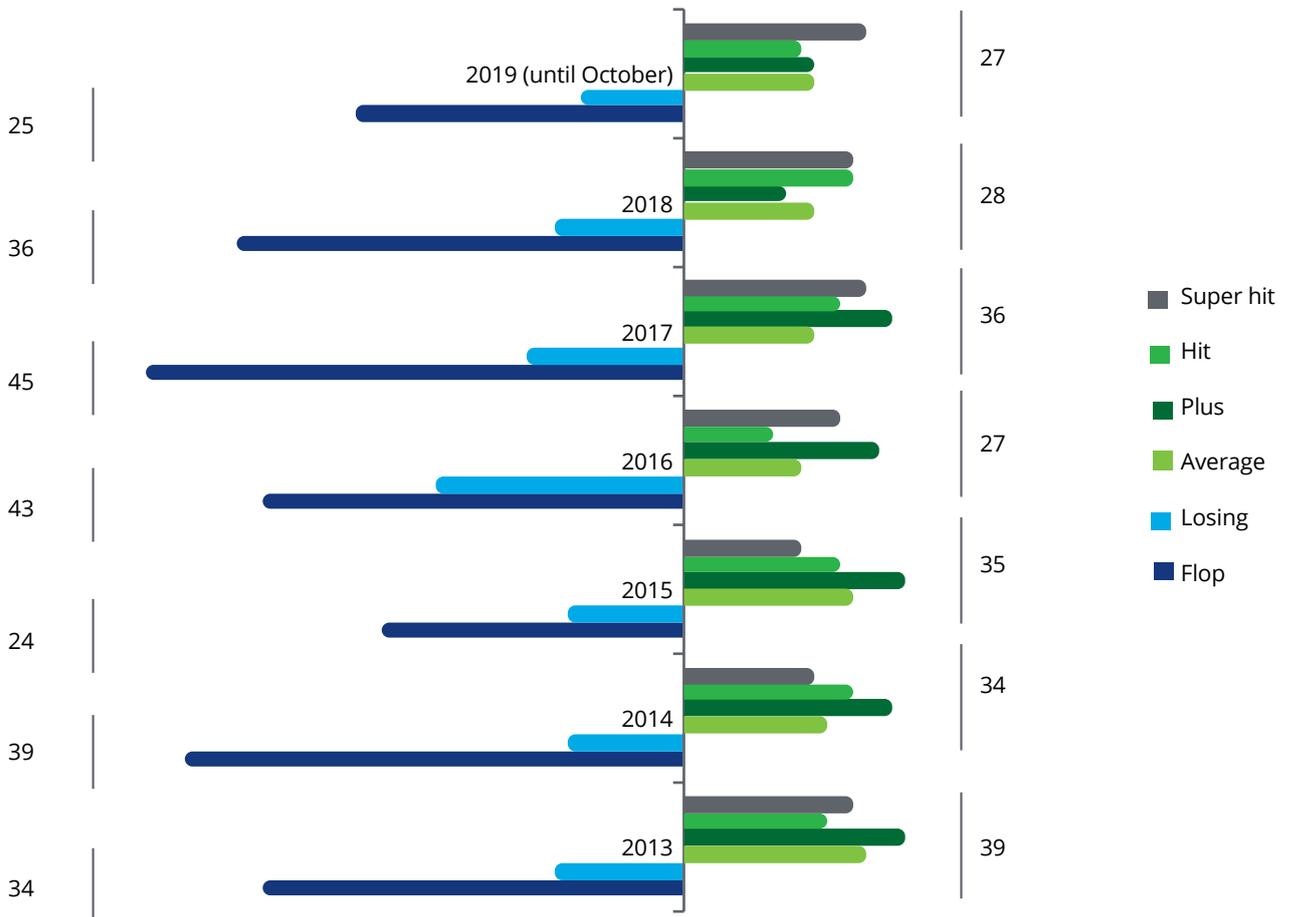
Trend in performance of movies

The trend in performance of movies is presented in the below chart. While box office fortunes can vary year by year, the percentage of movies generating good box office sales and return on investment has shown an improving trend over the past three to four years.

The categorisation criteria are as follows:

- Flop: Film that loses 50 percent or more of investment
- Losing: Film that does not recover the investment, but loses less than 50 percent of it
- Average: Film that only recovers investment
- Plus: Film that recovers investment and yields some profit
- Hit: Film beyond Plus, which returns up to double the investment
- Super-Hit: Film that more than doubles the investment

Performance of movies

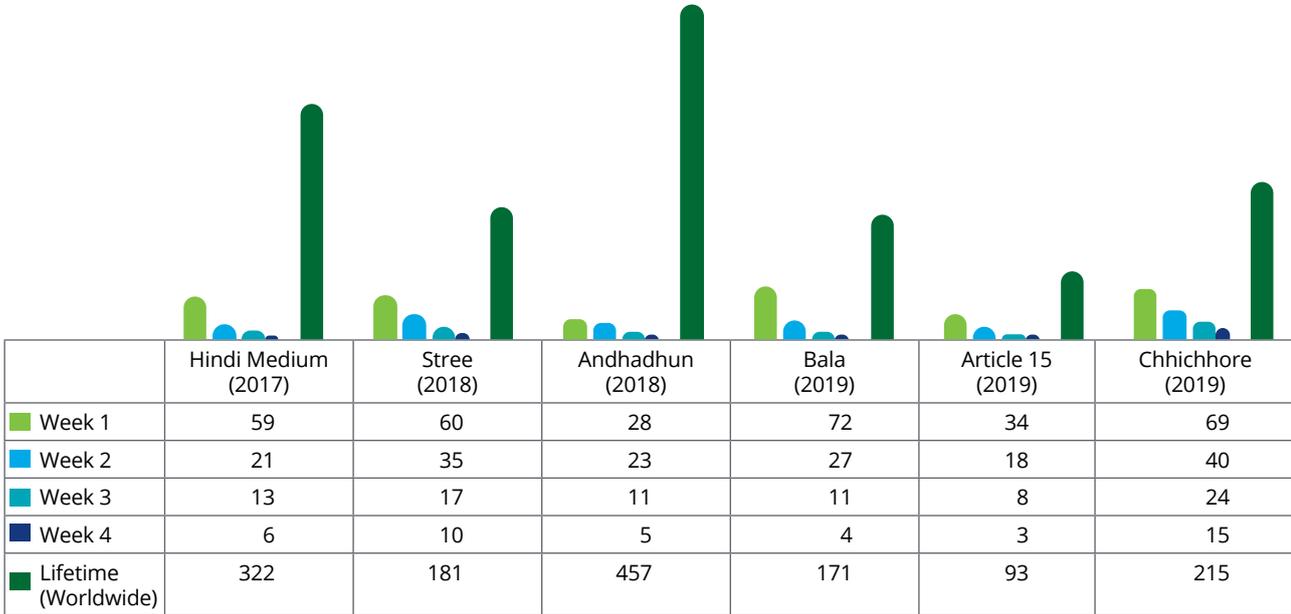


Source: KoiMoi

Revenue—Time versus performance— The shift in the recent past

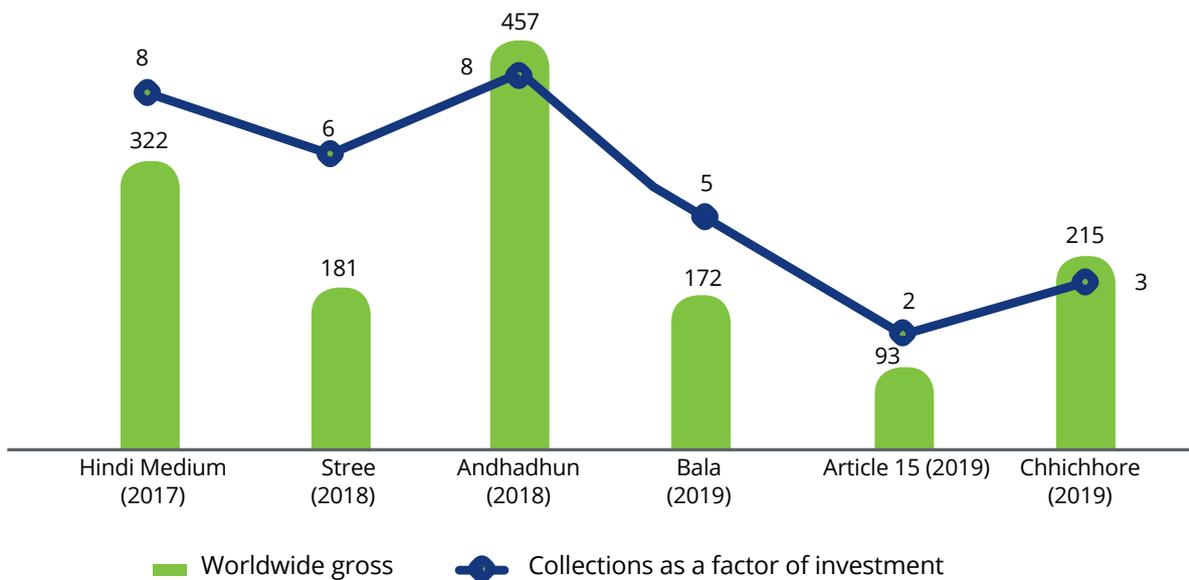
Strong story lines have been a focus in recent times, causing movies to be genre-agnostic. The chart below presents the week wise domestic collections of select content-based movies against their lifetime worldwide gross. These movies have had slower starts, but have made significant money and ROI in the longer run.

Week-wise performance of select content-based movies (INR cr)



Source: Bollywood Hungama; Box Office Collections

Worldwide collection (INR cr) and ROI factor for select content-based movies



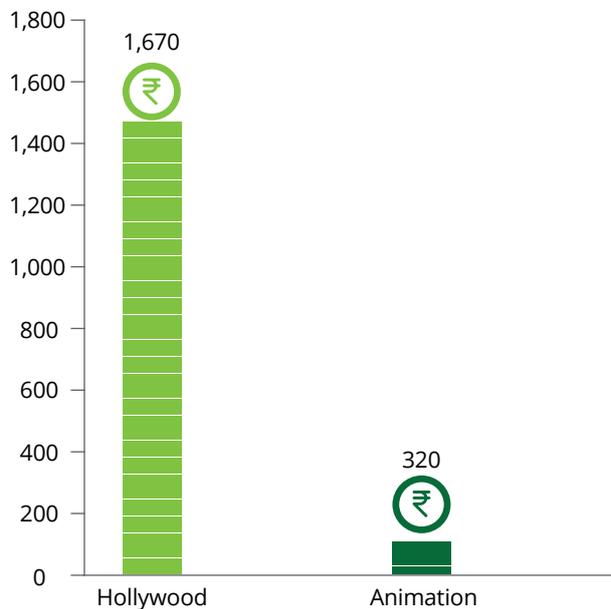
Note: Collections as a factor of investment are calculated considering net collections (domestic + overseas at 45% of the collections)
 Source: Bollywood Hungama; Deloitte Analysis

Glance: Animated films

Animation movies in the past year have contributed to 19 percent⁴⁵ of the overall revenue from Hollywood movies released in India. Animation movies grossed about INR 320 cr. The “Lion King” single-handedly contributed ~50 percent of the animation movie revenue.⁴⁶

This suggests that there is an appetite for animated movies amongst the Indian audience. The Indian VFX and animation industries generate revenues of over INR 5,950 cr. However, these animations are utilised by mainstream cinema. There were four animated movies released in 2018: three in regional languages and one in mainstream language Hindi and Tamil. However, this was down to a single release in 2019 “Chhota Bheem Kung Fu Dhamaka”.⁴⁷ “Chota Bheem” has been the only character series that has shown the capability to survive multiple movie releases, though the trend shows a declining ROI.⁴⁸

Revenue from Hollywood and animation as a subset in 2019 (INR cr)



Source: Bollywood Hungama

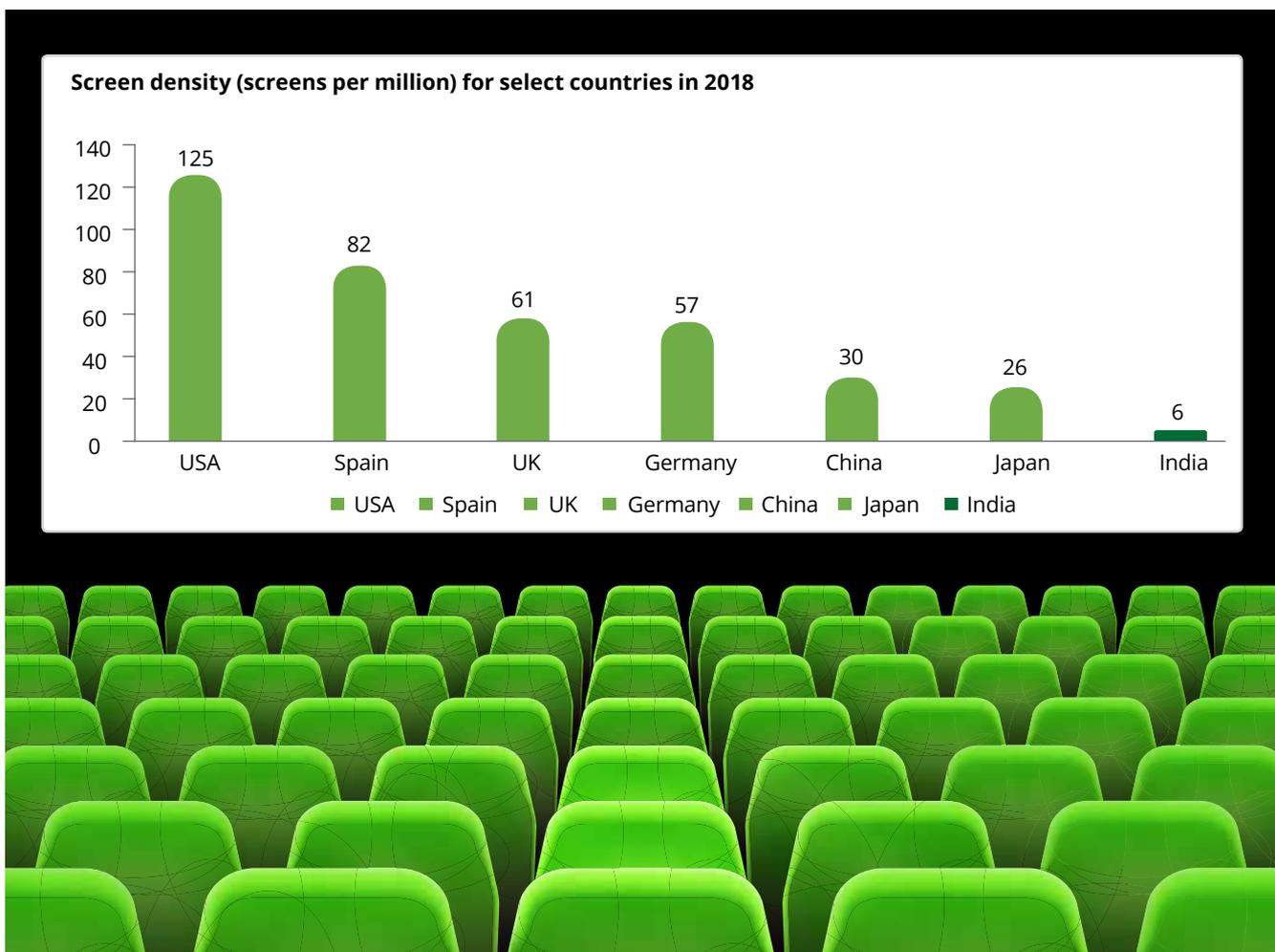
The lack of local or indigenous characters capable of carrying the movie has added to the plight of the Indian animation movie industry. As most of the characters, such as “Chota Bheem”, “Krishna”, etc., are readily available in the form of animated content on television or OVS, there is a lack of impetus to spend on tickets in a multiplex.

Cinema screens and growth of multiplexes

Digitisation of cinema began around 2005 and was fully adopted by the end of 2009. Today, 100 percent of the screens in India are digitised.⁴⁹

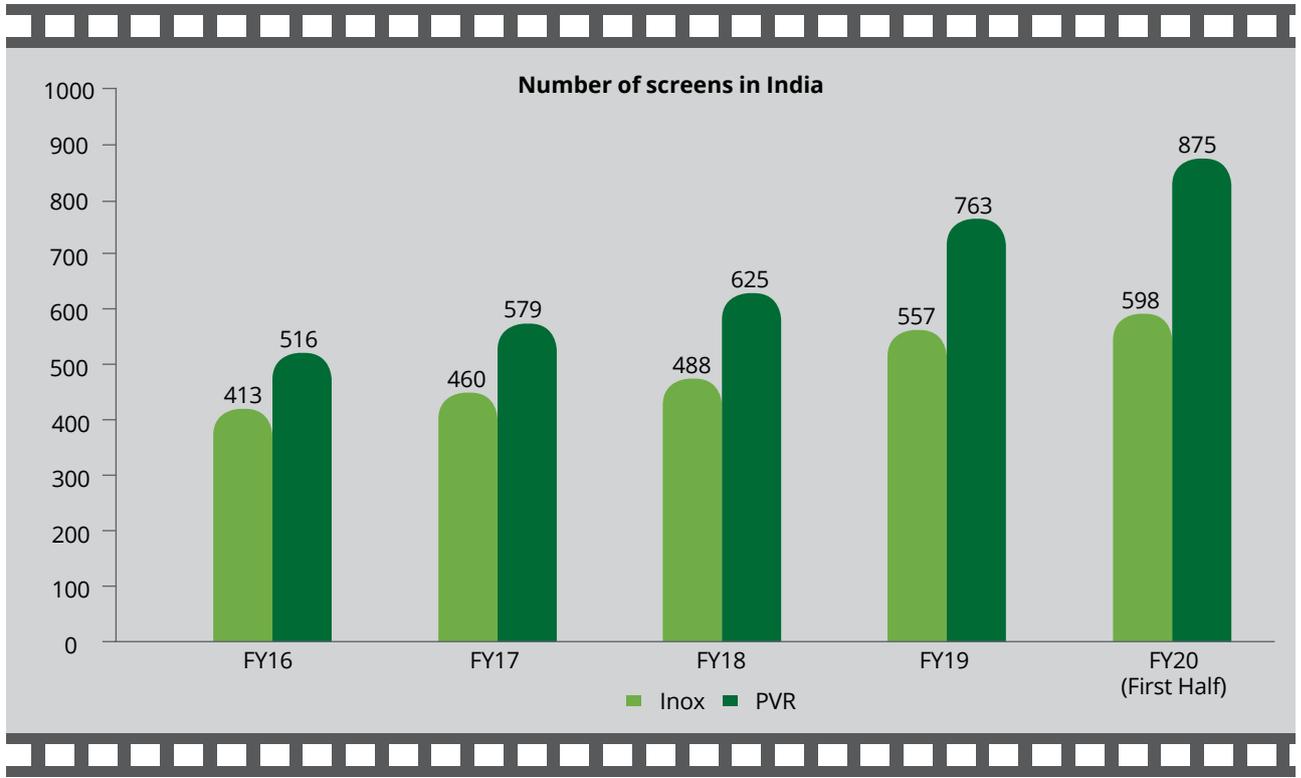
In 2016, India produced 1,986 movies drawing more than a billion footfalls across ~8,500 screens. In the same period, China attracted 1.37 billion footfalls across 41,179 screens, putting India in the second position with respect to the number of footfalls.⁵⁰

