

Film industry in India: New horizons





Media & Entertainment industry in India

With more than 600 television channels, 100 million pay-TV households, 70,000 newspapers and 1,000 films produced annually, India's vibrant media and entertainment (M&E) industry provides attractive growth opportunities for global corporations. Enticed by economic liberalization and high volumes of consumption, many of the world's media giants have been present in the Indian market for more than two decades. However, in recent years, with near double-digit annual growth and a fast-growing middle class, there has been a renewed surge in investments into the country by global companies.

Media sectors, regarded as "sunset" industries in mature markets, are flourishing in India, presenting global media companies with exciting opportunities to counter declining revenues. For example, the newspaper industry, which is facing declining readership in many international markets because of digital media, continues to thrive in India, driven by increasing literacy rates and consumer spending as well as the growth of regional markets and specialty newspapers. Newspapers account for 42% of all advertising spend in India, the highest in all media streams.

India's favorable regulatory environment and recent reforms are creating investment opportunities in a number of M&E sectors. Entry restrictions for foreign companies have been relaxed and Foreign Direct Investment (FDI) caps have been recently increased in key sectors, including Direct-To-Home (DTH) and radio. Mandatory digitization of the country's TV distribution infrastructure has spurred the growth of digital cable and DTH, and created the need for these companies to fund their expansion. The third round of radio license

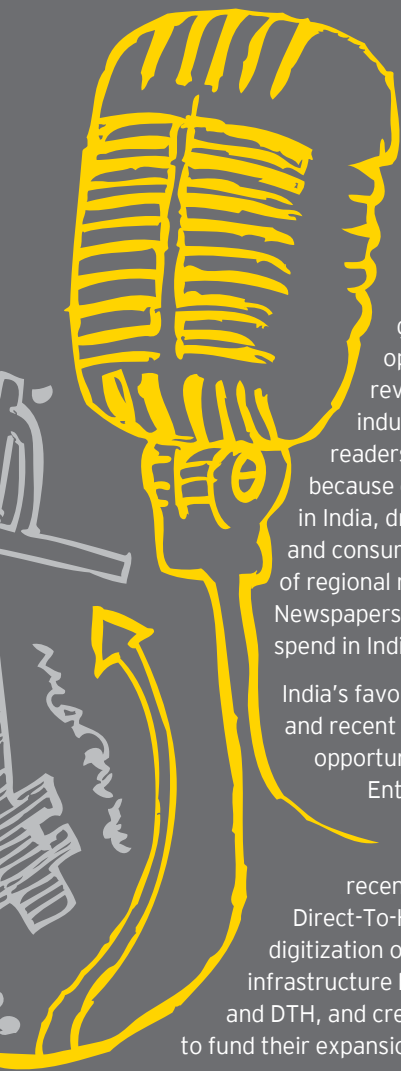
auctions (phase III), expected in the near future, is expected see radio networks adding around 700 radio stations across the country.

Then, there are India's diverse content markets. The bulk of the country's urban consumption is from non-metro cities (the tier 2 and tier 3 towns) and comprises regional markets with distinct cultures, languages and content preferences. These markets, which are huge markets within markets, provide global M&E companies with a variety of opportunities to deliver localized content. Many global film studios and TV broadcasters have already entered these markets and are producing regional language content.

Finally, there is the evolution of consumption of digital content, which is at an inflection point in India. Although internet penetration is currently low in the country, the recent launch of 3G services and the eventual launch of 4G are expected to bring a late surge in wireless-based broadband adoption. In conjunction with India's mobile phone user base of more than 750 million subscribers, the scale and impact of the country's potential for digital content consumption is huge. This presents M&E companies, foreign and domestic, with an exciting opportunity to develop digital businesses that cater to a new generation of broadband users.

While there are many opportunities to tap, there are also unique differences and challenges. Diverse content preferences and the low price point and high volumes of content consumption are some of the critical differences that global M&E companies need to assess when entering the Indian market. Companies that understand and adapt to the economic and social fabric of the country's operating environment and that invest in tailored content and services are likely to maximize their success.

M&E companies operating in India continue to be exposed to risks ranging from local competition to fraud, corruption and piracy. Furthermore, although the development of corporate governance norms and ongoing structural and regulatory reforms are expected to mitigate these threats, global M&E companies need to develop flexible business plans, and identify and develop mitigation strategies for key risks.



Filmed entertainment¹

Industry overview

Bollywood, as the Hindi film industry is popularly known, is the largest contributor to the industry's revenue, followed by the South Indian movie industry and other language cinema industries such as Bengali, Bhojpuri, Marathi and Gujarati. Although the country's filmed entertainment industry is the largest in the world in terms of the number of films it produces (around 900) and its theatrical admissions (around 3 billion), it continues to be small in size in terms of revenue, mainly due to low ticket realization and occupancy levels. Moreover, lack of quality content and rising competition from Hollywood films continue to affect it.



1 "Competing for growth: the M&E industry in 2011," Impact, via ISI Emerging Markets; "The Bollywood rehabilitation project," Mint, 28 January 2011, via Dow Jones Factiva, © 2011 HT Media Limited; "Bollywood laps up regional marketing strategy," Economic Times, 11 August 2010, via Dow Jones Factiva, © 2010 The Times of India Group; "Film financing in India," Financial Express (India), 5 May 2010, via Dow Jones Factiva, © 2010 YYY Indian Express Pty. Ltd.; "Piracy plagues T-Town," The Times of India, 20 March 2010, via Dow Jones Factiva, © 2010 The Times of India Group; "Betting on high-risk, small movies," Financial Express (India), 16 February 2011, via Dow Jones Factiva, © 2011 YYY Indian Express Pty. Ltd.; "Regional RICHES," Screen, 21 January 2011, via Dow Jones Factiva, © 2011 The Indian Express Pty. Ltd.; "UTV Software - emerging media conglomerate," ENAM Securities, 27 November 2010, via Thomson Research.