As of December 2019, India has a screen density of 6.5 screens per million.⁵¹

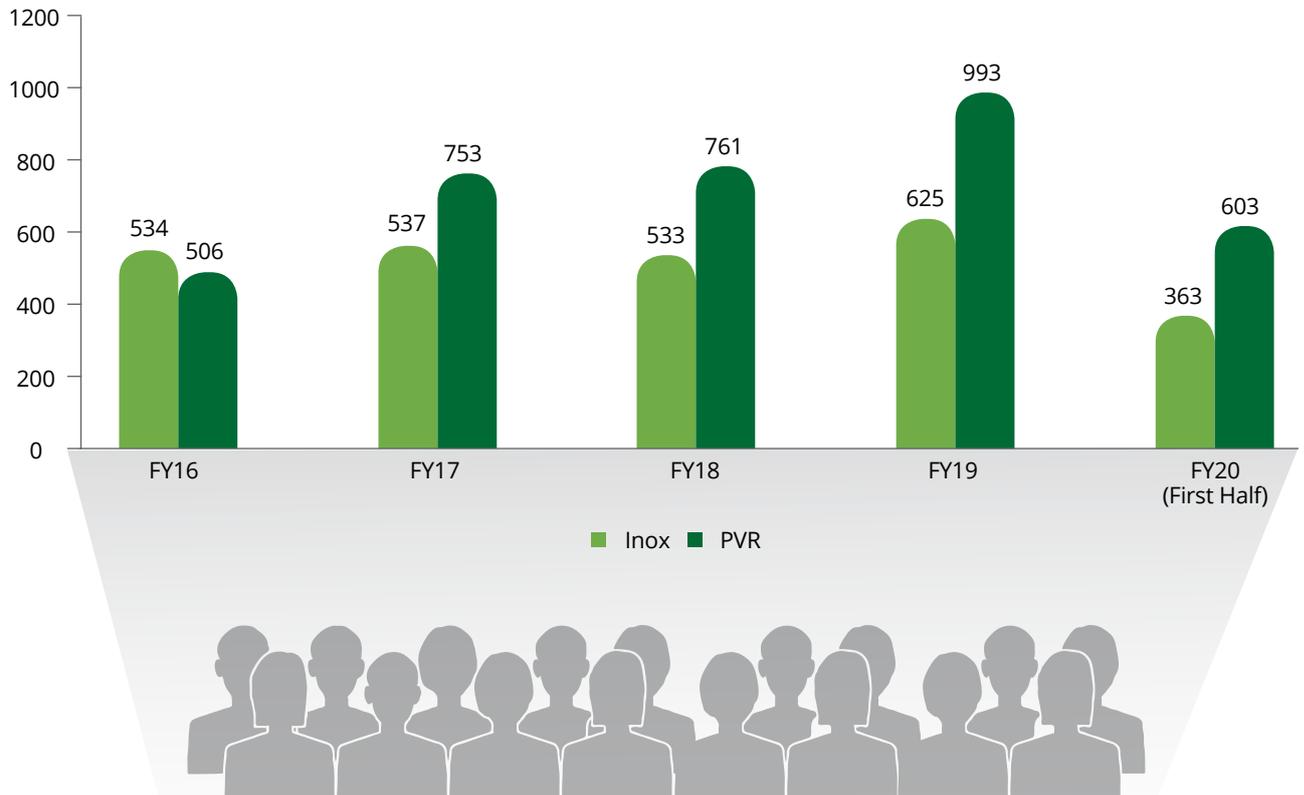


Source: Deloitte Report titled "Screen Density - Key to Unlocking the Hidden Box Office Potential" dated December 2018

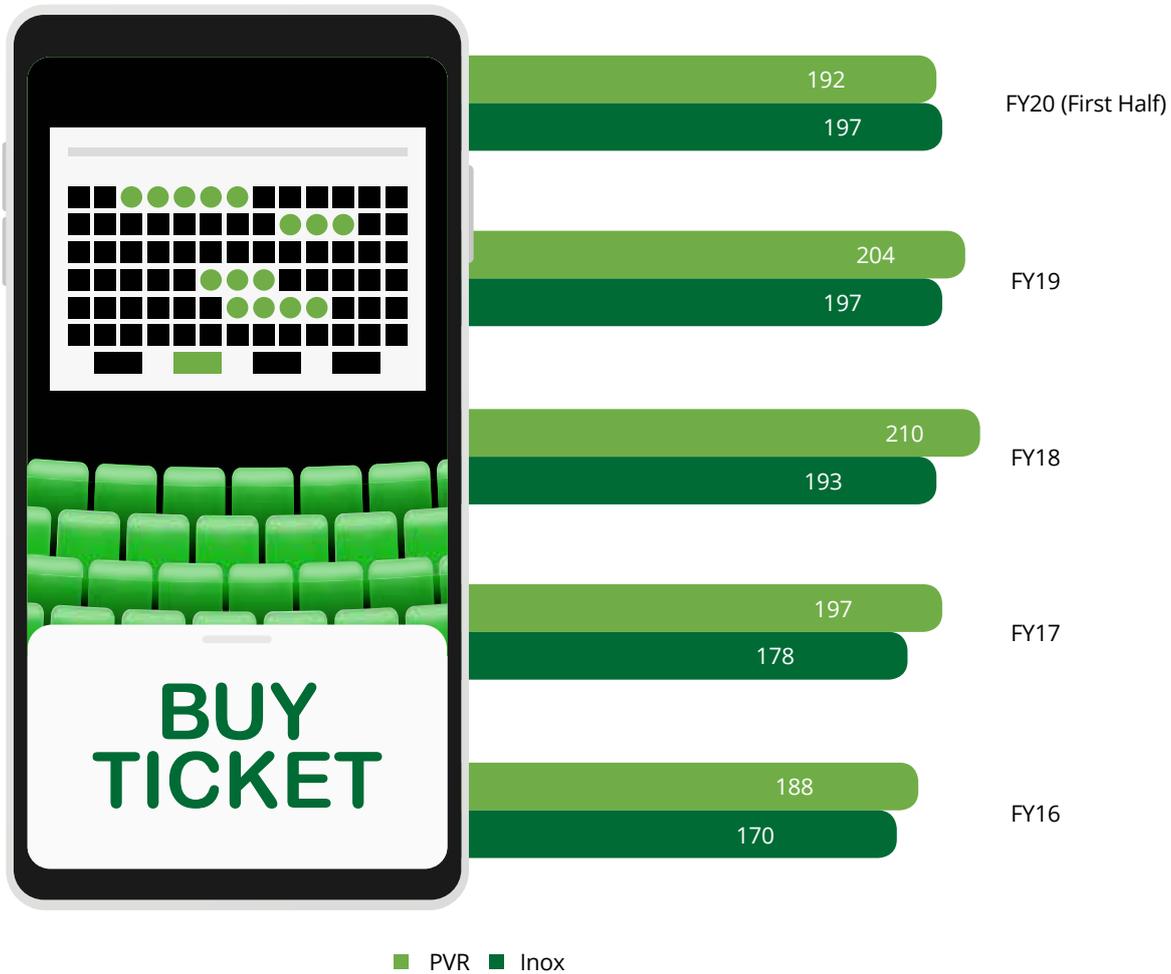
The first-ever multiplex in India, PVR Anupam with four screens, was established in Delhi in 1997. Twenty-two years later, the multiplex screen count stands at 3,270⁵². Today, PVR and Inox are leading players in the multiplex space (number of screens and revenue).



Footfall in lakhs



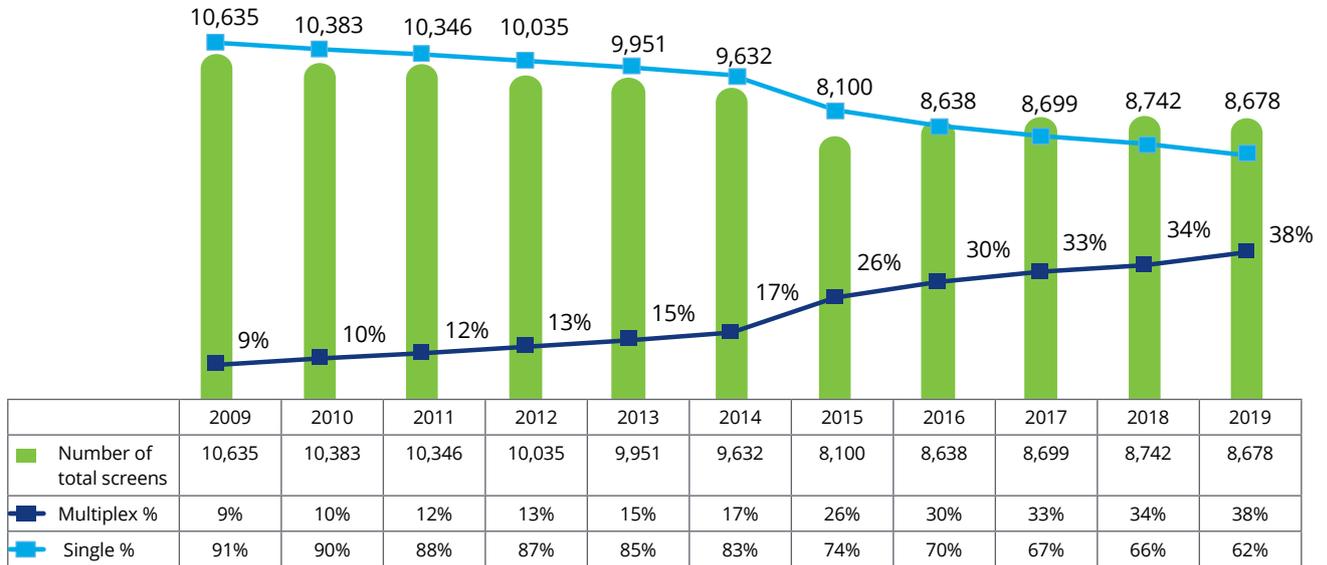
Average ticket price (INR)



Source: PVR and Inox investor reports

Single screens have been on the decline. For every 150–200 multiplex screens that opened, almost double the single screens have been shut down.⁵³ The year 2015 was a pivotal year for the shift from single screens to multiplexes. Now, the focus for multiplexes is to penetrate into tier 2 and tier 3 towns. The plan is to add more than 7,000 screens over the next 10 years, mostly in small towns.⁵⁴

Evolution of single screens versus multiplexes



Note: Percentage figures have been rounded
 Source: Inox investor reports; Deloitte analysis

The rise of technology and digitisation

The digital revolution has not only revolutionised screen technology, but also the style of movie making and marketing.

In terms of marketing, VR experiences of the sets add to the strategy of selling and making the audience interested in the largeness of the scale. Advertising in single screens has become simple due to centralised selling and display of advertisements by companies, such as UFO Moviez and Qube.

Digitisation has allowed the release of movies in a large number of theatres simultaneously, in remote areas, and with superior quality prints thus, allowing for last-mile connectivity. This has reduced piracy, as legal copies are readily available to a larger audience.

Epic movies, such as “Baahubali”, “Padmavat”, and “Sye Raa Narasimha Reddy”, require realistic picturisation of battle shots. The CGI, VFX, and camera techniques that have been developed and mastered in recent years were used for such shots extensively. It is no longer just the skill of the stunts choreographed, but also the scale brought in by the VFX along with advanced graphic cards that make these scenes more realistic and epic. These technologies also allow editing in real time.

Some of the latest technology includes autonomous drones capable of taking different shots at various angles using built-in knowledge and algorithms.⁵⁵ In addition, they can take high-speed shots with aerial manoeuvring. Ultra HD 3D or 4K+ 3D technology is also seeing increased usage, even though it is considered expensive. These technologies provide precision and clarity to action scenes, helping the audience savour that well-choreographed action sequence. The screens are also being upgraded into LED 4k 3D. In August 2018, the country’s first LED cinema—Samsung Cinema LED Onyx screen—was installed in New Delhi’s PVR.⁵⁶ In April 2019, Samsung launched the largest Onyx LED screen (14 metres) in the world at Swagath Cinemas in Bengaluru (in association with Harman).⁵⁷

Today, filmmaking equipment is smaller, meaner, and more capable; while the screen and audio technologies are bigger and better. It is constantly changing and engaging the audience with a more involving experience.

The dawn of online video services

With the entry of players in the online video service industry, there has been a drive for a reduced period of exclusive theatrical windows. Until a couple of years ago, the online premiering of movies were delayed by six months from their theatrical release. Today, this gap has been reduced to 45–90 days.⁵⁸ Bollywood typically follows an eight-week window from theatrical release to online video streaming.⁵⁹

Today however, the trend has changed. The digital releases occur before their world TV premieres. Leading players in the online video services space strike deals with producers and/or studios even before the theatrical release of the movie, sometimes far in advance.

Digital rights expand the revenue mix of the movie, reduce dependence on box office performance, and allow the audience to enjoy the movies at the pace and place they choose. In the case of deals struck in early stages, digital rights also help fund the production.

Digital video services provide a good vehicle for low-cost movies that can provide high investment returns due to their content, but lack the budget to have a 200+ screen release while competing with the big-star, big-budget films. There has been a steady increase in the movies that are now specifically being made for the online video services sector, such as "Love Per Square Foot" in 2018, and "Soni" in 2019. Some movies were originally intended for a theatrical release, but due to unforeseen delays or unsuitability/non-viability of release, had to have a digital release ("Drive", 2019). While this benefits the producers and/or production houses by reducing the costs almost immediately, once the potential of the movie has been re-assessed, there is a debate on how this affects the brand-value of the movie stars involved.⁶⁰ Nevertheless, there is a section of new-age actors that has embraced and benefitted from the online video services space.

The popularity of online video services has led to leading telecom companies to also utilise their infrastructure and provide movies on demand—Airtel XStream, Vodafone Play, Jio TV etc. It is interesting, however, to note that YouTube is still the most popular video streaming service in India. The rise of regional online video services like Sun NXT and Hoichoi allow for distribution of regional movies that are not easily available on other online video services.⁶¹

Content—The true king

The attention span of viewers is reducing. According to a report published by Microsoft (with citation to Static Brain), an increase in the popularity of smartphones, mobile data, messaging apps, and social media has led to a fall in attention rates.^{62,63} As the customer is spoilt for choice, it is important to keep the audience engaged. While movies could be considered as stress-busters and a separator from the mundane, there is a growing need amongst the audience to be engaged in something meaningful.

A quick analysis of movies of the recent past shows that big-ticket films that are low on content have enjoyed collections only in the initial period. After the influx in the first week, the sales dwindled. However, movies made with stronger content turned out to be sleeper hits, generating revenue in the subsequent days, (through word-of-mouth publicity and reviews). Today audiences look for varied narratives, stories that take inspiration from the real world and make the stories feel relevant. The recent success of "Chichhore", "Dream Girl", "Bala", "Raazi", "Hichki", "Newton", "Tumhari Sulu", "Hindi Medium", "Uri", etc., show how good content can drive movies to success. Big stars bring in a strong pull factor, but the reviews and sales of movies, such as "Thugs of Hindostan", "Race", and "Zero" suggest that the story and content still largely dictate the performance of movies in the long run.

Production houses and companies are investing in content-driven movies; and distributors and exhibitors are also encouraging screening of such movies.⁶⁴ The writer has become important, and for good reasons.⁶⁵ Online video service providers are also changing viewer mindsets, with their on-demand availability of content-driven material. The change appears to be structural rather than a fad. The shift was first initiated by "Khosla ka Ghosla", a rather unassuming film in early 2006.⁶⁶

When it comes to Indian cinema and its delivery of good content, regional cinema often outdoes the main industries. Malayalam cinema has been consistent in this

With Netflix, Amazon, Hotstar, and others investing in original content; more movies are expected to be made exclusively for the online video streaming services sector. The sector will also stand to serve as the risk-reducing option for low-budget movies or movies unsuitable for a theatrical release. This opens up the possibility for movies that were previously shelved due to financial or other reasons, with a distinct hope of reviving the movie and generating some return.

regard—providing content-driven, national award-winning hits decade after decade. Regional cinema audience has an appetite for unusual stories (such as “Thondimuthalum Driksakshiyum” and “Kakka Muttai”), epics (such as “Baahubali” and “Mamangam”), and even mundane stories told in an amusing fashion (the classic example of “Maheshinte Prathikaram”). Bollywood too has realised this and many movies are being shot in bi-lingual formats, sometimes in multiple languages simultaneously, or being remade.

Cultural influences and social impact

- Blurring lines in languages: Today, stories are transcending language and cultural boundaries. The spread of movies is accelerated by making them bi-lingual, shooting in multiple languages simultaneously, or remaking in other languages. Regional movies help bolster region-specific cultures and influences. The cultural differences are accepted and there is a growing understanding of the same through movies.

- Wedding and grooming industry: Bollywood has long been associated with stylish and trend setting clothing. The costumes and dresses on screen influence real-life buying decisions. The wedding fashion and grooming industry is an area where Indians and Indian diaspora take inspiration from Bollywood. The wedding industry in India is worth US\$ 50 bn.⁶⁷ Designers such as Manish Malhotra and Anita Dongre have exclusive NRI clientele for bridal wear influenced by Bollywood movies. Designer Sabyasachi Mukherjee is a popular name when it comes to Indian weddings. His brand uses celebrity weddings, such as Anushka Sharma and Virat Kohli, Deepika Padukone and Ranveer Singh, Priyanka Chopra and Nick Jonas, to make his customers feel special. Regional cinema and/or depictions of South India in Bollywood has also brought into trend the South Indian wedding set up. Elaborate decorations, intricate temple jewellery (Deepika Padukone’s character in “Chennai Express” or Alia Bhatt’s in “Two States”), and beautiful “Kanchivaram” sarees along with the scenic temple or historic locales help create a perfect wedding scene.

Glance: Movies on online video services

Love Per Square Foot (2018)	Drive (2019)	Soni (2019)
<p>This online-only release tells the story of a young couple having individual dreams of owning their own house brought together by a joint-housing scheme, and their ordeal as an unmarried couple. "Love Per Square Foot" received good reviews. The film was recently showcased at the Beijing International Film Festival 2019.</p>	<p>"Drive" tells the story of an undercover agent who makes his way into a street racing gang in his pursuit of the criminal kingpin. Produced by Dharma Productions, the film (originally intended for a theatrical release) was delayed due to various reasons, and finally was released by an online video service on 01 November 2019.</p>	<p>A movie that tells the story of two women police officers who deal with crimes against women in the city of Delhi. The movie toured various film festivals (Venice International Film Festival, British Film Institute's London Film Festival, and MAMI Film festival) before it was released on an online video streaming service on 18 January 2019. The movie has had a limited overseas release.</p>



Movies at theatres are not easily replaceable. There is no other place to go with family for a pastime, there is no other source of entertainment. Even with the advent of online video services, the movie (theatrical) business is expected to grow.

Vivek Krishnani
Managing Director, Sony Pictures Entertainment Films India Pvt. Ltd.

- **Bolstering sub-cultures that were hitherto unnoticed:** A classic example of this is the cycle of inspired-from and inspiring hip-hop culture that was brought to the forefront by the movie “Gully Boy”. Loosely based on rappers Divine and Naezy, the movie showcased the hip-hop culture mostly prevalent in the suburban regions of Mumbai. Banking on the wave generated, the lead actor Ranveer Singh and ad filmmaker Navzar Eranee co-founded InInk. They worked with people who won a contest to star along with Singh in a sequel for a track “Don’t Hold Back”, and were subsequently pulled in to contribute to the original soundtrack for Gully Boy.⁶⁸ Building on the momentum with the well-marketed “Gully Boy” concerts⁶⁹ and the Gully Beat App,⁷⁰ many rappers and hip-hop artists were given a chance to demonstrate their talent to a larger audience, that would have been infeasible otherwise.
- **Socially relevant topics:** From Bollywood’s “Padman” exploring the plight of women in rural areas with no access to sanitary napkins, to Marathi “Mulshi Pattern” delving into the realms of how circumstances lead one to the path of crime, to Malayalam’s “Njan Marykutty” that brought the spotlight to a transgender’s fight in becoming socially acceptable and over to be a police officer; the exploration of socially relevant topics have garnered unprecedented support. In 2019, movies such as “Article 15” inspired by multiple real-life rape and flogging cases, were released. Cinema is clearly a means through which one can reflect on one’s society.
- **Fitness and health:** Movie stars tend to be influencers. Today, they are able to connect with their fans through a plethora of platforms. Often, they share the importance of fitness and health—both mental and physical, through various means

available. One of the first to talk about mental health was actor Deepika Padukone, who detailed her struggles and set up the Live, Love, Laugh Foundation to help those battling mental health issues.⁷¹ As far as physical health is concerned, actors such as Hrithik Roshan, Tiger Shroff, Akshay Kumar, and others have emphasised the importance of physical training. Some have associated with brands and even created brands such as HRX (by Hrithik Roshan) that contribute to the overall idea of fitness. Others like Vidyut Jamwal use Instagram videos to show that fitness can be achieved anywhere, anytime. The use of day to day objects to workout sets a healthy example for people to focus on agility and physical health rather than just body-building.