The following are the key trends witnessed in this industry:

Key trends

- ▶ **Emergence of new sources of revenue:** Although revenues from the theater segment constitute around 60% of the overall revenue generated for a movie, other revenue streams have begun to make a meaningful contribution. The trend of pre-selling satellite and home-video rights gained momentum in 2010, and has enabled producers to de-risk their business models. Even films that are due for release in 2012 are witnessing negotiation for satellite and new media rights. Revenue from new media, including mobile and online rights, is expected to increase after the recent introduction of 3G services by mobile operators. In addition, film production houses have the opportunity to monetize their content through gaming on mobile and online platforms. New sources of revenue will reduce a movie's dependence on its theatrical performance for it to achieve success and is expected to enable fuller exploitation of content.
- ▶ **Collaboration with international studios:** International film studios such as Warner Bros., Disney, Fox and Dreamworks have entered collaborations with local film production houses to develop Hindi and regional movies. Walt Disney, who earlier held a 50% stake in UTV, has now acquired a controlling stake in UTV Software Communications². Viacom18 has also entered a deal with global movie company Paramount Pictures to market and distribute the latter's movies in India, Bangladesh and Sri Lanka. It has already ventured into production of Hindi language movies, and the new deal is expected to help it create a distribution network³. Local film production can leverage the experience of these international studios to expand their international reach and incorporate enhanced project planning and cost controls. A case in point is *My Name is Khan*, which was distributed in unexplored markets, with innovations such as taking the lead actors

2 "Hollywood expands footprint", Screen, 24 February 2012, via Dow Jones Factiva

3 "Viacom18, Paramount Pictures in movie distribution pact," Exchange4Media.com, 19 May 2011, via Dow Jones Factiva, © 2011 Adsert Web Solutions Pvt. Ltd



to the NASDAQ stock exchange. The success of the movie demonstrates the potential of Indian films abroad.

- ▶ **Rise of 3D cinema:** 3D was a prominent theme in 2010 and has amply demonstrated its significant potential with benefits such as enhanced audience engagement, increased ticket prices and the exclusivity of the medium, i.e, the theaters. The success of *Avatar* has taken 3D movie-making to new heights. Multiplexes could look at the feasibility of investing larger amounts on 3D screens to meet the growing demand to view 3D. Last year, the Bollywood film *Ramayana*, was also released in 3D. Therefore, a new window of opportunity could open if Bollywood is able to produce high quality 3D content. Releasing movies with spectacular special effects, such as in *Avatar*, could be the answer to bringing people back to the theater. Rajnikanth's forthcoming movie 'Kochadiyaan' may set the stage for motion capture technique based movies in India.
- ▶ **Rationalizing the movie slate:** In line with the global trend, Indian movie production houses have cut down on the number of movies they release every year, mainly due to rising movie production costs, which is leading to difficulties in securing

funding for projects. The year 2010 witnessed the release of around 150 Bollywood films, as compared to the earlier average of 300 films per year. The movie business has been hard hit and production houses would do well to reduce volatility in their revenues by producing varied budget films within different genres. A shift toward a portfolio approach for movies with small, medium and large budgets is a positive development in the sector.

- ▶ **Resurgence of regional cinema:** While Bollywood has continued to rule the filmed entertainment market, of late, regional cinema has been witnessing a surge in investments from major film studios to tap the potential of underpenetrated markets. This segment, which is dominated by South Indian cinema, has pushed the boundaries with the main growth being witnessed in Marathi, Punjabi, Bhojpuri and Bengali cinema. In December 2009, DAR Capital, an asset management company, earmarked INR1.5 to 2 billion to fund regional cinema projects over the next three years. Richer content, to cater to the preferences of local audiences, as well as the increasing uptake of such movies by mainstream audiences, has attracted studios such as Eros, Disney and

Reliance to regional cinema. Studios are also releasing dubbed versions of popular Hollywood films, while multiplexes are increasing their number of shows of regional movies. The significantly untapped potential of regional cinema provides studios with the logical option of entering this market to help them diversify their portfolios from a Bollywood-heavy one.

- ▶ **Focus on niche movies:** The recent success of small budget, niche movies such as *No One Killed Jessica*, *Peepli Live*, *Well Done Abba* and *Dhobi Ghat* has re-emphasized the importance of content-driven films. While these movies are produced on tight budgets, strong content and word-of-mouth marketing can bring high returns to studios. The success of such movies has at best been patchy over recent years, but a few failures should not deter industry players from backing good scripts with requisite funding. In addition, refined audience tastes and the advent of miniplexes to cater to the tastes of targeted audiences is likely to drive the production of more such movies, which is in sync with the portfolio approach adopted of late by studios.
- ▶ **Advent of digital cinema and the growth of multiplexes:**

The growth of multiplexes has improved the movie-going experience for Indian audiences and has led to increased per-ticket realization. Rising urbanization and growing disposable incomes are also driving increased investments in multiplexes. In addition, theaters with low seating capacities allow cost-effective screening of movies that are targeted at niche audiences. Companies such as Real Image and UFO Moviez have facilitated digitization of movies, which curbs piracy and enables increased release of films across the country – a game-changing phenomenon whereby 60% of box-office collections are realized in the first week of release of a movie. Thereby, a big-budget Hindi movie, which would have been released earlier with 400-500 prints, now enjoys a wider release with almost 1,000-1,500 prints being distributed. However, there is still further ground to be covered. The average number of screens per million in India is 12, as compared to the global average of 54. The number of multiplex screens in India is expected to increase from 1,000 in 2010 to around 1,405 by 2013.



Focus areas

- ▶ **Shortening of release windows:** In the last few years, the window available to a film to monetize revenues at the box office has come down sharply as far as Hindi films are concerned. Therefore, distributors flood the market with prints, looking to garner as high revenues as possible during the opening weekend of a release. The implication of this trend from the point of view of the industry is that the largest chunk of the revenues generated by a film flows into the value chain within the first three days of its release. This necessitates monetization of content across all media and platforms, including broadcast and new media rights, merchandizing and gaming revenue.
- ▶ **Piracy:** The country's film industry continues to lose around INR50 billion in revenues and over 50,000 jobs every year due to piracy⁴. India is one of the top countries witnessing peer-to-peer file-sharing infringement worldwide. Curbing piracy will entail proactive measures being implemented by state governments through initiatives such as spreading awareness against piracy and the formation of anti-piracy cells, similar to those currently run in states such as Tamil Nadu and Maharashtra.
- ▶ **Lack of transparent data:** Frequently, large foreign studios or investors indicate that they do not want to invest in the Indian film industry because there is no way of verifying or validating the data made available in the public domain about the amount a film has grossed and its profitability. It is difficult to procure reliable data relating to box office collections and it is even more difficult to gauge the producer and distributor's share. While film experts may know and can provide numbers based on their experience and network, there needs to be a more transparent and reliable method to collect and make this data public.
- ▶ **Planning process:** A Hollywood film typically takes 36 months to plan and 12 months to execute, whereas an Indian film takes 6 months in planning and 18 months in execution. While one can suitably discount the differences due to the scale of Hollywood projects, the gap is still significant. Indian film makers say that what they lose out in planning, they make up on account of time- and cost-efficient execution. However, this can be refuted by pointing out that efficiency can be achieved and revenues generated by being equally diligent at the planning stage.
- ▶ **Intellectual property:** The Indian film industry has gradually woken up to the relevance and importance of IP in the work it creates – prequels, sequels, remakes, copyright or trademark for catchphrases, superheroes, etc. More work, however, is needed, since as an industry, we are still lagging far behind from defining and implementing a process whereby IP is developed and nurtured in a systematic manner and results in creation of an IP bank.
- ▶ **Interaction with emerging technologies:** Industry players would do well to update themselves with new technologies and trends, and prepare themselves to ride the wave. Increasingly, we are moving toward a multiple-screen world with each screen having the ability to consume the same mass of IP in different forms. It is also imperative that the industry recognizes the importance of valuable IP to which it has rights and needs to carefully apply itself before making this IP available on the public media for an additional sum of money and focus on the big picture.
- ▶ **Film incentives:** Countries around the globe offer incentives of various types to encourage film producers to use the former's locations to shoot films. They generally provide benefits such as easy processing of visas, discounts in accommodation and travel, location tariffs to facilitate road or shooting permits, assistance in identifying locations, etc. This results in multiple benefits such as a boost to tourism in these countries as well as to local film production, the creation of employment opportunities, etc. The Ministries of Information & Broadcasting and Tourism have now signed a MoU to provide incentives to the film industry. According to the MoU, the Ministry of Tourism will provide budgetary support for identified film festivals and offer single window clearance for permission for shooting film. This is likely to create a film tourism vertical, which will promote India as a filming destination to domestic and foreign film producers⁵.

⁴ "Piracy, a serious threat to the Indian film industry," Financial Express (India), 19 March 2010, via Factiva, (c) 2010 YYY Indian Express Pty Ltd.

⁵ "I&B, Tourism Ministries to promote India as a film hub", Business Line, 16 February 2012, via DowJones Factiva

Case study

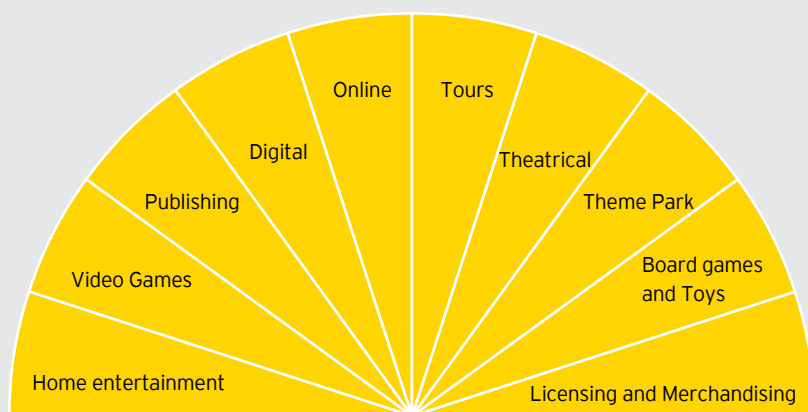
The Harry Potter Franchise

Harry Potter is a cultural phenomenon that has completely redefined the way Hollywood perceives children's fantasy books. Eleven years ago, there was significant uncertainty as to whether J K Rowling's boy wizard could spin his magic on a wider movie-going audience in the same way he had on avid book readers. The phenomenal success of the movies is likely to have a lasting effect on Hollywood .

The Potter brand has brought in nearly US\$20 billion in retail sales for Warner Bros and its partners, and added US\$1 billion to the studio's bottom line, making it one of its most valuable film franchises. For film studio, the Harry Potter franchise has grossed more than US\$12.1 billion, with US\$7 billion at the worldwide box office for Warner Bros Pictures,

and US\$5.1 billion for the Warner Bros Home Entertainment Group and Warner Bros Interactive Entertainment.

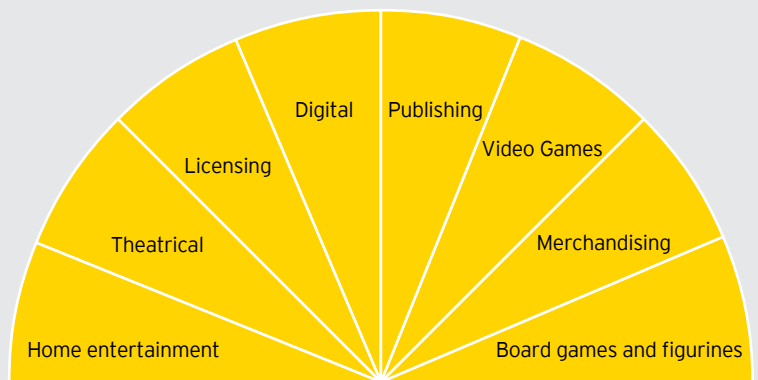
Harry Potter is as an "evergreen" franchise for Warner Bros and while eight movies, based on the seven books, have already been released, the franchise will be kept alive in the memory through theme parks, video games and digital initiatives, and also generate revenues for its creator - J K Rowling, Warner Bros and its partners.