Indirect tax collections

Entertainment tax collections grew 24.2% (CAGR) through 2009-10 to 2017-18, contributing to 0.34 percent of the total indirect taxes collected for 2017–2018.⁷² With the implementation of GST, at a 28 percent slab for all tickets priced above INR 100, multiplexes struggled to convert the footfalls into sales. As a relief, the Government of India relaxed GST to 18 percent for tickets over INR 100 and 12 percent for tickets below INR 100 from 2019.⁷³ Industry participants indicate that this has been helpful for the sector.

Economic impact of the film industry

Direct impact

The table below provides a snapshot of the direct economic impact of the film industry.

The various elements of the direct economic impact are discussed below:⁷⁴

Direct economic impact of the film industry in FY2019 (INR cr)

	Gross output	EBITDA	Wages	GVA	NIT	Total value added	Employment in lakhs
	A	B	C	D = B + C	E	F = D + E	G
Production & Distribution	11,846	-1,611	2,215	604	-	604	0.94
Exhibition	15,965	2,097	1,197	3,294	2,061	5,355	1.58
Home Video	61	1	7	8	-	8	0.01
Online aggregators	1,724	862	207	1,069	-	1,069	0.01
Digital distribution	925	238	170	408	-	408	0.02
Total	30,521	1,587	3,796	5,383	2,061	7,444	2.56

Source: Deloitte analysis

1. Gross output (direct): It reflects the combined revenue of film industry participants. It is derived by adding up revenues of players across the value chain, which includes revenues of intermediate services/products. It includes indirect taxes–GST and entertainment (or equivalent) taxes. The direct gross output of the film industry is estimated at INR 30,521 cr (US\$ 4,360 mn) with the two key sectors of production and exhibition contributing ~39 percent and ~52 percent, respectively.
2. EBITDA/GOS: GOS reflects total returns to capital. It also captures direct taxes (i.e., income taxes and corporate taxes) paid by the industry. We have estimated this based on the financials of listed players as available, and extrapolating the results, and through industry discussions. The film industry's GOS in FY2019 was estimated at INR 1,587 cr (US\$ 227 mn).
3. Wages: Wages represent the returns to labour, which includes payments made to contractual workers. Wage payments in FY2019 were estimated at INR 3,796 cr (US\$ 542 mn), with the production sector accounting for ~58 percent of the total wages paid.
4. GVA (direct): It is the value-add created by labour and capital inputs, employed directly by the industry (i.e., EBITDA + Wages). It was estimated at INR 5,383 cr (US\$ 769 mn) in FY2019.
5. NIT: The GST collection details for the sector are not reported yet. For our study, we have extrapolated the value from the Indian Public Finance Statistics Report 2017–2018. The NIT is estimated at INR 2,061 cr (US\$ 294 mn).
6. Total value added (direct): This is the sum of GVA and NIT, and represents the total direct impact of the Indian film industry on the economy. This is estimated at INR 7,444 cr (US\$ 1,063 mn).
7. Employees (direct): This reflects the number of jobs created as a direct result of film industry activity in India. We have estimated this by first segmenting movies according to their budgets (small/medium/large) and then estimating the person-hours needed, based on industry discussions. It is estimated that about 2.56 lakh persons were directly employed in the Indian film industry in FY2019.

Indirect and total impact

The indirect and total impact have been estimated based on the input-output multiplier approach discussed earlier in this report.

Indirect and total economic impact of the film industry in FY2019

	Gross output		GVA		NIT		Total value added		Employment
	A		B		C		D=B+C	E	
	INR cr	US\$ mn	INR cr	US\$ mn	INR cr	US\$ mn	INR cr	US\$ mn	Lakh
Direct	30,521	4,360	5,383	769	2,061	294	7,444	1,063	2.56
Indirect/ Induced	61,805	8,829	33,374	4,768	1,236	177	34,610	4,945	4.80
Total	92,326	13,189	38,757	5,537	3,297	471	42,054	6,008	7.36

Source: Deloitte analysis

Ancillaries and beneficiaries

Several sectors are closely connected to the film sector, and together create an economic impact larger than the film industry itself. Some of these key areas are discussed below.

Food and beverage (F&B)

Multiplexes and single screens alike drive F&B sales. For the leading multiplexes PVR and Inox, F&B sales contribute 25–30 percent to their overall revenue.⁷⁵

A recent RTI reply in Hyderabad has emphasised on the Cinema Regulation Act of 1995, regarding restrictions on cinegoers on food.⁷⁶ This adds to the need for multiplexes and single screens to be able to re-invent the models and marketing strategies to maintain revenues.

Today, the cinegoers cannot be entertained with just the usual popcorn and soda. Most multiplexes have gourmet cuisines ranging from Japanese and Mexican to Italian, on sale. The cinema experience is accentuated with the F&B menus.

Inox Leisure opened its lobbies for all, and even non-cinegoers were permitted to access its food menu at its F&B counters.⁷⁷ This has aided a steady increase in the company’s F&B revenues over the years. Cinepolis also recently opened up its lobbies to non-cinegoers, adding

Mexican and Italian cuisines to the gourmet menu of its F&B brand “Coffee Tree”. Cinepolis recently tied up with celebrity chef Saransh Goila of the famed “Goila Butter Chicken” and added 40 new signature dishes to the menu. PVR hasn’t opened up its lobbies to non-cinegoers yet, but initiated a trial at its newly acquired SPI cinemas. It offers localised menus and has created in-house brands, such as Simply Sushi.⁷⁸

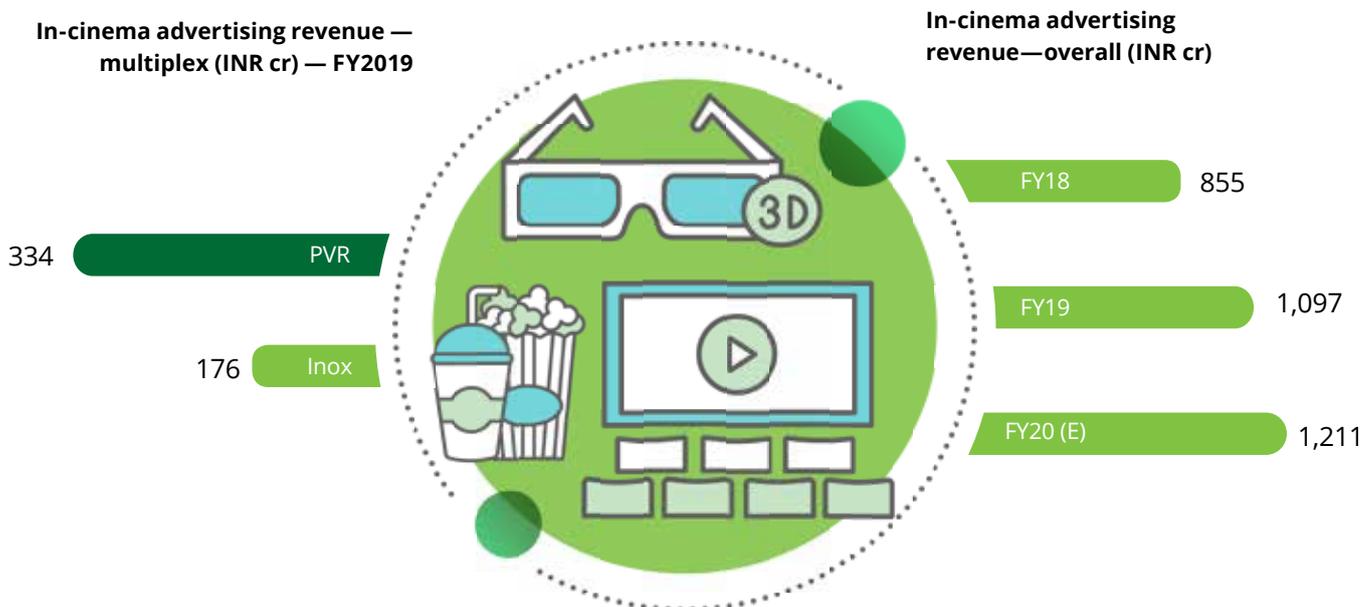
Music

The Indian music recording industry generates revenue of about INR 1,000 cr.⁷⁹ Film music dominates the music industry in the country. In India, nearly every film produced is a “musical”. Since the beginning of Indian cinema, music has been an integral part of films. In some films, music gives shape and form to the plot. For instance, Bollywood movies, such as “Gully Boy”, “Rockstar”, and “Rock On”, and regional language Indian movies, such as “Boys”, have music as a core theme.⁸⁰

For Indian movies, music rights are one of the first rights to be sold. Indian films and music have a symbiotic relationship.

Promotions and advertising

In-cinema advertising contributes 10–12 percent to the overall revenues for multiplexes, and is expected to reach INR 1,200 cr in FY2020.⁸¹



Source: Company reports; Deloitte analysis

Merchandising and fashion

Bollywood strongly influences Indian fashion. The outfit adorned by an actor or actress in a hit movie often trends for a fair period. The fashion and merchandising industry understands this, and engages top actors as their brand ambassadors. While merchandising currently contributes a minuscule amount of revenue, it has immense potential with the development of Indian movie franchises and strong content. To drive this stream of revenue, films require strong storylines, relatable characters, and innovative ways of engaging with the audience.

"Koovs", an online fashion aggregator, recently collaborated with 'Student of the Year 2' to target its major customer base—college students. As an online fashion partner for the film, the company curated an exclusive range, and marketed it with star-studded campaigns.⁸²

Another such partnership was of "Peter England" with "Mission Mangal" to style the lead male actor Akshay Kumar. The brand launched an exclusive range of "Mission Mangal" collection in over 700 of its stores and created a 30 second co-branded video shown in cinema halls screening the movie, TV, and digital video streaming services.⁸³

Film actors also use their popularity and star power to launch fashion and product lines of their own. Recently, actor Katrina Kaif introduced her cosmetics brand "Kay". In association with e-tailer "Nykaa", the marketing and business plan were modelled over a year until the brand was launched in October 2019. A series of well-targeted ad-films and social media campaigns, along with the brand advantage of "Nykaa", provided "Kay" a smooth sailing into

the market. However, it may be noted that the products such as the kajal (eyeliner), have been able to create a buzz due to their uniqueness. In the past, popular actors, such as Anushka Sharma, Kriti Sanon, and Malaika Arora, have partnered with brands to launch their clothing collections.

Gaming

The launch of affordable mobile internet rates and smartphones is expected to improve the number of mobile application downloads. Gaming studios in India are gearing up to enter the mainstream market, bolstered by the planned IPO of Nazara Technologies, which publishes mobile games of the "Chhota Bheem" series and Virat Kohli. This would be the first public offering of an Indian gaming company. Film and TV content is a key theme around which games are built; examples include games on "Sultan", "Dhoom 3", and "Chhota Bheem".

Key challenges

Screen density

Screen density varies widely across India, with as many as 20 screens per million of the population in some south Indian states, and as few as 1.5 screens per million in north-eastern states.⁸⁴ In terms of occupancy, India has a better occupancy rate than the US and China.⁸⁵ There are substantial plans for screen additions by major multiplex players. As of Q3 FY2020, PVR seems to be on track to target 90-100 screen additions for the financial year.⁸⁶

Ease of establishment

India needs to focus on initiatives for empowering the exhibition sector to increase the number and share of quality screens across the country through low-cost

There is a limitation to the merchandising business. The risk that a mock-off of the piece will be readily available, selling at a much lower price than the merchandised products, leads to hesitancy by companies to create merchandise. Creating a culture of cherishing and respecting IP is crucial for the long-term success of merchandising.



There is a tremendous opportunity to support the real estate sector by encouraging new cinemas and refurbishing existing single screens through simplifying cinema regulations, fiscal support and considering cinema screens business under 'Infrastructure and Industry sector' for reasonable lending rates and power tariff.

Kulmeet Makkar*

CEO,

The Film & Television Producers Guild of India Limited

We are sad to say that Shri Kulmeet Makkar passed away on 01 May 2020. He had been kind enough to share many insights for this report. Kulmeet was a bright and wonderful personality, and we are grateful that we had the opportunity to interact with him and gain from his generous sharing of his thoughts and judgement. He will be sorely missed.

We expect ATPs for cinemas to be affordable for small towns at a rate of INR 100–120 in North India, and INR 90–100 in South India (given there is a regulated market). This, compounded with the reduced GST slabs, may cause a fall in the overall ATP, but could generate better total sales.

cinema halls and ease of opening them. Suggestions have been discussed earlier in this report. A market opportunity exists that needs to be capitalised fast to increase the overall pie for the Indian film industry. The reduction in GST rates is also expected to help reduce costs.

A note on Andhra Pradesh's single window clearance for setting up theatres

In a circular dated 8 November 2016, the government of Andhra Pradesh granted permission for setting up a single-window system wherein, any party willing to start a theatre (mini theatres, mini digital theatres) would be able to apply for and be provided the requisite clearances and licences subsequently on the dedicated web portal in a time period of 21 days.⁸⁷ Such initiatives help deal with the parity in the screen count.

Penetration in tier 2 and 3 towns

The current penetration of multiplex screens in tier 2 and 3 towns stands at only 8 screens per city—88 percent lower than the screen density in tier 1 cities that stands at 66 screens per city.⁸⁸ Sufficient support for upgrading existing screens and launching new ones is imperative for non-major exhibitors. Most major exhibitors have exhaustive plans for their spread into tier 2 and 3 cities. For instance,

PVR has entered tier 2 and 3 cities, with its sub-brand “Utsav”. As a pilot, PVR Utsav was launched in Jalgaon.⁸⁹

Disruption from online video services (for traditional exhibitors)

Viewers now expect that movies will become available on online video services and C&S after a certain window. As a result, their theatre-visit decisions have become sharper. Large epic movies and movies that trigger water cooler conversations remain favourite theatre-visit picks. Light comedies may have lost some ground to online video services and C&S. Nonetheless, our discussions with industry participants suggest that theatrical viewing is seen as a complete experience and remains the backbone of the film industry.

Traditional exhibitors are also evolving, and exploring new options. A couple of examples are listed below.

- Symbiotic relations with OVS players: PVR has a tie-up with MUBI that allows MUBI subscribers a free ticket for a hand-picked film to PVR screens every week.⁹⁰
- User experience beyond movie watching: Generating an immersive experience is the goal of Inox Leisure's Mumbai Megaplex property that provides MX4D



There is an 8-week standard window for theatrical exclusivity which has trained our audiences to very carefully consider which movies they need to watch in the theatres, since these movies will soon be accessible on a platform. Hence movies with big stars driving big premises, and/or shocking, daring concepts are more theatrical-friendly and the rest of the genres are moving to online video services.

Siddharth Roy Kapur
Founder, Roy Kapur Films

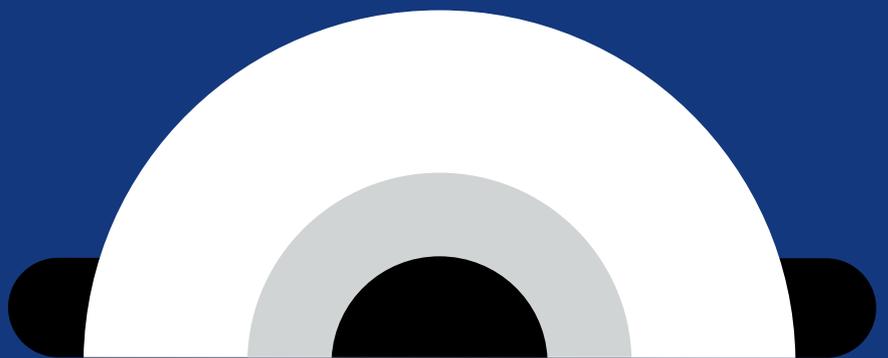
technology and India's first Screen X theatre with a 270° viewing experience via multi-projection technology.⁹¹ The megaplex also offers buffet counters, giving its viewers a luxurious experience. PVR is looking to enhance user experience for the family at its Noida Superplex property that houses Luxury Gold Class screens and a cinema with on-seat butler services for kids. There are other players that are trying to provide novel movie experiences to its patrons like Vkaoo, which allows one to see a movie of one's choice at a place and time of one's choosing.⁹²

Piracy

While competitive pricing and easy availability of content has helped in the reduction of piracy, piracy still remains a key challenge. The challenge along with suggestions to consider, have been discussed earlier in this report.

Skilling

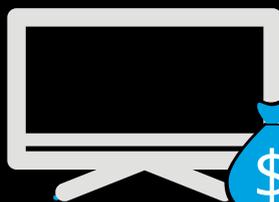
The quality and quantity of content is set to rise with the launch of the additional distribution vehicle and ecosystem of online video services. This will require a commensurate rise in the quality and quantity of talent to enable content generation. We discussed this aspect in our earlier report.⁹³ Our discussions with industry participants suggest that developing writing and directorial talent will be particularly important. Centres of learning and excellence are also few in India. As we noted in our earlier report, new media video services also demand a new set of skills—notably around analytics and cloud. This will require significant skilling/re-skilling.





 <p>INR 70k cr Size of Indian TV Industry in FY19</p>	 <p>~10% Growth of TV Industry in FY20</p>	<p>350 Number of Broadcasters</p> 
 <p>1,469 Number of MSOs</p>	<p>60,000 Number of Cable Operators</p> 	<p>5 Pay DTH Operators</p> 

Sources: Revenue share of box office by local/Hollywood etc.



Economic Impact

 <p>INR 79,759 cr Direct Gross Output</p>	 <p>INR 2,41,272 cr Total Gross Output (direct + indirect/induced)</p>	 <p>5.8 lakhs Direct employment</p>	 <p>18.34 Total Employment including direct, indirect and induced</p>
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<p>Sector consolidation to increase in TV space</p> 	 <p>Traditional TV and OVS offerings to co-exist</p>	<p>NTO 2.0 to shake up the market</p> 	<p>Increasing consumer interfacing for players in post NTO era</p> 	 <p>Regional market to continue to be important</p>
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Television

Industry size and growth

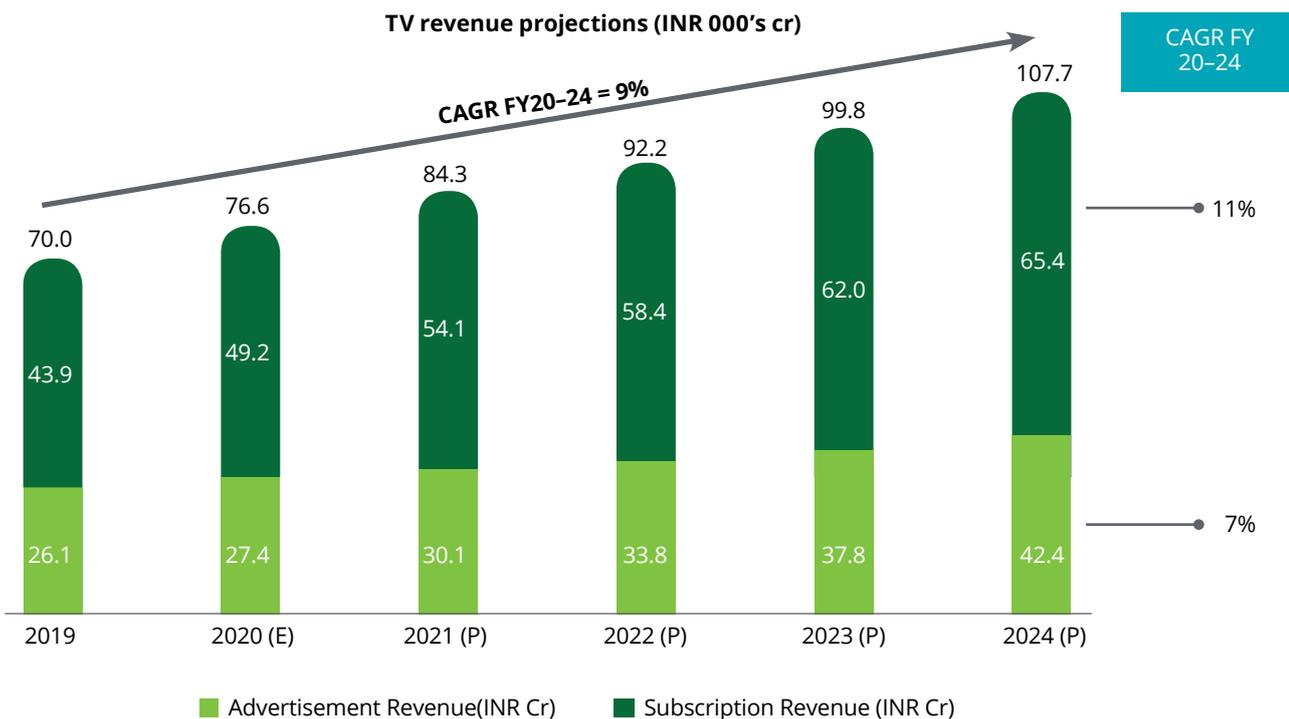
Television is the dominant mode of media consumption in India, and remains the country's largest sub-sector within the broader M&E industry. India's TV industry is a good example of successful private enterprise, with the industry offering a large quantum of content (hundreds of channels) to over 150 mn pay TV subscribers, at affordable price levels of US\$ 3-5 per month.

The Indian TV industry's size was about INR 70k cr (US\$ 10.0 bn) in FY2019.⁹⁴ In FY2020, the presence of big-ticket events, including the Cricket World Cup and central government elections on the calendar had created expectations for strong advertising revenue growth.

However, tightening of spend by corporate India in the face of a sluggish economy, and disruption due to the regulator TRAI's New Tariff Order (NTO) meant that advertisement revenue growth was below expectations. Subscription revenues have shown growth as the NTO dynamics played out.

We expect the TV industry to post ~10 percent growth in FY2020, and thereafter grow at a CAGR of 9 percent to reach INR 107.7k cr (US\$ 15.4 bn) in FY2024. Revenue breakdown and expected growth are presented in the chart below. These growth rates could evolve differently. TRAI has recently announced a new set of regulations, dubbed NTO 2.0. This has the potential to alter the industry's growth dynamics. Thus, FY2021 will be a critical year that will set the tone for growth of the sector.

Estimated size and growth of the television industry market (INR '000 cr)



Source: Media reports; Discussions with industry participants; Deloitte analysis



There is an impact of the economic slowdown on the industry's advertising revenue. However, our channels have performed well, which mitigated the impact.

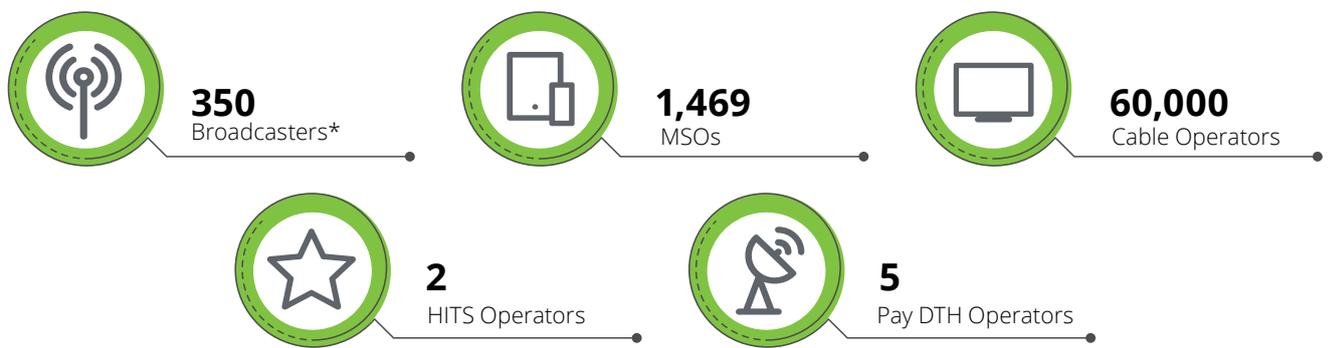
Nitin Nadkarni
CFO, Sony Entertainment Television

Key trends and drivers

Scale and evolution

India is the second-largest pay TV market in the world in terms of subscriber base. The country has 350 broadcasters, of which 39 offer pay channels. The government-owned Doordarshan TV network provides free TV coverage to about 92 percent of India’s population through a web of terrestrial transmitters and a FTA DTH service.⁹⁵ There are 902 private satellite channels permitted by the MIB. Of these, 328 are pay channels —229 SD pay TV channels and 99 HD pay TV channels.⁹⁶ In 2019, TV added more than 2,000 new advertisers to an already large pool of existing advertisers.⁹⁷ Some metrics reflecting the scale of the industry are illustrated below.

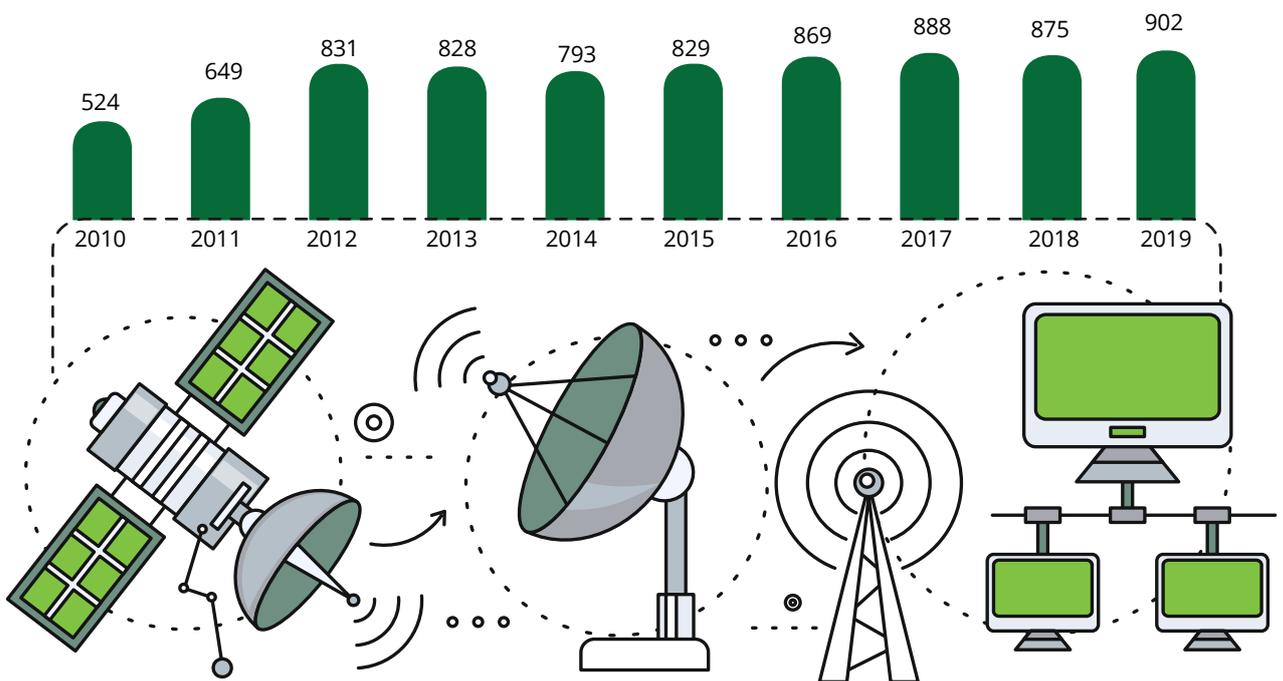
Snapshot of Indian television landscape



*Pay broadcasters: 39

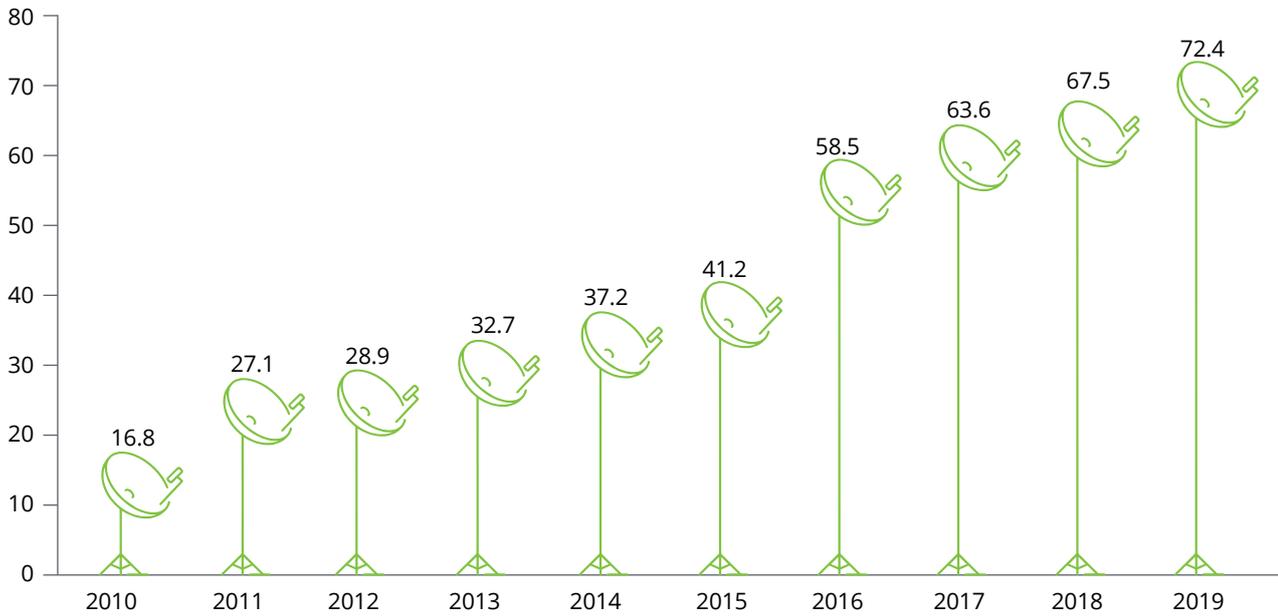
Note: Of the two HITS operators, only one of them is currently in operation
Source: TRAI annual report 2018-19

Number of satellite TV channels (Pay and FTA) in India



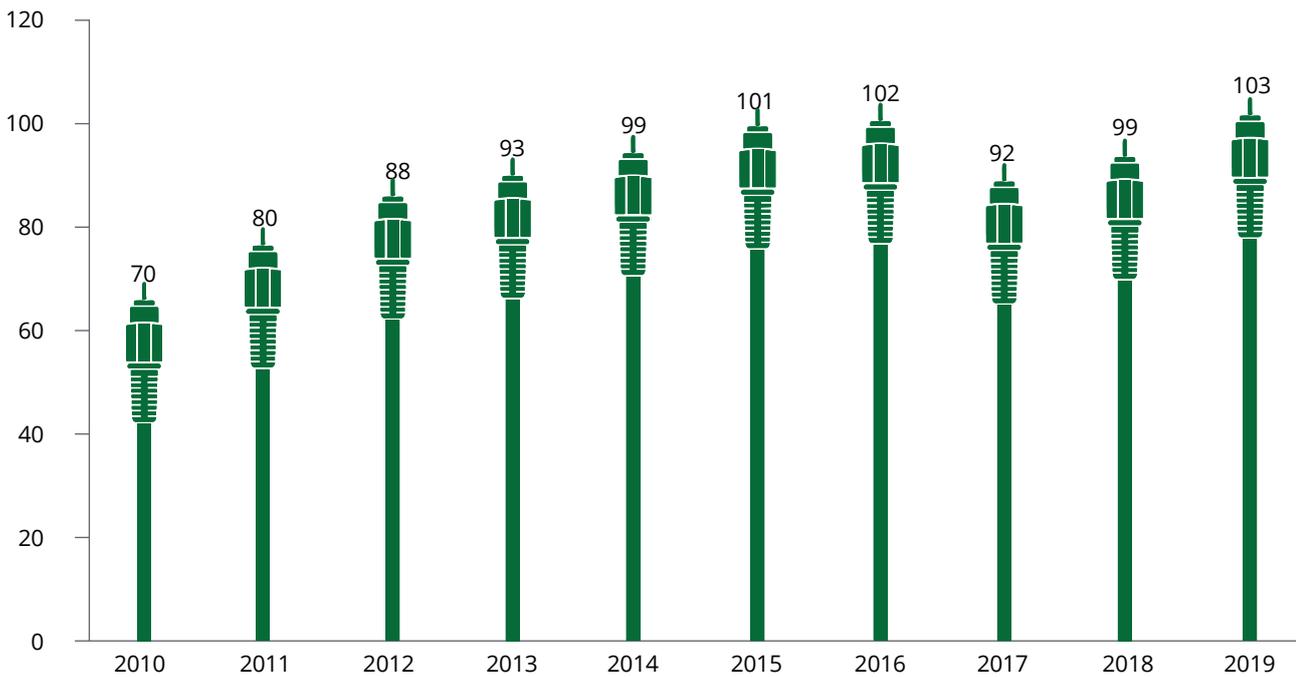
Source: MIB

Net active subscriber base of the pay DTH sector (mn)



Source: TRAI annual report 2018-19

Number of Pay cable TV subscribers (mn)



Source: TRAI annual report 2018-19

Time spent on TV

The average time spent by Indian viewers on TV stood at 2 hours and 55 minutes per day. TV is the dominant media consumption mode, representing 58.7 percent of consumers’ total media consumption time. Digital is the second most popular medium, with average time spent at 1 hour and 29 minutes per day, accounting for roughly 32 percent of total media consumption time.⁹⁸

Amended TRAI tariff order (NTO 2.0)

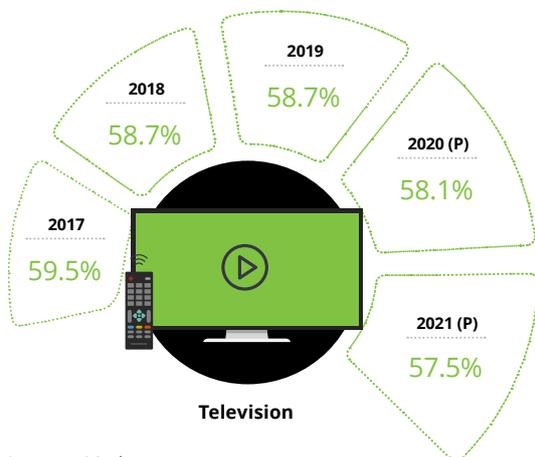
In February 2019, TRAI (after a protracted legal battle of ~3 years) ushered in a NTO for pay TV. The NTO’s primary objective was to put greater choice in the hands of end consumers. The tariff order also aimed to bring transparency in TV channel pricing and reduce stakeholder disputes. The NTO improved pricing transparency and acknowledged the economics of the distribution business by introducing a Network Capacity Fee (NCF). Consumers who had specific interests and knew what they wanted were able to opt for only channels of their interest, and reduce their monthly pay TV bill. On aggregate, industry discussions and a study of the financials of distributors suggest that the consumer ARPU rose after NTO. One of the drivers was that the NCF put a floor price of INR 130 (plus taxes) per month. Another driver was that rates for channels were declared

and being charged to consumers. Unlike earlier, no entity in the value chain subsidised these rates.

One of the proposed clauses of the NTO, which mandated that a bouquet of channels could not be priced at more than 15 percent discount to the sum of the à la carte prices of its constituent channels, did not make it to the final order. This allowed the creation of low-priced bouquets, which most consumers ended up choosing rather than picking specific channels à la carte. TRAI believed that a revisit of the discount cap and a few other elements in the NTO was warranted. Industry stakeholders indicated that it would be better to let the ecosystem stabilise before making any further tweaks. They also highlighted that the Indian viewer has always received value for money, with access to hundreds of channels at affordable ARPU levels of US\$ 3–4 per month.

TRAI subsequently released two consultation papers in 2019 pertaining to the NTO, and brought out an amended tariff order. This new framework, widely labelled as NTO 2.0 and contours of which were detailed in early January 2020, was to come into effect from 1 March 2020 (but at the time of finalising this report, the matter was still sub-judice). This important development will have a major impact on the industry, and is discussed in detail later in this report.

Total time spent on television as percentage of total time spent consuming media



Source: eMarketer



English Content is on a growth trend in India. Every year a new crop of English educated audiences walk into the TV universe with a view to explore high quality premium content for their news and entertainment consumption. Audiences are consuming more and more English content. This can be seen from both television and theatrical revenues of English and Hollywood content which are growing steadily. The last year saw some flux in this regard on account of implementation of the New Tariff Order. Year 2020 should see stabilisation of this audience base. We expect the growth trajectory to be on an up-swing. Online video services will play a complimentary rather than a supplementary role to television. This can be seen with the increased YoY spends by online video services on television. Also, online video services are largely a metro phenomenon while television plays a national role.

Jignesh Kenia
Executive VP and Head, Corporate Strategy and Business Development, Times Network

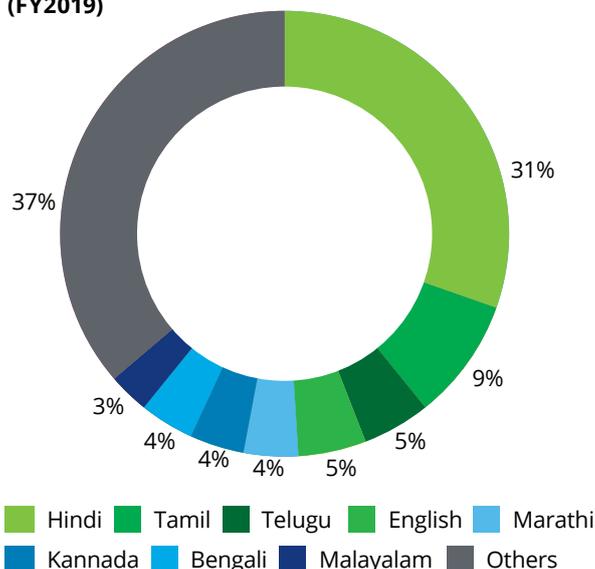
Regional markets continue to be important

A classic example of regional going big is Zee Entertainment Enterprises Limited (ZEEL). Regional channels contribute 50 percent to ZEEL's viewership.⁹⁹ For ZEEL, growth in regional channels (GEC and movies) has been 20 percent higher than its flagship Hindi channels (GEC and movies) since 2016.¹⁰⁰ On the back of this, ZEEL announced four new regional GEC channels—Zee Punjabi (Punjabi), Zee Thirai (Tamil), Zee Pichar (Kannada), and Zee Bioskope (Bhojpuri) in 2019.

Star India is also following a similar strategy, and has recently launched its sixth regional sports channel in Star Sports 1 Bangla. Its other regional sports channels are available in Hindi, Marathi, Tamil, Telugu, and Kannada. Interestingly, Star renamed its two licences—Star Movies Kids and Star Movies Kids HD to Star Sports 1 Bangla and Star Sports 1 Marathi, indicating the increased focus towards regional content.¹⁰¹ It has also received a go ahead from the MIB to launch a new sports channel in Malayalam.

In terms of advertising revenue, the chart below shows the contribution of regional channels.

Estimated advertising revenue split by language (FY2019)



Source: Pitch Madison Advertising Report 2019; Deloitte analysis

Distributors offering additional services

In India, the emergence of low-cost smartphones, coupled with low data charges, has resulted in mobile becoming a key medium for media consumption. Linear TV distributors have been tracking this trend and ramped up their offerings, particularly live TV on mobile apps. These apps work on the following two models:

- Free viewing for existing customers, such as Tata Sky Mobile by Tata Sky, and Xstream by Airtel
- Freemium, such as Watcho by Dish TV

In May 2019, Tata Sky collaborated with Amazon to launch Tata Sky Binge, a service allowing users to watch digital content on their TV using Amazon Fire TV Sticks. Current online video service offerings include Hotstar, SunNXT, Eros Now, Hungama Play, and ZEE5. The Fire TV Stick service also allows users to download other digital apps and view their content on TV. However, subscription for such apps is not a part of the Binge offering.^{102,103}

The year 2019 also witnessed distributors exploring deeper collaborations with online video services. Major distributors launched Android powered set-top boxes to meet the customer requirement for OVS content. Dish TV launched Dish SMRT Hub, a HD set-top box that supports several online video service providers. Dish SMRT Hub offers access to Google Play, and comes with an in-built Google Assistant and Chromecast. The company also launched SMRT Kit comprising a Wi-Fi dongle, Bluetooth, and an Alexa-enabled remote, allowing customers to use voice commands to control smart devices.¹⁰⁴ Other players in the market including Hathway (Ultra Smart Hub), Airtel (Xstream 4K Android Box), and Jio Fiber (Jio set-top box) have taken similar initiatives to appeal to customers.^{105,106}

International distribution going online-only

Traditional broadcasters have been finding it increasingly unviable to reach niche audiences outside India. For instance, despite the presence of Indian diaspora across Europe, including the UK, Zee has planned to exit the cable TV market internationally by early 2020. Zee will continue to distribute content through its online video



The implementation of the NTO has been a difficult change, especially for the distributors. This has been due to significant increase in operational expenses, in terms of customer education and support functions. While maximum numbers of existing subscribers have been regained, we expect 2020 to be a pivotal year for the M&E Sector and would be greatly benefitted, if there aren't any more changes introduced by the regulator.