Source: 'Harry Potter' Franchise Crosses \$7 Billion Mark at Worldwide Box Office ", Hollywood Reporter, 21 July 2011, via DowJones Factiva

RA.One

RA.One was perhaps the first organized 360 degree campaign for an Indian film and had more than 25 brands associating themselves with the film in various capacities.



VFX

Industry overview⁶

The visual effects (VFX) industry is a rapidly evolving segment in India. It involves the creation of live action imagery by using computer-generated effects. It is being increasingly used by the visual media in India and can be broadly classified into the following verticals – movies, TV shows and advertisements. The segment is still at its nascent stage with mainly low-end work being done in India. Domestic consumption is fairly small, and therefore, the bulk of the work includes outsourced projects from the US and the UK. However, the domestic market is seeing bigger budget movies and ad campaigns, which are now open to spending more on VFX to provide an enhanced visual experience to viewers.

Key trends

▶ Outsourcing of work to India on the rise⁷

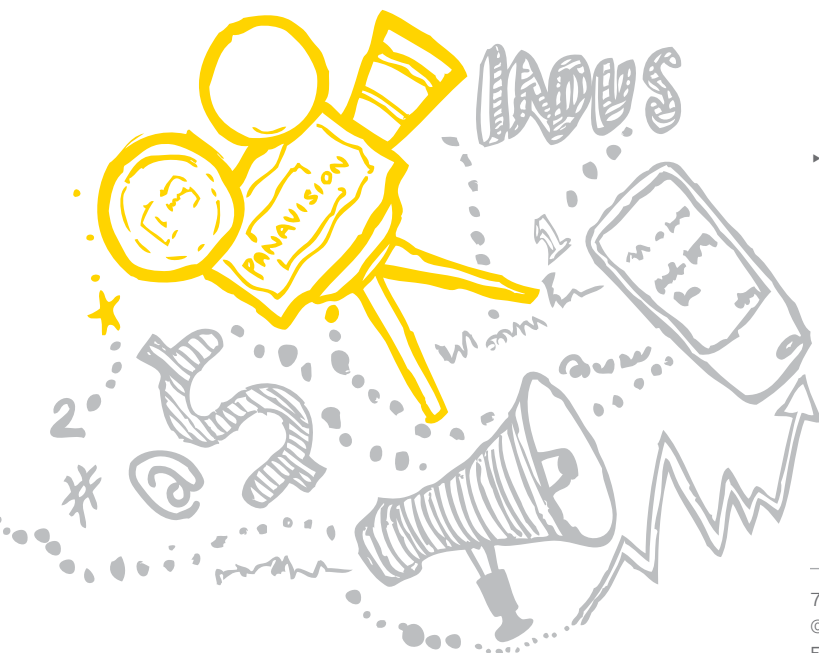
There is a significant growth in the number of VFX companies operating in India. According to estimates, there are more than 40 major domestic VFX companies catering to domestic and international clients. Currently, India accounts for only around 10% of the total animation and VFX outsourcing pie. However, there is room for growth and the amount of work coming to India from Hollywood is on the rise.

▶ Moving up the value chain⁸

VFX post-production houses in India have been doing low-end work such as wire removal and clean-ups for a long time. Of late, the industry has been shifting toward higher-end assignments. Industry players are also tying up with film and entertainment companies on dedicated projects. In late 2011, VenSat Tech Services, a VFX company, joined hands with Reliance MediaWorks Limited to set up a VFX, computer graphics and animation team that was dedicated to projects obtained from the latter. This enables the companies to move up the value chain by working on end-to-end VFX assignments.

▶ Dominant domestic players setting up offices abroad⁹

Dearth of adequate demand from the domestic market has led dominant players in the VFX space to scout for more work abroad. These companies have to hard-sell their expertise, since not every production studio in the US or the UK may be comfortable with outsourcing. The absence of domestic work is also an impediment for domestic VFX companies while showcasing their capabilities to clients in developed markets. Therefore, domestic players are setting up local offices abroad to provide enhanced client servicing. Tata Elxsi has a facility



⁶ "Gaming Industry: Adding that Effect," Dataquest, 31 October 2011, via Factiva, © 2011. CyberMedia

⁷ "Gaming Industry: Adding that Effect," Dataquest, 31 October 2011, via Factiva, © 2011. CyberMedia; "Human Resource and Skill Requirements in the Media & Entertainment Industry Sector (2022)," National Skill Development Corporation

⁸ "Rel Media, VenSat join hands for VFX studio," Financial Chronicle, 1 December 2011, via Factiva, © 2011 Deccan Chronicle Holdings Ltd

⁹ "Gaming Industry: Adding that Effect," Dataquest, 31 October 2011, via Factiva, © 2011. CyberMedia



in Los Angeles and Pixion has acquired two studios in London. Prime Focus also has offices in the US, UK and Canada.

► **Increasing consumption in the domestic market**

The domestic market was slow in adopting VFX as a means of enhancing the visual experience, mainly due to cost constraint and skill gaps. However, India's advertising industry has been lately seeing increasing adoption of VFX. The country's movie industry is also experimenting with VFX, especially with the increasing popularity of the sci-fi genre in the country. Movies such as *RA.One* and *Robot* used VFX extensively. Moreover, its use is not limited just to Bollywood, but is increasingly used in regional cinema as well.

Focus areas

► **Lack of required skill sets¹⁰**

The VFX segment is an evolving segment, with new technologies and products becoming available. Artists in India are often found to be lacking in technical know-how on the latest developments in the VFX industry. This requires that VFX companies in India train their employees on new technologies and equip them with the required expertise.