Regional and Original Content will be the key growth factors of the OVS and TV industry in India. Viewership will be driven from tier 2 and tier 3 Cities. Expect more original content, better content libraries and improved production quality from home-grown players.

Bharat Pandit
Senior Vice President of Strategy and Business Intelligence, Tata Sky

service, ZEE5. This decision follows a similar decision to exit Australia and Southeast Asian markets.¹⁰⁷ The previous year also witnessed Star India going 100 percent digital in the US, with its channels no longer being available on US-based Pay TV carriers, including Dish TV, Sling TV, Comcast, and Verizon.¹⁰⁸ Given the growth of online video service providers, this strategy may be followed by other broadcasters, and could result in significant growth in their international OVS numbers.

Sector consolidation

Industry consolidation is another key trend we have observed in 2019. In early 2019, Reliance Industries acquired stakes in Den Networks and Hathway. Airtel and Dish TV are in talks to merge their DTH operations and create the world’s largest TV distribution company.¹⁰⁹

On the broadcasting side, Sony and TV18 are in talks to create a new JV that would combine both their entertainment assets. The JV will combine the strength of 63 channels, two video streaming services (Sony LIV and Voot), four film studios, and two digital content studios. The consolidation will also bring content synergies for both through Sony’s regional portfolio and Viacom 18’s sports portfolio.¹¹⁰ Disney and Star have begun sharing resources in India.

With a sluggish economy affecting advertising revenue, cost efficiencies are likely to remain a focus area. We may expect further consolidation in a bid to boost efficiencies and increase competitiveness.

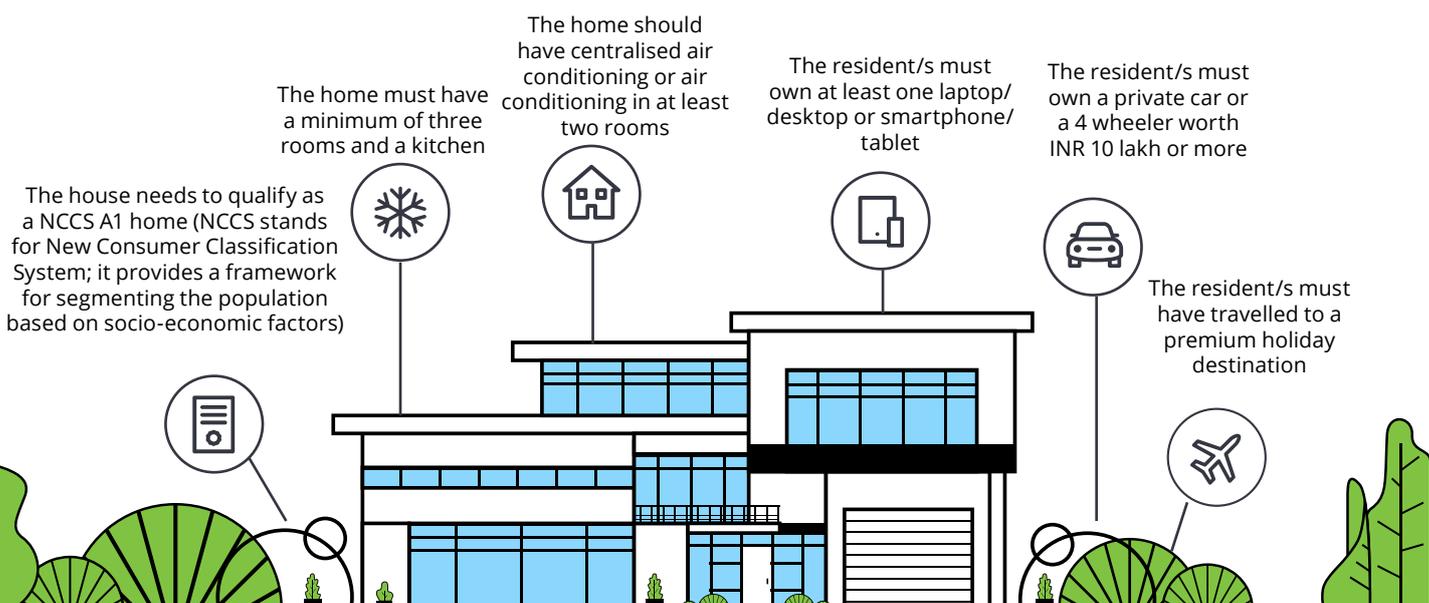
Large broadcasters moving towards pay channels

With NTO 1.0 coming into effect in 2019, leading broadcasters started to move away from the FTA category (pulling out their channels such as Zee Anmol, Sony Pal, Star Utsav, and Star Bharat). The government-owned FTA-only DTH operator Freedish conducts auctions where broadcasters bid so they may be carried on by the service provider. In February 2019, leading broadcasters did not participate in the Freedish auctions.¹¹¹ This was primarily due to NTO 1.0 restricting the bundling of FTA and pay channels in a bouquet, and broadcasters moving towards a strategy of getting customers to pay for quality content. However, this could change with the implementation of NTO 2.0 in 2020, which could lead to several channels shifting towards FTA models.

FTA channels are going strong in India, with players such as Dangal TV gaining viewership in the Hindi GEC rural segment, after the leading broadcasters moving out of FTA. Regional GECs are also evolving to meet market requirements; Dangal TV, originally a Bhojpuri channel, evolved into a Hindi GEC.¹¹²

Changing measurements

In 2019, viewership measurement agency BARC announced that it was planning to launch an integrated TV and OOH TV service.¹¹³ This integration would allow agencies to uncover value and insights into the TV viewing behaviour of Indian consumers. An integrated measurement service would assist marketers in better understanding returns on their ad spend, and affect the dispersal of ad spend across sectors in the future.



What is a Premium Home?

A household is defined as a premium home when it meets the following criteria set by the industry

BARC also launched a new product “PrimaVU”, which would measure viewership only from premium homes. The PrimaVU universe would encapsulate the top 3 percent of the socio-economic strata in six megacities of the country, and the offering will quantify “viewing minutes” from these premium consumers. The product is expected to gauge premium TV viewership habits and gradually move to capturing habits across devices to better understand this segment.¹¹⁴

Traditional TV and online video services will co-exist

New technologies could grow in two ways: additive, where they co-exist with older systems or disruptive, where they replace older systems (or the consumer base leapfrogs older systems entirely). The print industry in India is an example where new technology (digital versus physical) has played an additive role, while the telecom industry is an example where new technology (mobile versus fixed line) has played a disruptive role. We expect that OVS will create an additive impact on the TV industry in India, at least in the medium term. We have discussed this in more detail and analysed the additive versus disruptive forces of OVS using a framework in an earlier publication *Technology, Media, and Telecommunications Predictions 2019*.¹¹⁵

A closer look at NTO 2.0

Key changes tabled in NTO 2.0

In the NTO 2.0, TRAI has:

- increased the number of FTA SD channels covered by the basic NCF from 100 to 200;
- provided flexibility to broadcasters to determine FTA channels for different geographies;
- capped NCF charged by cable operators at INR 160 excluding taxes;

- reduced pay channel pricing;
- capped number of bouquets for pay channels;
- reduced a ceiling price for bouquet channels from INR 19 to INR 12;
- capped monthly carriage fees at INR 4 lakh for broadcasting a channel in India;
- mandated that the sum of the à la carte rates of pay channels in a bouquet shall not exceed one and a half times the rate of the bouquet of which such pay channels are a part (effectively bringing back the 15 percent bouquet discount cap originally proposed in NTO 1.0—but with a higher cap of 33.33 percent); and
- mandated that the à la carte price of a channel cannot exceed three times the average rate of a pay channel of the bouquet.

The most important changes and the impacts are discussed below.

Reduced ceiling price for bouquet channels

Per NTO 1.0, channels above INR 19 were not permitted to be a part of a bouquet offering. This meant that broadcasters had to set the maximum à la carte channel price at INR 19 for channels to include them in bouquets. Being part of a bouquet was important, as the bouquets were created to offer more value, and most consumers chose bouquets. NTO 2.0 restricts the à la carte price of channels to INR 12, if they are to be part of a bouquet. This is likely to affect revenue. We note that nearly 40 percent of the channels aired by the top four broadcasters (Star, Zee, Sun, and Sony) have an average à la carte pricing that is above INR 12.

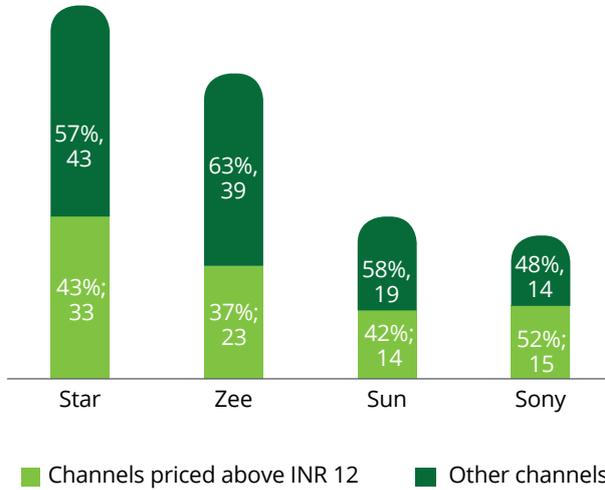


With a rate of around 2 orders / laws by TRAI every month in just the TV distribution space, industry stakeholders end up mostly in reaction mode, and are unable to plan ahead. Reducing micro-management and regulation will help create a more stable environment and enable industry participants to plan better.

Dinyar Contractor

Editor & Executive Director, Satellite & Cable TV Magazine

Number of channels priced above the threshold of INR 12 by the top four broadcasters



Source: Deloitte analysis

Resurgence of the bouquet discount cap

NTO 2.0 states that the sum of the à la carte rates of pay channels in a bouquet shall not exceed one and a half times the rate of the bouquet to which the channel belongs. Effectively, this limits the maximum bouquet discount to 33.33 percent.

Illustrative scenario

Broadcaster: Star India

Bouquet: SPP HD Bangla

Number of channels in bouquet offering: 27 (20 HD, 7 SD)

In the above offering, (the highest-priced bouquet of Star India), assuming that à la carte rates of channels priced below INR 12 are not changed, the implementation of NTO 2.0 does not significantly change the bouquet rate. At the same time, à la carte rates of the channels drop by 24 percent.

	Pre-NTO 2.0 implementation	Post-NTO 2.0 implementation	% change
Bouquet rate	INR 136	INR 138 (minimum rate)	1%
Sum of a-la-carte channels	INR 272	INR 207	(24%)
Discount	50%	33%	17%

Source: Deloitte analysis

Restriction on mixing high and low-priced channels

NTO 2.0 states that the à la carte price of a channel present in a bouquet cannot exceed three times the average rate per channel of the bouquet. TRAI wishes to discourage clubbing of high- and low-priced channels in a single bouquet, with the reasoning that the low-priced channels get an advantage on the back of popular channels (which tend to be high-priced).

Illustrative scenario

Broadcaster: Zee

Bouquet: Zee All-In-One Pack Marathi SD

Number of channels in the bouquet offering: 24 (24 SD)

In the above bouquet (a regional language focused bouquet), assuming that à la carte rates of channels priced below INR 12 are not changed, the implementation of NTO 2.0 makes the bouquet invalid. Given the maximum price of the à la carte channel in the bouquet is INR 12, the ratio of maximum à la carte price to the average rate per channel in the bouquet works out to 4.7x, higher than the required cap of 3x. In order to make the bouquet compliant with NTO 2.0, the pricing of the constituent channels will need to be brought closer to each other. This can be achieved, either through changing the constituent channels of the bouquet, or altering the pricing of channels.

	Pre-NTO 2.0 implementation	Post-NTO 2.0 implementation	% change
Bouquet rate	INR 59	INR 61 (minimum rate)	3%
Sum of a-la-carte channels	INR 115	INR 92	(20%)
Discount	48%	33%	(15%)
Average rate per channel (A)	INR 2.46	INR 2.54	3%
Maximum price of a channel (B)	INR 19	INR 12	(37%)
B/A	7.7x	4.7x	-

Source: Deloitte analysis

Clauses to promote FTA

NTO 2.0 sets to promote FTA channels with the following mandates:

- Increase in the number of FTA SD channels to 200
- Flexibility to broadcasters to determine the FTA channels for different geographies
- Distributors cannot give more than 160 channels in the FTA pack

NTO 2.0: Other key mandates

- Capping the number of bouquets for pay channels: The avenues for broadcasters to mix and match channels have been restricted, thereby decreasing the number of bouquets that can be created.
- Increasing the number of channels covered under the same NCF: NTO 2.0 covers two slabs for the network capacity fee (NCF) – INR 130 per month for up to 200 channels and INR 160 for more than 200 channels. NTO 1.0 allowed an additional NCF of INR 20 (excluding taxes) to be charged for every slab of 25 channels above the initial 100 covered under the base NCF of INR 130, with no cap on the total NCF payable.
- Capping monthly carriage fees at INR 4 lakh for broadcasting channels: Niche channels who opt for free to air route, since they cannot survive via the pay TV route - to pay lower carriage fees and get a chance to improve their financials.



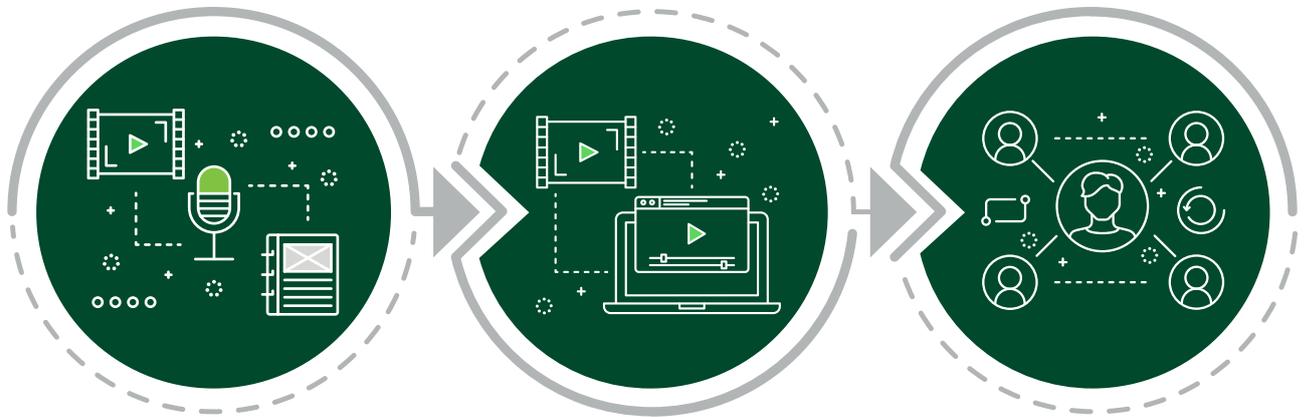
In the post NTO era, consumers have struggled to understand content bucketing and bouquet bundling. The ability to manage and simplify this for customers with newer operational paradigms will determine success of players. More technologically evolved and service oriented players have gained (and will continue to gain share) from players who fall short on these fronts.

Mukut Deepak

Chief Business Development Officer, Tata Sky

Impact of NTO 2.0 on key stakeholders in the value chain

The illustration below depicts the key impact that NTO 2.0 could have on each stakeholder.



Broadcasters

- Revenue risk with broadcasters
- Fall in subscription revenues could lead to fall in advertisement revenue due to ripple effect
- Decreased predictable recurring cash flows from subscription revenues
- Industry to optimise bouquet channels and à la carte only channels
- Shift from B2B to B2C— Broadcasters will have to market the channels leading to increased op-ex costs
- Increased competition in the FTA segment
- New channel launches and long tail channels threatened
- Negative impact on ad spends in the transition period
- Niche channels likely to face further competition and struggle for survival

Distributors

- Distribution business to become commoditized
- Potential drop in revenue on account of reduced carriage fees and NCF
- Smaller Multiple System Operators' limited network technological capability and limited on-ground execution could open up opportunities for larger distributors
- Companies to spend more on getting exclusive and add on features/content
- With channel rationalisation, companies could see lower bandwidth utilisation

Consumers

- Lower ARPU consumers may get lesser pay TV content at the same price points. This could force these consumers to make content choices which would lead to enhanced movement towards selective viewing
- Limited bill surge—à la carte channels available at lower prices
- Limited change in bouquet prices
- Larger set of FTA channels available for consumption

Economic impact of the television industry

Direct impact

The table below provides a snapshot of the direct economic impact of the TV industry.

The various elements of the direct economic impact are discussed below:¹¹⁶

- **Gross output (direct):** It reflects the combined revenue of TV industry participants. It has been derived by estimating and adding up revenues of players across the value chain and includes revenues of intermediate services/products. Therefore, it includes an element of double counting of revenues. It also includes indirect taxes. The direct gross output of the TV industry is estimated at INR 79,795 cr.
- **EBITDA/GOS:** It reflects the total returns to capital employed. This metric also captures direct taxes (i.e., income taxes and corporate taxes) paid by the industry. GOS was estimated at INR 18,581 cr.
- **Wages:** These measure the returns to labour, which includes payments made to contractual workers. Wage payments in FY2019 were estimated at INR 12,444 cr.
- **GVA (direct):** It is the value-add created by labour and capital inputs employed directly by the industry (i.e., EBITDA + Wages). In FY2019, this was estimated at INR 31,025 cr.
- **NIT:** The formal GST collection details for the sector are not reported yet. We have estimated this at INR 8,385 cr in FY2019.
- **Total value added (direct):** This is the sum of GVA and NIT, and represents the total direct impact of the TV industry on the Indian economy. This is estimated at INR 39,410 cr for FY2019.
- **Employees (direct):** Direct employment figures include on-roll and contractual employees of independent production houses. Employees in TV broadcasting include in-house production staff and non-production roles, such as sales, finance, and HR, for TV broadcast networks. The distribution segment accounts for the majority share of employment generated in the TV industry, primarily attributable to LCOs. The industry directly employs about 5.8 lakh people.

Direct economic impact of the TV industry in FY2019 (INR cr)

	Gross output	EBITDA	Wages	GVA	NIT	Total value added	Employment in lakhs
	A	B	C	D = B + C	E	F = D + E	G
Production	7,830	807	3,679	4,486	472	4,958	2.35
Broadcasting	39,496	10,278	3,378	13,656	2,598	16,254	0.30
Distribution	32,433	7,496	5,387	12,883	5,315	18,198	3.15
Total	79,759	18,581	12,444	31,025	8,385	39,410	5.80

Source: Deloitte analysis

Indirect and total economic impact of the TV industry in FY2019

	Gross output		GVA		NIT		Total value added		Employment
	A		B		C		D=B+C		E
	INR cr	US\$ mn	INR cr	US\$ mn	INR cr	US\$ mn	INR cr	US\$ mn	Lakhs
Direct	79,759	11,394	31,024	4,432	8,386	1,198	39,410	5,630	5.80
Indirect/ Induced	161,512	23,073	87,217	12,460	3,230	461	90,447	12,921	12.54
Total	241,272	34,467	118,241	16,892	11,616	1,659	129,857	18,551	18.34

Totals may not match exactly due to rounding.
Source: Deloitte analysis

Indirect and total impact

The indirect and total impact have been estimated based on the input-output multiplier approach discussed earlier in this report.

Key challenges**NTO 2.0**

NTO 2.0 is top of mind for industry participants as it can have a significant impact on the industry. In our discussions, several industry participants have suggested reconsidering the need for NTO 2.0. They represented that:

- The dust from NTO 1.0 has not yet settled. The system needs to stabilise, and this would not be a good time to shake-up the system again.
- There has been a plethora of new orders and laws, and industry stakeholders are constantly in reaction mode. Reducing micro-management and regulation will help create a more stable environment and enable industry participants to plan better.
- Pricing decision is best left to market forces unless there are severe distortions. Restrictions and regulations on pricing can make investment plans and assumptions go awry. For instance, bidding for content at a certain price would involve assumptions around how that content can be monetised. For content and rights that run over several years, a change in assumptions (especially on pricing) can significantly change the return on investment, as the original assumptions are no longer valid. Introduction of such regulations, compounded with frequent changes in the regulations, can reduce appetite for investment, especially in long burn content.
- The industry has done well simply driven by market forces providing hundreds of channels to more than 150 mn viewers at affordable ARPU levels of US\$ 3–4 per month. The Indian viewer has always received value for money.
- Rather than tweaking things in the fairly mature pay

TV business, both the government and the industry should focus their energy and efforts on transitioning to the future.

Sluggish economy impacting advertising revenue

TV advertising revenue is strongly correlated with economic growth and sentiment. Growth in the Indian economy has been slowing down over several quarters, with GDP growth dropping to 4.5 percent in the quarter ended 30 September 2020. This represents a 26 quarter low for GDP growth.¹¹⁷ This has started reflecting in advertising revenues as companies in India are incorporating slower growth and lowering their ad spends. This is further compounded by challenges in several sectors, which are traditionally large TV advertisers, including:

- Auto: Passenger vehicles and two-wheeler sales are expected to decline by 13–17 percent and commercial vehicles by 22–27 percent in 2019.¹¹⁸ Industry heavyweights, such as Maruti, Tata Motors, Mahindra & Mahindra, and Ashok Leyland, have announced production cuts due to sluggish demand.¹¹⁹
- Telecom: Most operators are struggling with large debt levels and the fallout from an unfavourable court decision on payment of dues to the government. Vodafone Idea and Bharti Airtel have been asked to pay INR 53k cr (US\$ 7.6 bn) and INR 35k cr (US\$ 5.0 bn),¹²⁰ respectively. This has put stress on their balance sheets. Vodafone Idea has said that it will shut shop if its appeal challenging these dues fails.
- Banking and financial services: Frauds at NBFCs and several bad loans made by banks have created a liquidity crunch in India. Several companies in this sector with weak balance sheets are struggling.

This has resulted in lower-than-expected advertising revenue growth in FY2020. Advertisers are restricting spend to bare essentials; niche channels are particularly affected. Improvement in advertising revenue is contingent on India

moving back to a high growth path. The shake-up due to the implementation of NTO 1.0 has also affected advertising revenue as advertisers held back spend to get a clearer picture of viewership after the implementation of NTO. NTO 2.0 is expected to cause a further shake-up.

Changing consumption trends

As discussed earlier in this report, we expect TV and OVS to co-exist in India. TV is also the medium where consumers spend the maximum time—58.7 percent of total media consumption time is on TV. The absolute time spent watching TV is also increasing. However, one may note that there is a relative shift from all media to digital. This is expected to be a structural and irreversible shift. However, its impact may not be felt in the short-to-medium term.

Increasing the B2C component of business

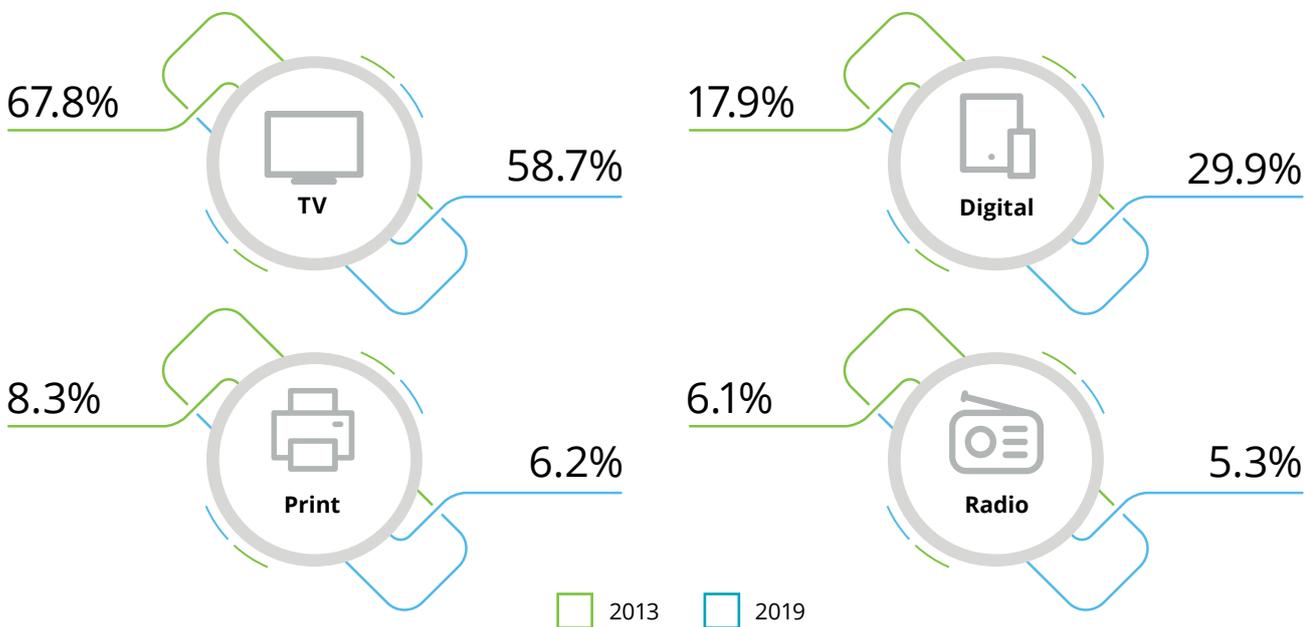
Traditionally, LCOs were the only ones who would interface with end customers. However, as cable TV was digitised, MSOs began to obtain greater visibility of end customers. DTH operators have also had a direct interface with

customers. However, their knowledge about customer viewing patterns has been limited to the data from the few return-path set top boxes they have installed at customer premises. Broadcasters have relied on viewership and reach data from sample people metres to inform them about their customers—which is at an aggregated level.

In contrast, the digital world is characterised by a deep understanding of the customer at an individual level (“segment of one”). This offers significant advantages to companies with a digital DNA. Guesswork about what viewers have seen or liked is eliminated. Analytics can be deployed across a host of use cases that can enable higher revenue and improve efficiencies.

Hence, there is a need for companies in the traditional television value chain to become more B2C in their outlook. Most broadcasters are keen to know more about their customers and get a “360° view of their customers”. This will require a well thought-out strategy and technology implementation.

Share of average time spent with media in India, percentage of total

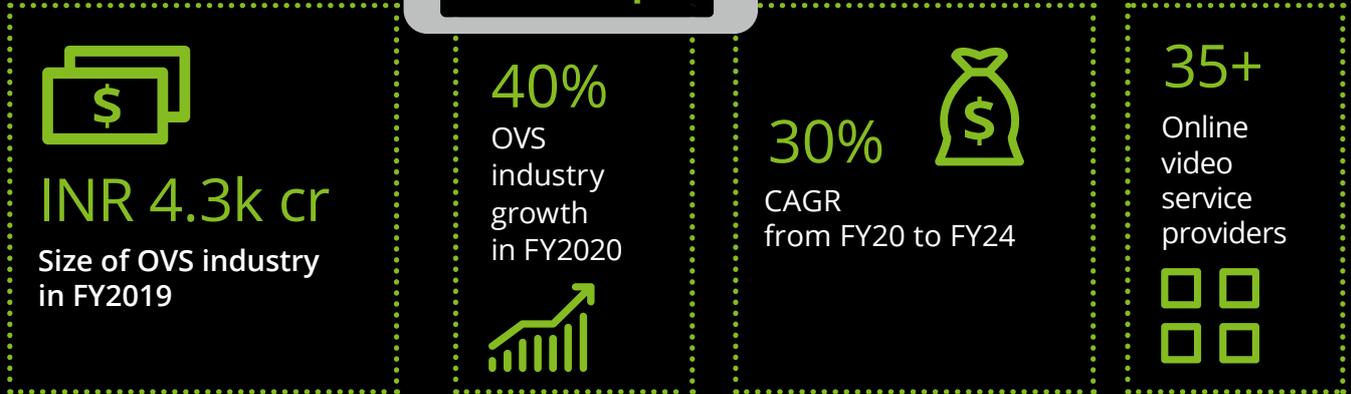
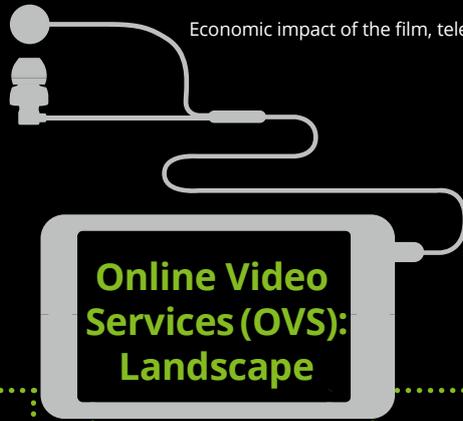


Source: India Time Spent with Media 2019, eMarketer, April 2019; Why millennials are ditching TV for online content, LiveMint, 26 September 2018



Multi-platform presence is the way of the future. Content continues to be the number one driver of growth for Television. India still believes in family viewing and single TV households continue to remain a large chunk of our TV viewing demographic. While there has been a significant rise in the overall number of screens per household in India, both TV and online video services will continue to enjoy a mutually beneficial existence.

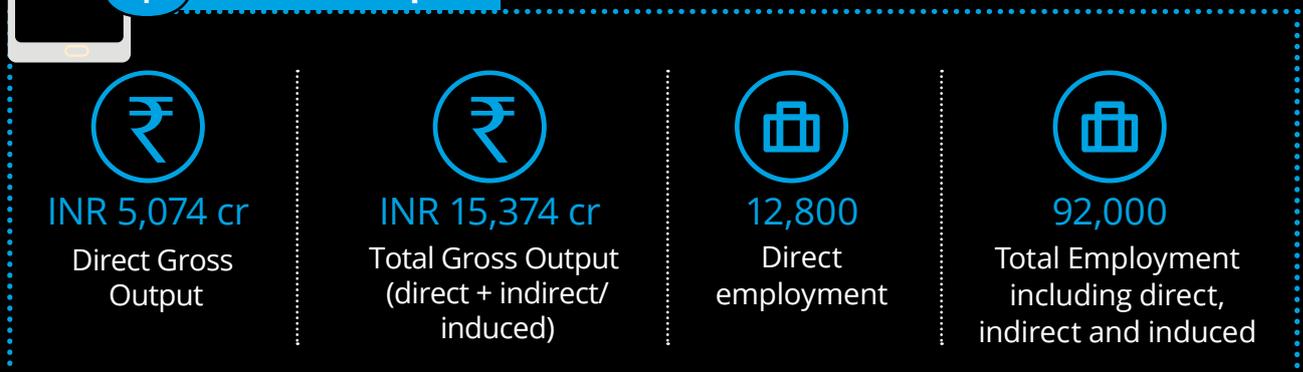
Aditya Mehta
Head of Strategy & Planning, Sony Pictures Networks India



Sources: Revenue share of box office by local/Hollywood etc.



Economic Impact



Reasons for high growth

- a young population
- rise in discretionary spends
- affordable access to devices and connectivity
- availability of a large quantum of diverse and high quality content
- improving payment ecosystem

Video consumption to dominate data usage

Entertainment is a large part of this video consumption

Focus on original and regional content

Increased international and national investments in OVS in India

Large percentage of people using more than two OVS video services on their mobile

OVS-OVS and OVS-Telco partnerships to continue

Indian OVS increasingly expanding into international markets

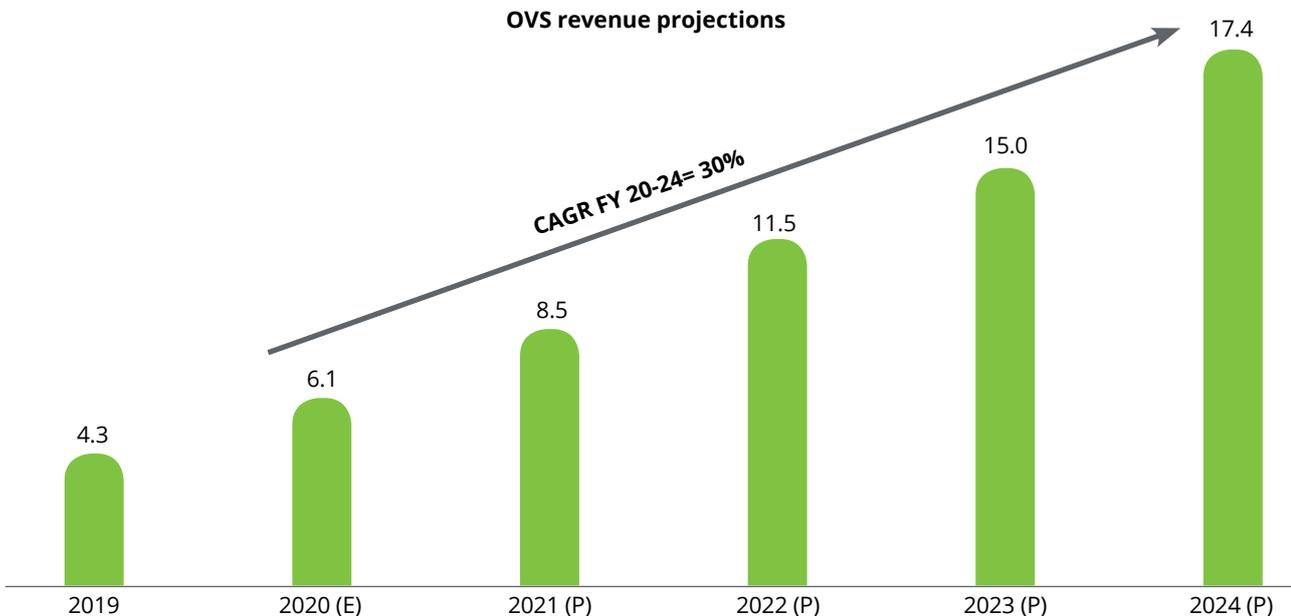
Online Video Services (OVS)

Industry size and growth

The OVS industry in India was sized at about INR 4.3k cr (US\$ 0.6 bn) in FY2019. We expect the OVS industry to post growth of over 40 percent in FY2020, and thereafter grow at a CAGR of 30 percent during FY2020–24 to reach INR 17.4k cr (US\$ 2.5 bn).

A favourable mix of both demand- and supply-side factors underpins this explosive growth. Key demand drivers include a young population and rising affordability—and the associated rise in discretionary spends. Supply-side drivers include affordable access to devices and connectivity, availability of a large quantum of diverse and high-quality content, and an improving payment ecosystem.

Estimated OVS industry market size and growth (INR '000 cr)



Source: Media reports and company filings; discussions with industry participants; Deloitte analysis

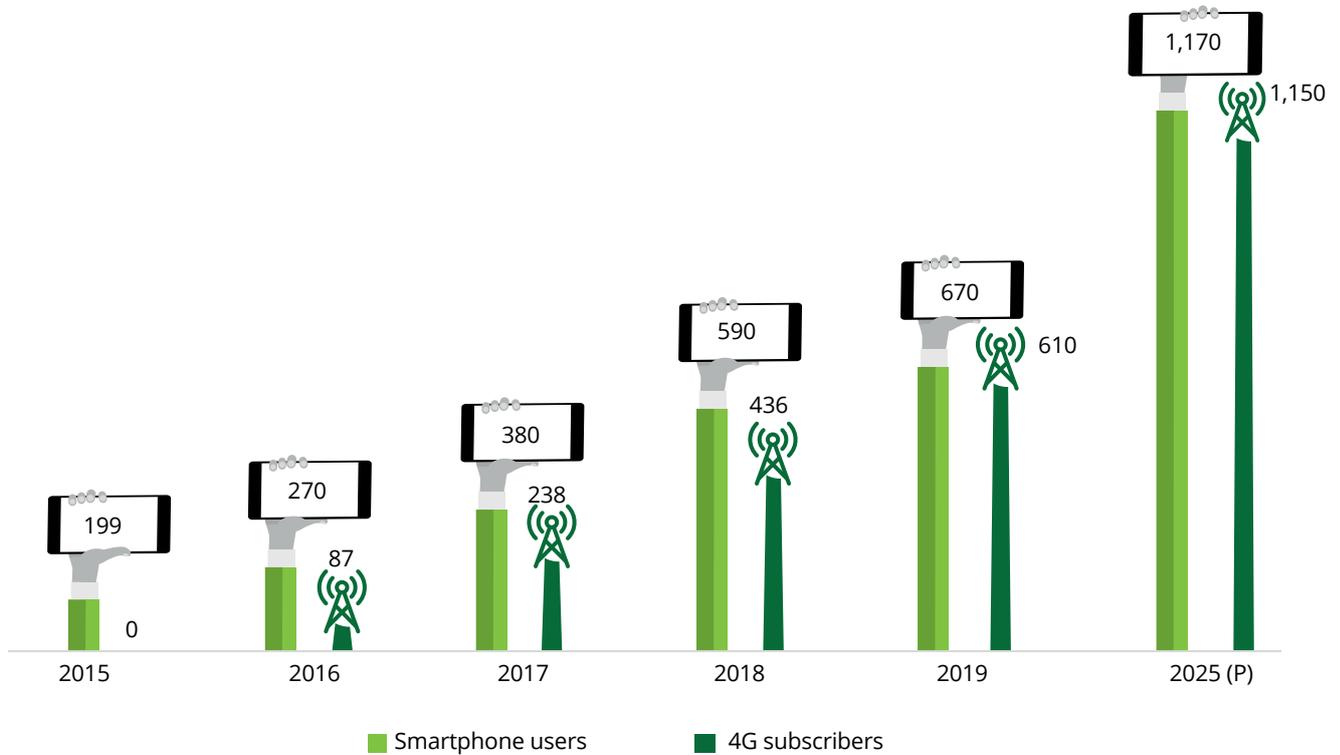
Key trends and drivers

Affordable devices driving smartphone penetration: India has the second-largest base of smartphone users in the world

Smartphone penetration is highly correlated with internet usage, data usage, and video consumption. Smartphones with screen sizes exceeding six inches are available in India for about INR 7,000 (US\$ 100).¹²¹ Such price points have driven rapid smartphone adoption. Indian smartphone shipments typically exceed 40 mn every quarter,¹²² and India has the second-largest base of smartphone users in the world.¹²³

The growth of Indian smartphone users is presented in the chart below. This is juxtaposed with the 4G subscriber base (please refer to the next paragraph on affordable connectivity driving 4G adoption).