10 "BIG AIMS Launches State-of-the-Art Animation & VFX Film Making Academy in Mumbai," AnimationXpress, 26 August 2011, via Factiva, ©2011 AnimationXpress.com

Animation and VFX companies have been trying to address this issue by opening training centers to address the needs of the industry. Reliance Animation has its BIG AIMS (Animation Infotainment & Media School) centers in Delhi, Pune, Solapur, Chennai, Indore and Jaipur. It also opened a center in Mumbai in August 2011. More such specialized institutes are required to improve the skill sets of artists and drive the growth of the domestic industry.

► **Increasing employee costs for VFX companies**

Increased outsourcing to India was the result of the significant cost advantages Hollywood companies were able to gain. Artists with advanced VFX skills are in short supply in the industry, which has led to an exponential rise in salaries. In view of such high pay packets, India is likely to soon lose its cost competitiveness as compared to its Asian peers, e.g., China, Vietnam and Cambodia.

► **Limited use of VFX in Indian movies¹¹**

VFX work conducted in India is mainly for international projects. The Indian movie industry is yet to mature and progress to using VFX. The challenges faced by it are usually cost-related, since budgets for producing movies are still

11 "EyeQube delivers around 400 VFX shots for SRKs RA.One," AnimationXpress, 14 November 2011, via Factiva, © 2011. AnimationXpress.com; "Gaming Industry: Adding that Effect," Dataquest, 31 October 2011, via Factiva, © 2011. CyberMedia; "Things to know about RA.One," Qatar Tribune, 28 October 2011, via Factiva

only a fraction of those for Hollywood movies. The Shahrukh Khan starrer *RA.One* had around 3,500 VFX shots and was the the most expensive Indian movie ever made. More of such big-budget movies will help the segment to grow and result in more high-end VFX being used in Indian movies.

▶ **Incentives by governments abroad¹²**

The trend of outsourcing VFX work from Hollywood and the film industries of other developed countries to low-cost ones has been on the rise. This has adversely affected VFX artists in these countries. To counter this situation, the governments of countries such as Canada are offering significant grants, labor tax credits and subsidies to retain jobs and guide expansion efforts. A prominent Canadian studio, Starz Animation Toronto, has received grants amounting to around US\$23 million out of a total investment of around US\$153 million over five years. The grant was to be used to create and retain over 250 jobs, and expand and enhance the studio as a center of innovation.

▶ **Need for quick turnaround in TV shows**

Specific genres of international TV shows, such as sci-fi, use VFX to a great extent. These shows have traditionally been using local companies to work on the shots. Of late, some VFX work is also being done in India. However, TV shows usually have a quick turnaround time, which has been a roadblock for companies wanting to outsource VFX work to India. Therefore, foreign TV show producers prefer to work with near-shore VFX companies. Indian VFX companies need to leverage their offices (located in the US) to secure projects that require a quick turnaround.

▶ **Absence of a steady pipeline of projects¹³**

The VFX industry in India faces a cyclical issue related to availability of projects. Domestic VFX companies usually do not have a steady pipeline of projects and take them up as they come. *RA.One* had around 3,500 VFX shots and as many

as 750 people worked on these. Therefore, when a big project is completed, there may not always be another one that will accommodate the entire team, which will have to wait till the next project comes its way. The challenge for VFX companies in India is therefore to work with studios in the country and abroad to build a steady pipeline of projects.



12 "Starz Animation Toronto Secures Its Future With Sale of Majority Stake to New Canadian Investor Group," Investment Weekly News, 19 March 2011, via Factiva, © 2011 Investment Weekly News

13 "RA.One's VFX supervisor wants credit for his 750-strong team," Hindustan Times, 15 March 2011, via Factiva, ©2011. HT Media Limited

Case study

Prime Focus

Prime Focus is a salient example of a collaborative effort between Hollywood and Bollywood that is already making an impact on the global stage.

From a modest beginning in 1997 with four core team members in a garage in Mumbai, Prime Focus has grown into the world's leading visual entertainment services group, employing over 4,500 people in three continents and four time zones. The company offers services including pre-production to final delivery. These include visual effects, creative 3D conversion, video and audio post-production, digital content management and distribution, digital intermediate, versioning and adaptation, and equipment rental.

Prime Focus has many firsts to its credit in the Indian post-production market, including offering India's first high-end finishing system in 1997, the country's first film scanning and recording system in 2001, its first Spirit Datacine in 2003 and its first Motion Control rig in 2004.

Prime Focus went public on the Bombay and National stock exchanges in India in 2006. This enabled the company to activate its strategy to become a global enterprise. The funding and its flotation was used to make significant acquisitions in the UK and US markets, which enabled Prime

Focus to offer cutting-edge services and technology in London, Los Angeles, New York and Vancouver.

Today, the company offers a unique proposition –state of the art infrastructure and its Hub (a global digital pipeline), which work in all of the world's major media markets and provide access to the industry's leading talent worldwide and global workflows, and enabling clients to realize substantial time and cost savings. Through its pioneering WorldSourcing™ business model, Prime Focus enables its clients to tap its global resources across continents as well as its expertise across projects, locations, disciplines, sectors and time zones, and integrate "multi-local" offerings with a strong and collaborative network, which results in major time and cost benefits for them. Prime Focus's newest technology offering, CLEAR, provides a global digital content services platform to organizations that deal with content and are keen to exploit it across platforms. CLEAR, with its unique "hybrid cloud" multi-platform content operations solution, provides a secure way to produce, process, manage and deliver content for revenue-generating multi-platform opportunities.

Apart from servicing Bollywood and India's regional film industry, Prime Focus also serves major Hollywood studios with its multifold service offerings.