Smartphone users and 4G subscriber base in India (mn)



Source: Statista; Ericsson Mobility Reports -2018 and 2019

Affordable connectivity driving data usage: India has the highest data usage per smartphone in the world

A tariff war that started in late 2016, with the launch of 4G services of Reliance Jio, has resulted in a dramatic drop in the price of wireless data. Data rates plummeted to reach levels of US\$ 0.1 per GB;¹²⁴ reported to be the cheapest mobile broadband price level in the world.¹²⁵ This, combined with the availability of affordable smartphones,

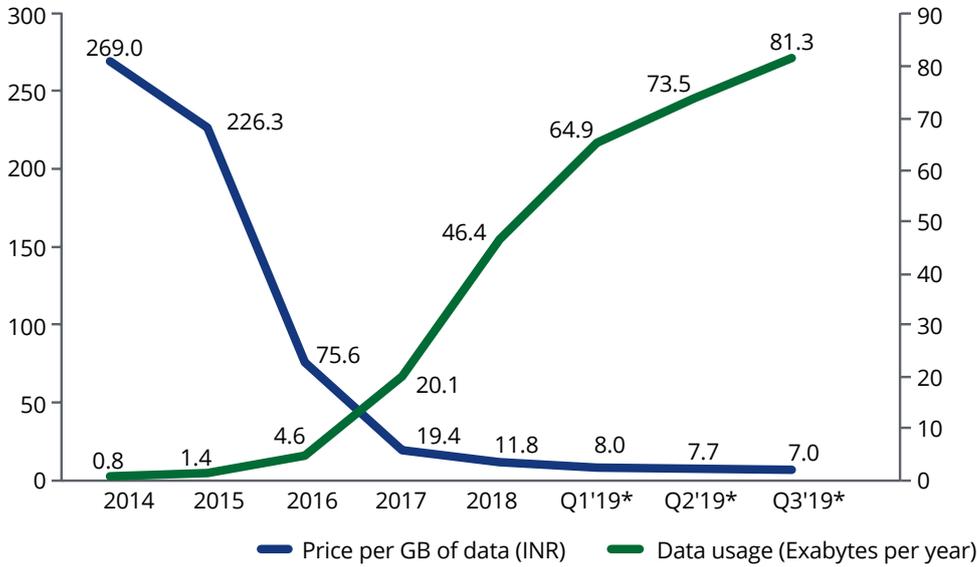
drove rapid growth in 4G penetration (seen in the chart earlier) and unlocked a large appetite for data. Data usage per smartphone in India was estimated at 10.4 GB per month—amongst the highest in the world.¹²⁶ These trends are depicted in the chart below. We note that operators in India have recently raised prices.¹²⁷ However, India is expected to continue enjoying data rates that are at or close to the lowest in the world.



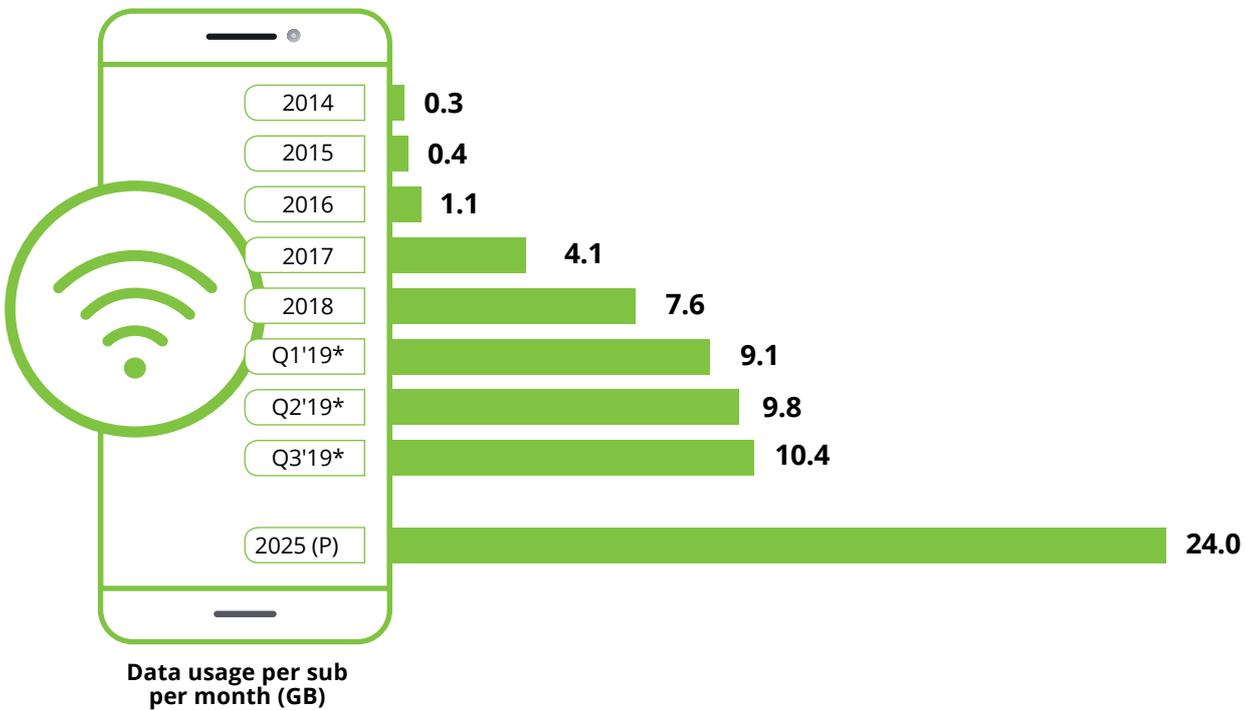
The growth of subscription video streaming services in India will continue to accelerate rapidly. Indian customers are becoming increasingly discerning and they are showing an insatiable appetite for great entertainment which they want to enjoy on the screen of their choice whenever and wherever they want. Video streaming services are responding to this demand with high quality, cinematic original content from India, the US & around the world and with world class personalised technology. The golden age of streaming in India is aided by the current economic environment, with a constantly improving and evolving digital payments infrastructure in the country, and a willingness of customers to invest more of their disposable income in premium home entertainment.

Gaurav Gandhi
Director and Country GM, Amazon Prime, India

Trend of wireless data price versus usage



*Data usage pro-rated for the year



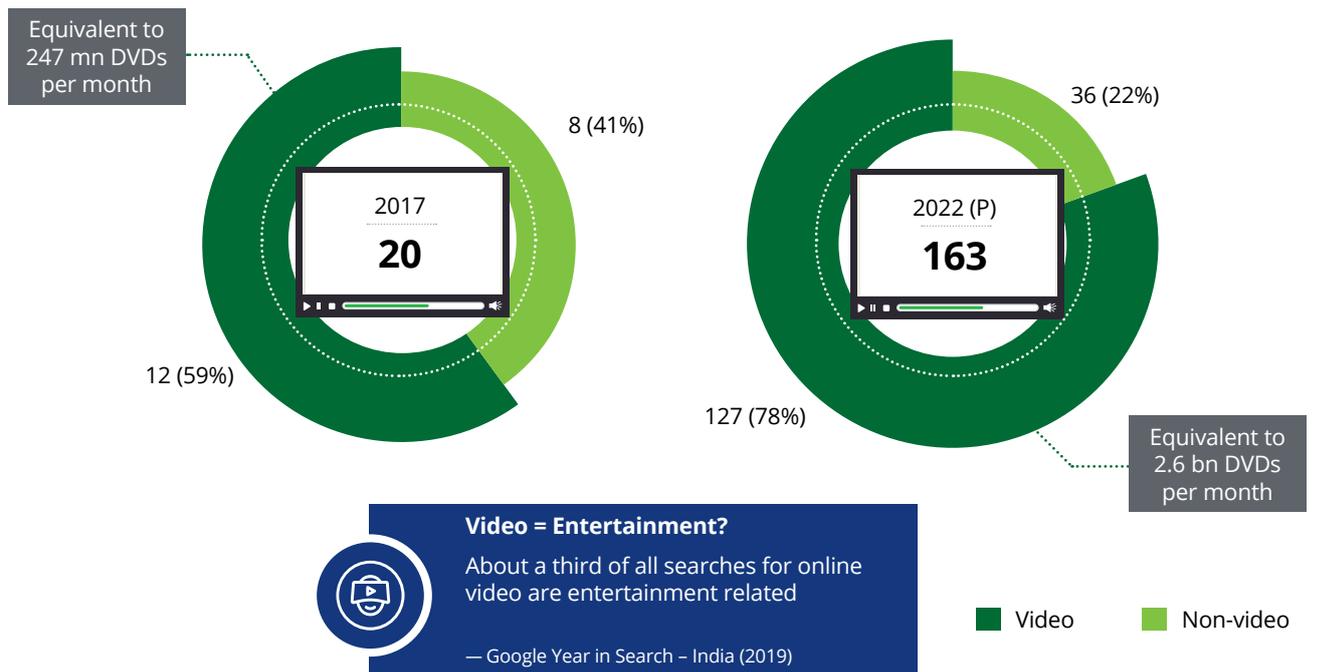
- Note:
1. Data usage per sub per month is on the base of "data subs" (estimated at ~57 percent of total wireless subscriber base as of 30 Sep 2019)
 2. The 2025 data usage number is the data traffic per smartphone
 3. All years above are calendar years

Source: TRAI Performance Indicators Reports; Ericsson Mobility Report 2019

Video consumption is expected to dominate data usage and entertainment is a large part of this video consumption

As data usage rises, video consumption tends to rise disproportionately (depicted in the chart below). Thus, not only is data usage expected to increase rapidly (as seen earlier), but an increasing share of this usage is likely to be towards video consumption. Entertainment represents a large chunk of video demand.

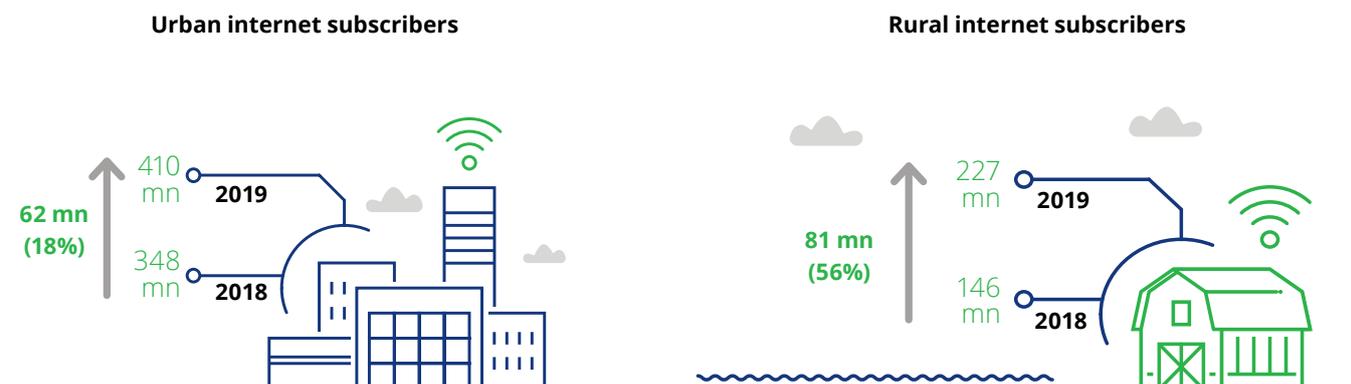
Consumer video versus non-video wireless traffic (exabytes per annum)



Source: Cisco VNI; TRAI; Ericsson Mobility Report 2019; Google Year in Search India (2019); Deloitte analysis

Growth of consumers in small towns and rural India

Rural India offers significant headroom for growth as coverage and connectivity improve. Internet subscribers in rural India are already growing faster than urban India, on both a percentage and absolute basis (depicted below):



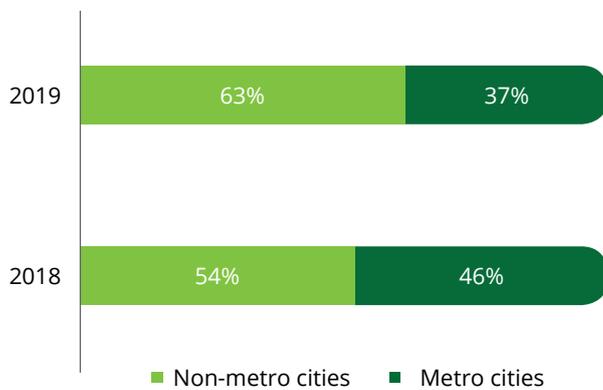
Source: TRAI Annual Report 2019

The ability to use voice inputs (versus typed inputs) has led to an increase in the number of consumers in rural India. Similarly, the greater availability of regional content has expanded the addressable customer base.

Hotstar has also indicated trends that point to rising usage in small towns:¹²⁸

- The states of West Bengal and Bihar are large users of data on Hotstar—higher than the wealthier states of Maharashtra and Karnataka
- Growth in time spent per viewer in 2019 (as compared to 2018) was 2x in non-metros versus 1.6x in metro cities
- Lucknow, Pune, and Patna surpassed the metros of Hyderabad, Bengaluru, and Kolkata in video consumption
- Non-metros represent a higher share of consumption on Hotstar than metros, and the gap continues to increase

Share of entertainment consumption on Hotstar



Source: Hotstar's India Watch Report 2019

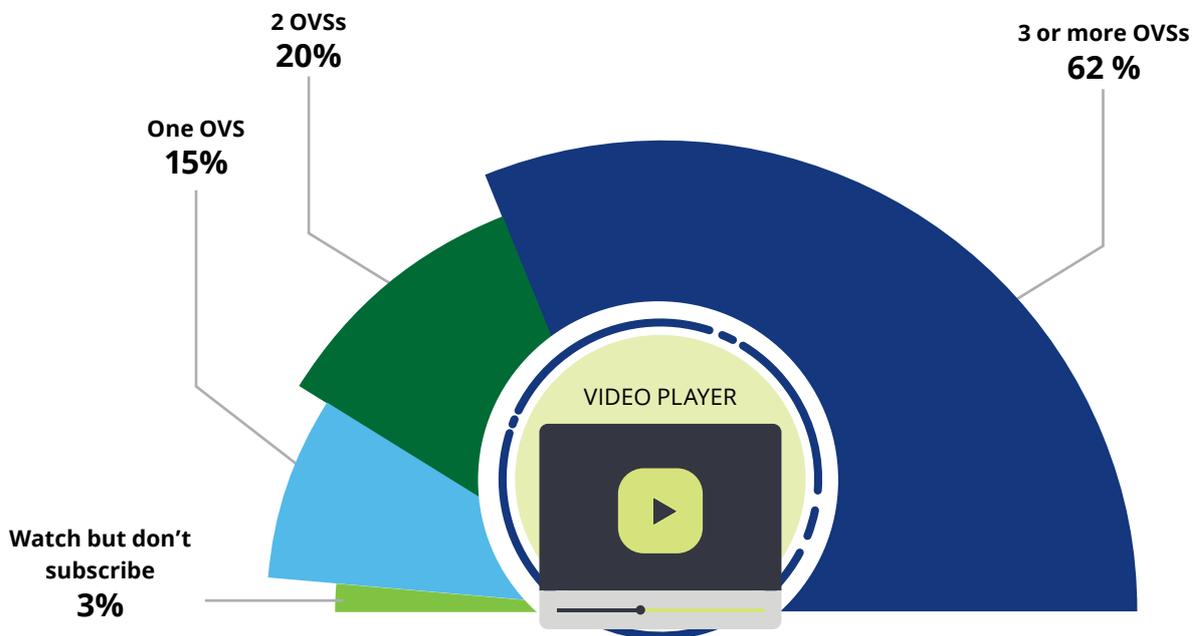
Usage patterns

India exhibits unique attributes in its OVS content-consumption patterns. According to a study by research firm, Pixights, 8 in 10 subscribers of Amazon Prime Video, Netflix, and Hotstar share their subscriptions with family, friends, and colleagues.¹²⁹

Sixty-two percent Indians availed more than three online video services, and spent an average of INR 295 per month on all the online video services combined.¹³⁰

Twenty percent subscribe to two online video services, and only 3 percent of the online user base watch free content on apps, such as Voot and ALTBalaji, but don't subscribe to them.¹³¹

Highlights from Pixights survey



Source: Pixights Research Survey

OVS companies are collaborating with telecom operators and phone manufacturers to bundle cheaper plans and app installs for a few years now. This method has proved to be effective for user acquisition and has met success.

Further, symbiotic relationships amongst OVS companies has been on the rise. The year 2019 witnessed the evolution of a complicated mesh of content syndication (and in some cases even content co-creation) in the OVS industry. Like the telco-OVS partnerships prevalent in the sector, we expect OVS - to - OVS alliances to also help strengthen the industry in the long term.



Eros Now has the deepest and largest library of content with 12,000 plus films in 10 languages, Digital Original Series, Music and Short Form IP 'Quickie'. The surge and growth of Eros Now and the online video services business will be driven by regional strategies on content and technology with the capability to drive custom user experiences.

Ali Hussein
CEO, Eros Now

Some of the collaboration models by OVS companies



Source: Media articles; company websites and filings; discussions with industry participants

Unique models and strategies for India

In an indirect acknowledgement of the potential of India, OVS companies have created models and strategies, specifically for India. A case in point is Netflix, which in a rare departure from its strategy, introduced a mobile-only plan in India. In 2019, Reliance Jio announced the launch of its “first day, first show” service. To be rolled out in 2020, the service, an industry first, will allow consumers to watch movie premieres from their homes on the same day that the movie release in theatres.

Rise of original and localized / regional content

Content will remain a key driver of growth for the industry. Apart from new OVS offerings entering the Indian market, we expect existing players to increase their investments in original content in FY2020.

While new content is constantly being created and curated, increase in the number of rural and small town Internet users and the demand for diverse content is fuelling the creation of OVS content in regional languages in India. We expect that instead of English, Hindi will become the most used language on the

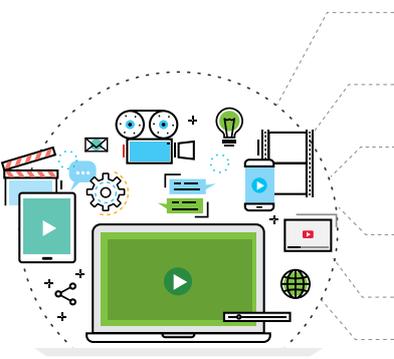
Internet in India. It is also expected that other regional languages will form a substantial chunk of the total Indian language Internet user base. Currently, OVS players are building regional content libraries primarily in Punjabi, Bhojpuri, Tamil, Telugu, Marathi, Malayalam, Bengali, Kannada, and Gujarati.

Companies that are making large proposed investments in original content in India, including in regional languages include - ZEE5, Hotstar, Amazon Prime Video, Netflix, VOOT, SonyLIV, Hoichoi, ALTBalaji, and Bigflix.¹³²

Indian OVSS expand into international markets

India is one of the leading countries of origin of international migrants. According to the Ministry of External Affairs (MEA), over 30 mn Indians live outside India. This number includes Persons of Indian Origin (PIOs) and Non-resident Indians (NRIs). Countries such as US, UK, Canada, UAE, Saudi Arabia, South Africa, and Malaysia host large percentages of NRIs and PIOs from this aggregate.¹³³

Examples of international forays by Indian OVS companies



- ZEE5 has a presence in 190 countries. In early 2019, ZEE5 launched dedicated Tamil subscription packs for Malaysia and Singapore.
- VOOT partnered with Virgin TV in March 2019 to cater to the UK audience. At present, revenue from countries such as Pakistan, USA, UK, Australia, and countries in the Middle East contribute nearly 50 percent of OVS player, Spuul’s revenue.
- In 2018, Hoichoi entered Bangladesh and the UAE, potentially adding 180 mn users.
- Hotstar was launched in the US and Canada in 2017.
- Eros Now partnered with Apple, Virgin TV, Netgem.tv, and a Chinese telco in 2019; extending its international reach to countries including the US, UK, Europe, Canada, China, Saudi Arabia, UAE, Indonesia, France, Ireland, Australia, Switzerland, Gibraltar Malaysia, Thailand and countries in Africa.

Source: Media articles; discussions with industry participants



We are excited to tell stories that are truly authentic and are little windows into the diversity of our country. We are working with a diverse artistic community of writers and directors – both accomplished and new emerging cinematic voices. It’s heartening to see that our shows are finding resonance not just within the country but are transcending all barriers of nationality, ethnicity, language and culture. Interestingly, one in every five customers watching Indian Amazon Original shows is from outside India.

We offer content in 9 Indian languages in addition to English on our service. Prime Video is watched and enjoyed by viewers across the length and breadth of the country - in over 4,000 towns and cities. And customers across India are being entertained not just by the exclusive and original Indian content, but also Hollywood blockbusters and International Amazon Originals.

Aparna Purohit
Head of India Originals, Amazon Prime India

Indian OVS players, armed with their library of regional content, are foraying into the international market to capitalise on the Indian diaspora.

The consumption of Indian video content is gradually growing, not only amongst Indians, but also amongst international audiences of different cultures. Moreover, European and North American users are more likely to pay a subscription fee for OVS content.

Impact created by commissioning of original content

The rise in original content commissioned by OVS companies has led to a significant increase in the demand for talent. We note that the employment opportunities for talent have increased significantly in the past two years, due to rise in production of such content. The economic impact of this is reflected in the film and TV production numbers.

Economic impact of the OVS industry

Direct impact

The table below provides a snapshot of the direct economic impact of the OVS industry.