Source: Company website

Travel and tourism

Industry overview¹⁴

Globally, travel and tourism has emerged as one of the fastest-growing industry that demonstrates continued expansion and diversification. The industry is perceived as a key driver of socio-economic progress, providing large-scale employment, promoting infrastructure development and serving as a key source of foreign exchange earnings. In 2011, India's travel and tourism industry contributed US\$1.7 trillion (or 2.8% of the global GDP), which is expected to rise to 4.2% (US\$2.9 trillion) by 2021. Furthermore, investments in the global travel and tourism industry are expected to grow at a CAGR of 5.4% to reach US\$1.5 trillion by 2021 from US\$0.6 trillion in 2010¹⁵.

Emerging markets, including China, India and Brazil are expected to outpace the travel and tourism growth in developed markets, driven by rising disposable incomes and improving infrastructure. The share of emerging economies in foreign tourist arrivals has increased from 31% in 1990 to 47% in 2010. India has not been an exception in this strong growth story, with foreign tourist arrivals growing at a CAGR of 7.7% between 2000 and 2010 to reach 5.5 million in 2010. In 2010, the domestic travel and tourism industry contributed US\$42 billion (3.1%) to the country's GDP and was positioned as one of the largest employers in India, employing 18.6 million people in 2010. The sector has evolved over the years and has witnessed the convergence of traditional stakeholders such as hotels and travel agencies and new stakeholders including online tour operators.

Traditionally, India's travel and tourism industry has been largely unorganized and fragmented. However, in the last few years, it has witnessed a rise in M&A activity, which has resulted in some

consolidation. Today, the industry is not only witnessing inflow of investment, but outflow as well, with domestic companies acquiring their global peers, who are based in destinations that are popular among the fast growing number of outbound tourists from the country. This is also evident from the fact that Makemytrip had one of the most successful IPOs on NASDAQ in recent history and global majors such as Expedia have set up a shop in India.

M&A activities have picked up pace in the country in the last few years, although ease of doing business continues to be a challenge. The complexity of indirect taxation is one of the factors adversely affecting industry growth. Currently, there are multiple indirect taxes levied on the travel and tourism industry in India. This has resulted in cumbersome compliance procedures and increased the cost of operations in the industry as a whole.

In the last decade, new technologies, as well as the growth of the internet and the mobile phone, have changed the way business is carried out across industries. The travel and tourism industry has also benefitted from this and there have been some major changes in the way it currently functions.

Over a period of time, there has been a holistic shift in the demand for leisure travel. Most middle-class families, including the young and the old, are increasingly opting for unexplored and diverse travel destinations. With the heightened impact of urbanization and a rise in disposable incomes, traveling families have become more decisive, well-informed and open to experimenting with innovative holiday packages, which has led to a rise in leisure travel in the country. The number of outbound visits by Indian nationals increased by 13% to 12.5 million in 2010 and is expected to grow at a CAGR of 12% by 2015. Tour operators have begun offering special packages for different age groups, since this growth in outbound visits is witnessed across all ages¹⁶.

14 India Travel & Tourism: Sector insights and recent developments" Ernst & Young, October 2011

15 UNWTO Tourism Highlights 2011 edition," United Nation World Tourism Organization website, accessed 11 August 2011; "Economic impact data and forecasts," WTTC website, http://www.wttc.org/eng/Tourism_Research/Economic_Research/, accessed 11 August 2011.

16 Analyst Presentation: May 2011, Cox & Kings website, www.coxandkings.com/live/home/?link=investorsrelations&CI_ID=18&CM_ID=152&, accessed 7 June 2011; "Timeshare sector growing leaps and bounds," Business Line (The Hindu), 28 July 2010, via Factiva, © 2011 The Hindu Business Line; ; "DEMAND FOR TIMESHARE ASETS TO GROW: REPORT (and will be driven by a supply growth of around 12 percent per annum)," Indian Business Insight, 15 January 2009, via Factiva, © 2009 Informatics (India) Ltd; "Mahindra Holiday & Resort India Ltd," HSBC Global Research, 25 August 2009, via Thomson Research



Films and travel and tourism

The tourism boards of many countries, such as Switzerland, have in the past targeted Bollywood to showcase themselves as destinations for high-spending Indian travelers. Today, this trend has taken off in a big way, with Indians getting richer and many of them taking foreign holidays. Typically, most countries offer tax sops in the form of VAT refund ranging from 10 -20%, depending on the location and budget. Film production companies are eligible for such refunds if they spend a certain percentage of their entire budget filming in a particular country and using local talent.

In the recent past, many films have been extensively shot in foreign locations:

Movie	Country
<i>Zindagi Na Milegi Dobara</i>	Spain
<i>Rockstar</i>	Czech Republic
<i>RA.One</i>	United Kingdom
<i>Don 2</i>	Germany
<i>Ek Main Aur Ek Tu</i>	United States of America

There are also ample opportunities for inbound tourism beyond popular destinations such as Goa, Kerala and Rajasthan. Indian films can be a great platform to showcase the country's rich cultural heritage, variety of travel destinations and diversity in cuisine to the world. Hollywood films can perform the same task if provided with adequate facilities and incentives. The Ministry of Information and Broadcasting and the Ministry of Tourism have signed a Memorandum of Understanding (MoU) to provide strong support to film tourism in a bid to give a fillip to the "Incredible India" campaign and cinema as its sub-brand at various international film festivals and markets abroad. According to the MoU, the Ministry of Tourism will provide budgetary support for identified film festivals and offer single- window clearance permission to shoot films. This is expected to create a film tourism vertical that will promote India as a filming destination for domestic and foreign film producers¹⁷.

¹⁷ " I&B, Tourism Ministries to promote India as a film hub", Business Line (The Hindu), 16 February 2012, via DowJones Factiva.