The various elements of the direct economic impact are discussed below:¹³⁴

- **Gross output (direct):** It reflects the combined revenue of OVS. The gross output of INR 5,074 cr estimated below also includes indirect taxes paid by industry participants.
- **EBITDA/GOS:** It reflects the total returns to capital employed. This metric also captures the direct taxes (i.e., income taxes and corporate taxes) paid by the industry.

EBITDA was estimated at a negative INR 1,514 cr, as the industry is in investment mode.

- **Wages:** It measures the returns to labour, which includes payments made to contractual workers. Wage payments in FY2019 were estimated at INR 635 cr.
- **GVA (direct):** It is the value-add created by labour and capital inputs, employed directly by the industry (i.e., EBITDA + Wages). In FY2019, this was estimated at a negative INR 879 cr.
- **NIT:** For the purpose of this study, we have considered GST as the key indirect tax paid by the industry. GST collection details for the sector are not formally reported yet. However, we have estimated this at INR 773 cr in FY2019.
- **Total value added (direct):** This is the sum of the GVA and NIT. It represents the total direct impact of the OVS industry on the economy in India. This has been calculated at a negative INR 106 cr.
- **Employees (direct):** Direct employment figures include on-roll and contractual employees of OVS companies. Employees in OVS include in-house production staff and non-production roles such as sales, finance, and HR. OVS companies were estimated to employ 12,900 persons in FY2019. Employment generated by commissioning of original content is reflected in the production numbers of film and TV.

Indirect and total impact

The indirect and total impact have been estimated based on the input-output multiplier approach (discussed earlier in this report).

Direct economic impact of the OVS industry in FY2019 (INR cr)

	Gross output	EBITDA	Wages	GVA	NIT	Total value added	Employment in lakhs
	A	B	C	D = B + C	E	F = D + E	G
OVS distribution	5,074	-1,514	635	-879	773	-106	0.13
Total	5,074	-1,514	635	-879	773	-106	0.13

Source: Deloitte analysis

Indirect and total economic impact of the OVS industry in FY2019

	Gross output		GVA		NIT		Total value added		Employment
	A		B		C		D=B+C		E
	INR cr	US\$ mn	INR cr	US\$ mn	INR cr	US\$ mn	INR cr	US\$ mn	Lakh
Direct	5,074	725	-879	-126	773	110	-106	-16	0.13
Indirect/ Induced	10,301	1,473	5,562	795	206	29	5,768	824	0.80
Total	15,374	2,198	4,683	669	979	139	5,662	808	0.93

Totals may not match exactly due to rounding
Source: Deloitte analysis

Key challenges**Regulatory risk**

It will be important to formulate the regulations for the OVS industry from the ground-up, and care should be taken to avoid seepage of legacy economic and content regulations. Since the industry is at a nascent stage and evolving, it may also be prudent to allow the industry to stabilise. Industry participants may also benefit from proactively discussing and considering factors such as self-censorship.

Competitive intensity

With more than 35 online video services, the industry is highly competitive. The competitive intensity has also pushed up the cost of content—either directly when bidding for content, or indirectly by competing for the same talent pool to create content. A market landscape with niches for players may emerge over time. However, one can expect more consolidation in the industry as it matures.

Appendix

Approach to estimating direct impact

The impact of the selected verticals was performed by first, breaking down the value chain of the vertical and identifying key participants, then, the value chain revenue and cost metrics were determined using a combination of secondary research and industry discussions for each part of the chain.

The direct impact of an industry has been quantified in the following categories:

- Gross output
- GVA (summation of EBITDA and Wages)
- Total value added
- Employment

The significance of these indicators have already been discussed in the respective industry vertical segments of this report.

The value chain of the industries have been classified as below:

1. Film industry

At a high level, there are three elements of the film industry value chain, viz., production, distribution, and exhibition. To estimate the direct economic impact, the approach taken with respect to each element is as mentioned below:

Production and distribution

The film production and distribution elements of the value chain have been analysed together, as most large film producers also have distribution facilities.

Films have been analysed by two types of cuts: a cut by budget (large, medium, small), and a cut by performance (hit, average, flop). There is also an over-arching cut by language. We have used the budget to estimate employment, wages, production cost, etc., and the performance, along with the budget to estimate the profitability.

Foreign films are typically released in India through local distribution offices of the parent company. For the purpose of this report, it has been assumed that the profits earned by the local distribution offices are repatriated abroad after paying local staff, and hence such

profits have been excluded from the value added to the Indian economy. However, we have included wage-related expenses.

Exhibition

Exhibition revenues take into account ticket sales, as well as concessions, advertising, and others streams. To estimate the EBITDA and wage contribution of the theatrical exhibition sector, we have considered single screens and multiplexes separately. Foreign films' contribution to the Indian exhibition sector has also been accounted for.

Other elements include

- Online/digital aggregators: A film earns a significant share of revenue from non-theatrical avenues such as licencing (and/or sales) of C&S rights, Internet rights, home video rights, etc. Aggregators (Rajshri, Shemaroo, etc.) are conduits between filmmakers/ distributors and OVS companies (iTunes, You Tube, Amazon Prime, Netflix, etc.) where people watch or buy films. We have included revenues earned by the aggregators but not by third-party services. Online video services have been separately analysed in this report.
- Digital distribution: It refers to distribution of films to theatres via satellite. We have estimated this segment based on industry discussions and publicly available information of key players such as UFO and Qube Cinema.

2. TV industry

We have looked at three key elements in the TV industry value chain, viz., production, broadcasting, and distribution. To estimate the direct economic impact, the approach taken with respect to each element is mentioned below:

Production

The content considered includes international and regional films, and TV series. The methodology to estimate key numbers for this section is indicated below:

- Content revenues for producers have been estimated based on content costs as a percentage of ad revenues.
- TV content revenues have been segmented across Hindi and other regional languages.

- Wages in TV production include salaries of crew and cast (these include permanent and contractual employees).
- Employment generated by producers has been estimated based on industry estimates of number of employees required per hour of original content produced.

Broadcasting

It pertains to the aggregation, bundling of TV channels, and liaising with distribution partners to ensure that the channels reach the right audience. The methodology to estimate key numbers for this section is indicated below:

- Broadcasting revenues are a summation of subscription revenues flowing in from DTH and cable operators, as well as ad revenues for TV channels.
- Export earnings have been established by extrapolating earnings of the largest player, i.e., Zee.
- Wages in TV broadcasting include salaries of permanent employees only.
- Employment generated by broadcasters has been estimated based on average revenue per employee ratio for key industry players.

Distribution

It pertains to the last-mile distribution of TV channels to customers via mediums, such as cable (including fibre), DTH, HITS, etc. The methodology to estimate key numbers for this section is indicated below:

- Distribution revenues are segmented by technology, i.e., DTH, cable (cable has been further split into MSOs and LCOs).
- Wages in TV distribution include salaries of permanent (on-roll) employees of DTH players and MSOs, and of all people employed by LCOs.
- Employment generated by DTH operators has been estimated based on average employees per million subscribers for key DTH players.
- Employment generated by MSOs has been estimated based on average number of employees per million subscribers for key MSOs.
- Employment generated by LCOs has been estimated based on the average number of employees per LCO.

3. Online video services

We have not split the OVS value chain, and considered total revenue at the customers' end.

A note on indirect impact using the input-output approach

Input-output tables provide a detailed dissection of intermediate transactions in an economy, and thus, are a means of describing the supply and use of the products of an entire economic system. They are a tool to quantify the relationships between various sectors in the economy.

The tables attempt to answer the question: If an industry has to grow its output by INR 1, how much should the output of all the industries in the economy grow by?

The input-output tables are usually published by government economic agencies. In the case of India, until 2008, it was the Ministry of Statistics and Programme Implementation (MoSPI). Between 2008 and 2014, no usable input-output table was published. Subsequently, MoSPI started publishing a usable equivalent of input-output tables called Supply-Use tables (SUTs). The latest available SUTs are for 2015-16.

These SUTs provide for the transactions within the economy spread across 66 sectors and 140 products. With appropriate methods using matrix multiplications, these tables can be converted into symmetric input-output tables.

These tables can be achieved at two levels:

- Commodity x commodity matrix
- Sector x sector matrix

For our analysis, we converted the SUTs into a symmetric commodity x commodity matrix of 140 x 140 size. Of the 140 commodities or products, the sector relevant for our analysis is the 140th sector—"Recreation, entertainment, radio and TV broadcasting, and other services." Once the symmetric input-output matrix is arrived at, the type I multiplier accounting for the indirect impact, and type II multiplier accounting for the induced impact is calculated using the Leontief analysis.

To utilise the input-output table to derive indirect effects, the following approach was adopted:

1. Derivation of indirect GVA and NIT

The input-output tables have the values for GVA, NIT, and output against every sector i.e., for each column. By dividing the total GVA and total NIT of each column by the total output of the column, we arrive at the ratio of GVA to output, and NIT to output, for that sector. This ratio can then be applied on the derived output, to determine indirect GVA and NIT.

2. Derivation of indirect gross output

Using the input-output table as the base, one can derive multipliers for estimating indirect gross output and employment. To do this, one must first derive a matrix known as the Leontief Inverse Matrix by using the base input-output tables.

The Leontief Inverse Matrix is an economic value used to derive the ripple effect of one industry on other industries. To calculate the Leontief Inverse Matrix, the following steps were followed:

- Division of value in each “row X column” value by the total output value to arrive at a co-efficient matrix
- This co-efficient matrix is subtracted from a standard inverse matrix
- The resulting matrix is referred to as a Leontief matrix
- The inverse of the matrix resulting from the above step provides the Leontief Inverse Matrix

The Leontief matrices are of two kinds—

- Type I matrix accounting for indirect impact consisting of the 140 x 140 commodity matrix
- Type II matrix accounting for induced impact consisting of the 141 x 141 commodity matrix, adding a column of household consumption and a row of cost of employment into the 140 x 140 matrix

Through the Leontief Inverse Matrix, the output and employment multipliers are derived.

Output multipliers

- Type I multiplier: Type I multiplier for a commodity is expressed as the ratio of direct and indirect output changes to the direct output change due to a unit increase in final use. This is essentially the sum of all

multipliers obtained in the Leontief analysis across the commodity column, i.e., the ratios of all input commodities along the rows.

- Type II multiplier: Type II multiplier for a commodity is expressed as the ratio of direct, indirect, and induced output changes to the direct output change due to a unit increase in final use.

Thus, by multiplying a change in final use (direct impact) for an individual commodities output by that commodities type I or type II output multiplier will provide an estimate of direct + indirect, or direct + indirect + induced impacts upon output throughout the Indian economy.

Employment multipliers

The employment multiplier is the ratio of direct and indirect (and induced if type II multipliers are used) employment changes to the direct employment change. This is obtained from the input-output table using the formula:

$$z = E(I - A)^{-1}$$

Where,

E = matrix of input co-efficients for labour (persons per lakh of output)

I = unit matrix

A = matrix of input co-efficients for intermediate consumption

z = matrix with results for direct and indirect requirements for labour (persons)

Snapshot of OVS offerings (2019)

The large number of OVS offerings in India is an indicator of the potential that companies see in the market. A snapshot of key OVS offerings in India is presented in the table below.

Name of player	Group company	Launch year	Features and content information	Monetisation
Adda Times	Adda Times Media	2016	Bengali content	Subscription
Airtel Xstream (Airtel TV)	Airtel	2019 rebranding (launch 2017)	More than 10,000 movies, more than 350 live TV channels, TV shows, originals, in 13 languages	Subscription for hardware bundle. Airtel users get access to free content on app
ALTBalaji	Balaji Telefilms	2017	Original content, unique and selective stories for Indian audience, i.e., averse to English content	Subscription. Pay per show facility with expiring validity

Name of player	Group company	Launch year	Features and content information	Monetisation
Amazon Prime	Amazon	2016	Bollywood, regional, and Hollywood movies, US TV shows, kids' shows, and originals	Subscription
Apple TV	Apple	2019	TV content available in English and regional languages, and original shows	Subscription
Arre	UDigital	2015	Original content, short movies, music, and documentaries	Advertisement syndication to other services
BigFlix	Reliance Entertainment	2008	Movie streaming/movie on demand	Subscription
CuriosityStream	CuriosityStream	2019	Non-fiction documentaries—space, art, volcanoes, history, travel, cars, architecture, dinosaurs	Subscription
DocuBay	IN10 Media	2019	International documentaries (variety of categories)—nature, biography, culture, travel, etc.	Subscription
Eros Now	Eros International	2015	Originals, Bollywood, and regional movies, TV shows, and music, access to all of Eros content	Subscription Limited access to content is free
Flipkart TV	Flipkart	2019	Short films, full-length movies, and episodic series	Advertisements
FlizMovies	FlizMovies	2019	Web series, movies need to be paid for; audio content, short movies are free	Freemium
Hoichoi	Sri Venkatesh Films	2018	Bengali content	Subscription
Hooq	Sony Pictures, Warner Brothers, Singlet	2015	Movies, Hollywood, British, and Asian movies within 2 months of release; shows are streamed at par, access to international content	Subscription + Rental
Hotstar	Star India	2015	Live sports streaming; Hindi, Regional, and English movies and TV shows; originals	Freemium Advertisement Subscription
Hungama Play	Hungama	2015	Movies, TV shows, short films, music	Subscription
Jio TV and Jio Cinema	Reliance Jio	2016	Live TV, movies, TV shows, venturing into original content	Aggregator Free
Mavshack.com	Mavshack	2014	Live shows, TV shows, movies, (Indian and Filipino content)	Subscription:
Mubi	Mubi	2019	Highly acclaimed international art cinema	Subscription
Muvizz	Muvizz	2015	Cult-classic independent films	Freemium:
MXPlayer	Times Internet	2019	Regional content, over 1,00,000 hours of licenced content from "MX creators" and partners such as ALTBalaji, TVF, Arre, and SonyLIV	Advertisements

Economic impact of the film, television, and online video services industry in India, 2019

Name of player	Group company	Launch year	Features and content information	Monetisation
Netflix	Netflix	2016	Movies, TV shows, documentaries, and originals	Subscription
Prime Flix	Prime Flix	2019	Movies, TV shows, short films, original content	Subscription
ShareIT	ShareIT Technologies	2019 (OVS pivot)	Recent foray from file sharing to OVS, access to content from Hotstar, Viacom, Airtel Wynk, etc.	Advertisement
ShemarooMe	Shemaroo Entertainment	2019	Content from Shemaroo's library	Freemium
Sony Liv	Sony Pictures	2013	Movies, live TV, live sports, kids' shows, original web series, 20 years of available content	Subscription: Advertisement
Spuul	Spuul	2012	Movies, short films, TV shows in regional languages	Freemium
SunNXT	Sun TV Network	2017	Movies, TV shows, content in four languages—Tamil, Telugu, Kannada, and Malayalam	Subscription
Tubi TV	Adrise	2014 (USA)	English and international language content	Advertisement
TVF	TVF Play	2012	Original content focussing on the young demographic of India	Free Advertisement
Veqta	Multimedia Group	2016	Sports streaming	Subscription
Vodafone Play	Vodafone Idea Ltd.	2012	Content aggregator, third-party content, live TV channels	Aggregator Free for Vodafone Users
Voot	Viacom 18, Reliance Industries	2016	Regional TV, original content, toons, Bollywood movies, launched Voot Kids	Advertisement
WinterSun TV	WinterSun Studios	2019	Streaming shorts, web series, music videos, and documentaries made by independent Indian film makers across genres and languages	Subscription
YuppTV	Globaltakeoff	2015 (USA)	Live TV and movies	Subscription
ZEE5	Zee Entertainment	2018	More than 90 live TV channels in 17 languages—Spanish, Turkish and Korean content; multilingual app	Freemium Advertisement
Zomato Original	Zomato	2019	Thematic content—culinary and food; collaborating with celebrities and known figures in the culinary industry for original content	Advertisement

Source: Media articles; discussions with industry participants

Glossary

ARPU	Average Revenue Per User (typically monthly, unless specified otherwise)
ASSOCHAM	Associated Chambers of Commerce of India
ATP	Average Ticket Price
B2B	Business to Business
B2C	Business to Customer
BARC	Broadcast Audience Research Council
BFI	British Film Institute
bn	Billion
C&S	Cable and Satellites
CAGR	Compound Annual Growth Rate
CD	Compact Disc
CGI	Computer Generated Imagery
CIPAM	Cell for IPR Promotion and Management
CISAC	International Confederation of Societies of Authors and Composers
Cr/cr	Crore (1 crore = 10 million)
CSR	Corporate Social Responsibility
DPIIT	Department for Promotion of Industry and Internal Trade
DTH	Direct to Home
DVD	Digital Versatile Disc
EBITDA	Earnings before Interest Tax, Depreciation, and Amortization
e-Commerce	Electronic Commerce
e-Tailer	Electronic Retailing
F&B	Food and Beverage
FFO	Film Facilitation Office
FICCI	Federation of Indian Chambers of Commerce and Industry
FTA	Free to Air
FTE	Full-time Equivalent
FY	Fiscal Year
GB	Gigabyte
GEC	Growth in Regional Channels
GII	Global Innovation Index
GOS	Gross Operating Surplus
GST	Goods and Services Tax
GVA	Gross Value Added
HD	High Definition
HITS	Headend in the Sky
IEC	Information, Education, and Communication
II	India Innovation Index
INR	Indian Rupee
IP	Intellectual Property
IPO	Initial Public Offering
IPPP	Innovate, Patent, Produce, and Prosper
IPR	Intellectual Property Rights
ISRO	Indian Space Research Organisation
JV	Joint Venture
LCD	Liquid Crystal Display
LCO	Local Cable Operators
LED	Light Emitting Diode
M&E	Media and Entertainment
MCDCU	Maharashtra Cyber Digital Crime Unit
MEA	Ministry of External Affairs
MIB	Ministry of Information and Broadcasting
mn	Million
MOSPI	Ministry of Statistics and Programme Implementation
MPA	Motion Pictures Association
MSO	Multiple System Operator
NBFC	Non-banking Financial Company

NCAER	National Council of Applied Economic Research
NCCS	New Consumer Classification System
NCF	Network Capacity Fee
NDTV	New Delhi Television
NGO	Non-government Organisation
NIT	Net Indirect Tax
NITI	National Institute of Transforming India
NRI	Non-resident Indian
NTO	Net Tariff Order
OOH	Out of Home
Op-ex	Operating Expenses
OTT	Over The Top
OVS	Online Video Services
PIO	Persons of Indian Origin
PVR	Priya Village Roadshow
R&D	Research and Development
ROI	Return on Investment
RTI	Right to Information
SBA/SBM	Swachh Bharat Abhiyan/Swachh Bharat Mission
SD	Standard Definition
SEC	Securities and Exchange Commission
SGST	State Goods and Services Tax
SUT	Supply Use Table
TIPCU	Telangana Intellectual Property Rights Unit
TRAI	Telecom Regulatory Authority of India
TV	Television
U.K.	United Kingdom
U.S./U.S.A.	United States of America
UAE	United Arab Emirates
US\$/USD	United States Dollar
VFX	Visual Effects
VR	Virtual Reality
Wi fi	Wireless Fidelity
ZEEL	Zee Entertainment Enterprises Limited
3D	Three Dimensional
4K	Four Kilo Pixel
4G	Fourth Generation

Notes on scope and units used

- “Creative industries” in this report refers to the TV, film, and OVS industries.
- “OTT”, wherever it is used in this report refers to online or over-the-top video streaming services. OTT here does not include audio streaming services (such as Spotify) or over-the-top communication services (such as Whatsapp). In this report, we have generally preferred to use the term “OVS” (i.e., online video services) rather than the term “OTT”.
- This report uses the lakh/crore system, which is prevalent in India, versus the million/billion system
 - 1 crore (cr) = 10 million
 - 1 lakh (or lac) = 0.1 million
- All values in this report are in crores of Indian rupees, unless otherwise specified.
- Year/s in this report refer to financial years ended 31 March 2019, unless specified otherwise. This is represented as FY20xx/FYxx for year 20xx (e.g., FY2018 or FY18, for the year ended 31 March 2018).
- USD 1 = INR 70 has been used in this report for any INR to USD conversions, unless specified otherwise.
- The letter P or E postfixed after a year means Projected or Estimated respectively.

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