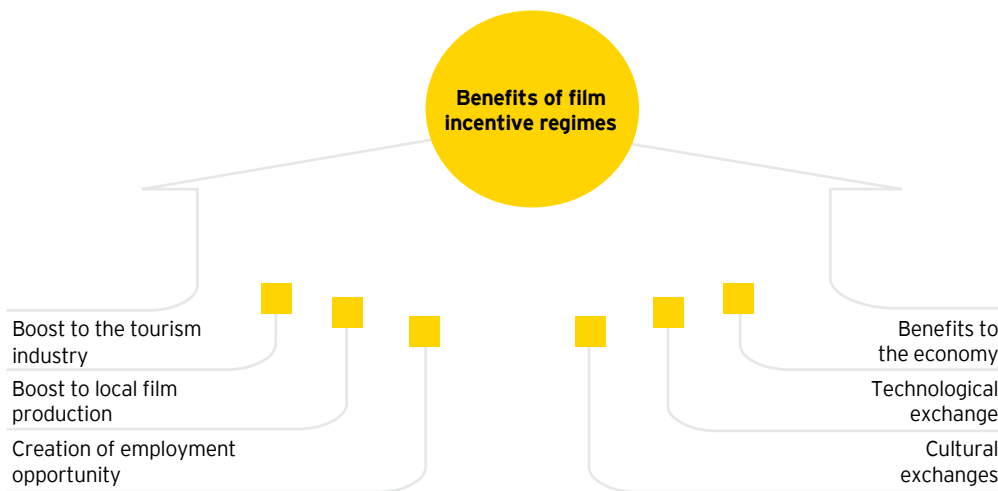
Gobal scenario

Worldwide, countries offer incentives of various types to encourage film producers to use their locations to shoot films. Incentive regimes are offered in the following forms:

- ▶ Cash rebates - where a specified percentage of expenditure in a country is provided as a rebate to the film producers
 - ▶ Tax credits - where a percentage of expenditure in a country is allowed as credit against income
 - ▶ Exemption from or refund of VAT and Customs duty
 - ▶ Encashable credits - where incentives or tax credits are allowed to be transferred and encashed
 - ▶ Interest free loans - provide funding for films shot in the country, sometimes as a revolving facility
- ▶ Soft funding - negotiated tourism benefits, such a easier processing of visas, and discounts on accommodation and travel, location tariff to facilitate road or shooting permits, assistance in identifying locations, etc.
 - ▶ Cultural test - many countries provide incentives based on satisfaction of a cultural test - a point-based system for rating a movie on certain local cultural parameters (with co-production often being a requirement between the foreign producer and the local producer, and in some countries, states offering incentives in addition to the incentives granted by the central government)



Benefits of film incentive regimes



Boost to the tourism industry	<ul style="list-style-type: none"> ▶ Films shot at local locations introduce the audience to the host country's diversity and exotic locations, which they can explore. This can boost the host country's tourism industry.
Boost to local film productions	<ul style="list-style-type: none"> ▶ Opportunities for local film productions for co-production with foreign filmmakers. For example, the success of <i>Slumdog Millionaire</i>, which was shot in India and was a collaboration between Hollywood and Indian film technicians, helped the Indian film production houses secure more business. ▶ Indian production house Take One Productions securing business from major production companies, including Fox and Columbia TriStar Motion Pictures
Creation of employment opportunities	<ul style="list-style-type: none"> ▶ Employment opportunities created for the local technicians hired by foreign film crew shooting films in a country
Benefits to the economy	<ul style="list-style-type: none"> ▶ Benefits linked to expenses in the host country leading to inflow of foreign exchange
Cultural/Technology exchanges	<ul style="list-style-type: none"> ▶ Enables host country to experience and learn about diverse cultures and nationalities ▶ Creates opportunities to market high-tech production facilities and equipment ▶ Encourages knowledge-sharing of latest film-making techniques



The India story¹⁸

Current scenario

- ▶ In September 2010, Conde Nast readers voted India as the world's seventh best luxury destination.
- ▶ Every year, India's Tourism Ministry spends heavily on its "Incredible India" campaign, with this average year's budget being around INR2.8 billion. Yet, for the past five years, the number of foreign film crews visiting the country has been declining steadily.

The following factors can help to promote India as a location for shooting films:

Heritage and attractive locations

- ▶ The world views India as a country with a rich cultural heritage and people want to get to know it better.
- ▶ Worldwide, India is viewed as a spiritual destination.
- ▶ The movie *Eat, Pray, Love* showcased the spiritual aspects of the country to the world.

- ▶ India has a relatively new visual landscape and innumerable unexplored locations that can be ideal locales for shooting foreign films.
- ▶ Filmmakers can explore the country's rich diversity, its various cultural groups and different terrains including beaches, deserts and mountains.

Availability of low-cost facilities and skilled talent

- ▶ India can offer talented crew to assist in film-making at a comparatively low cost.
- ▶ The country has world-class post-production capabilities including VFX, 3D and animation, which has led to an increase in outsourcing of post-production services to it.
- ▶ India has well-developed post production facilities available at a low cost. A foreign producer, who comes to shoot a film in India, can complete his entire movie in the country, from shooting to post- production, to cut costs substantially.

For example, Indian post-production company Prime Focus has worked on 200 visual effects for James Cameron's *Avatar*, one of Hollywood's largest "grosser" ever.

All of the above could be a significant advantage to India if incentives are provided to producers.

¹⁸ Country websites, discussions and Ernst & Young Analysis



The Bollywood impact¹⁹

New Zealand inked a co-production treaty with India in June 2011 in an attempt to gain from the Bollywood market, after realizing the benefits derived from various Bollywood films shot in it. Furthermore, Spain and India are close to signing an agreement that will facilitate and promote co-productions after the success of *Zindagi Na Milegi Dobara*, which was shot extensively in the country.

- ▶ Ireland has been trying to attract Indian producers to shoot Bollywood movies in the country to give boost to its tourism industry, and has taken various steps to further its efforts – Ireland’s Minister for Arts and Tourism led a delegation to India and met senior Bollywood executives, asking them to consider Ireland as a filming location.
- ▶ The Singapore Tourism Board had allocated US\$10 million to Bollywood productions in 2006 for three years under its “Filming in Singapore” scheme, which subsidized up to 50% of the expenses incurred by film companies during their shoots in the country.
- ▶ The French Government has set up Film France to attract international film shoots. It offers incentives such as refund

of VAT on shoots by foreign film crews. France is also offering financial incentives to attract Bollywood producers to its shores.

Australia

- ▶ Australia has been a popular location with Indian filmmakers for quite some time.
- ▶ The country expects its tourism industry to see a growth of more than 18% every year until 2016.
- ▶ The flow of Indian tourists to Australia increased by 20% from 2004-2006, especially after the success of *Salaam Namaste*.
- ▶ In 2006, around 45,800 Indians visited New South Wales. Their total spending amounted to US\$115 million.
- ▶ The production of *Heyy Babyy* injected around US\$2.1 million into the state’s economy.

Switzerland

- ▶ Bollywood films such as *Dilwale Dulhania Le Jayenge*, *Kabhi Khushi Kabhi Gham* and *Mujhse Dosti Karoge* have all presented Switzerland attractively to Indian tourists.
- ▶ Switzerland hosts around 150,000 tourists from India and large number of Bollywood movies are shot in the country every year.

USA

- ▶ Many US states such as California, New York, Michigan, Nevada and Utah offer incentives to film and television production companies from India.
- ▶ Many Bollywood movies have been shot in the US including *My Name is Khan*, *Kabhi alvida na kehna*, *Kal ho na ho*, to name a few.

Canada

Canada also offers incentives to producers of film, television, animation and visual effects from India and has attracted many Bollywood producers, who have shot movies in the country.

¹⁹ Country websites, discussions and Ernst & Young Analysis

Incentives for film production in India²⁰

India, with its diversity and cost-efficiency benefits, has much to offer in terms of locations, skilled yet inexpensive manpower, local talent, etc. Some states such as Goa have taken the initiative in this direction. However, the Government needs to institute a scheme for promotion of the country's film business to encourage its growth by learning from the global film production scenario, and thereafter, adapt it to the Indian environment. Film production can have a lasting impact on travel decisions, since it inspires people to see and experience screened locations firsthand. This leads to an increase in tourism.

- ▶ Around 160,000 Chinese visited Queensland, Australia in 2007 (a 29% increase in the numbers witnessed during the previous 12 months) after the state hosted three major Chinese television productions. The figures also indicate that Chinese tourists stayed longer durations and spent more because of these events. They stayed 1.34 million nights in 2007, up 47 %, and spent around US\$166 million.
- ▶ South African Tourism's research in 2011 found that one of the main reasons why people went to South Africa was because they had seen it on television.
- ▶ New Zealand saw a significant rise in its tourism after the success of movie *The Lord of the Rings*.
- ▶ According to the UK's tourism marketing organization VisitBritain, around 40% of international tourists visited places in Britain because they had seen these in films or on TV.
- ▶ According to a survey conducted by Failte Ireland in 2006, 10% of the tourists indicated they were influenced to travel to Ireland by watching films.
- ▶ Since Hungary first introduced its incentives in 2004, its revenue from foreign films and co-productions increased more than tenfold to US\$157 million in 2009, according to the Hungarian National Film Office.
- ▶ From January to May 2011, 287 foreign films were shot in Thailand and generated US\$ 20.9 million in revenues. This was projected to reach US\$ 67 million by the end of the year.
- ▶ In 2010, 578 foreign productions were filmed in Thailand and generated US\$ 62.7 million in revenues, up from 496 films and around US\$ 30.2 million in 2009.
- ▶ Rosslyn Chapel in Scotland saw an increase in its number of visitors from around 9,000 a year to 90,000 a year due to the film *The Da Vinci Code*.

²⁰ Country websites, discussions and Ernst & Young Analysis

Kingdom of Dreams

Kingdom of Dreams is India's first live entertainment, theater and leisure destination, and is aimed at promoting the country's culture as well as its tourism industry. Its mission is to generate employment and wealth, create a dynamic collaboration between culture, entertainment, technology and creativity, and promote India's heritage, crafts and cuisine to domestic, international and corporate visitors.

Kingdom of Dreams is designed and conceptualized to offer international and domestic visitors a breath-taking and magical Indian experience. It showcases modern and traditional India and presents the country's culture in an entertaining format to them. It offers them the best of India in the form of different cuisines, crafts, music, dramas, carnivals, street dances, mythological shows and much more from the states.

Nautanki Mahal is India's "state of the future" 817-seater auditorium that offers a 4D experience with 7.1 Dolby surround sound and LED screens, which create a magical cinematic experience.

Culture Gully is a lavish, air-conditioned indoor street that recreates landmarks. It is also a gourmet's paradise and presents delicacies from various regions in the country.

Showshaa Theatre is a 350-seater covered amphitheater, where stand-up routines, interactive theater and take-offs from reality television are performed.

The IIFA Buzz Lounge is a Bollywood-theme resto-bar, which showcases Bollywood memorabilia, the IIFA awards trophy and movie costumes.

Kingdom of Dream's first theatrical offering, *Zangoora - the Gypsy Prince*, is India's response to Broadway in form of an original Bollywood musical. The show presents the best of Hindi music of the last three decades, strung together into a Bollywood storyline. Some of the best talent from the world of Bollywood, television, theater and live events feature in the show.



Source: Company website

Education

Industry overview²¹

Given India's billion-plus population, the country has one of the largest education systems in the world. The system comprises multiple levels, starting from elementary education. It does not teach any specific skills that will enable students to progress to higher levels at which vocational education is provided.

However, the country's higher education system has demonstrated an impressive growth over the last decade to take its place among the world's largest systems of higher education. The number of institutions imparting higher education has grown at a CAGR of 11% and student enrollment at a CAGR of 6%. Geographically, the central region has witnessed the highest increase in such institutions and the southern region the highest in student enrollment. The Gross Enrollment Ratio (GER) in the country currently stands at around 13.8%, with western India having the highest GER of 25.7%.

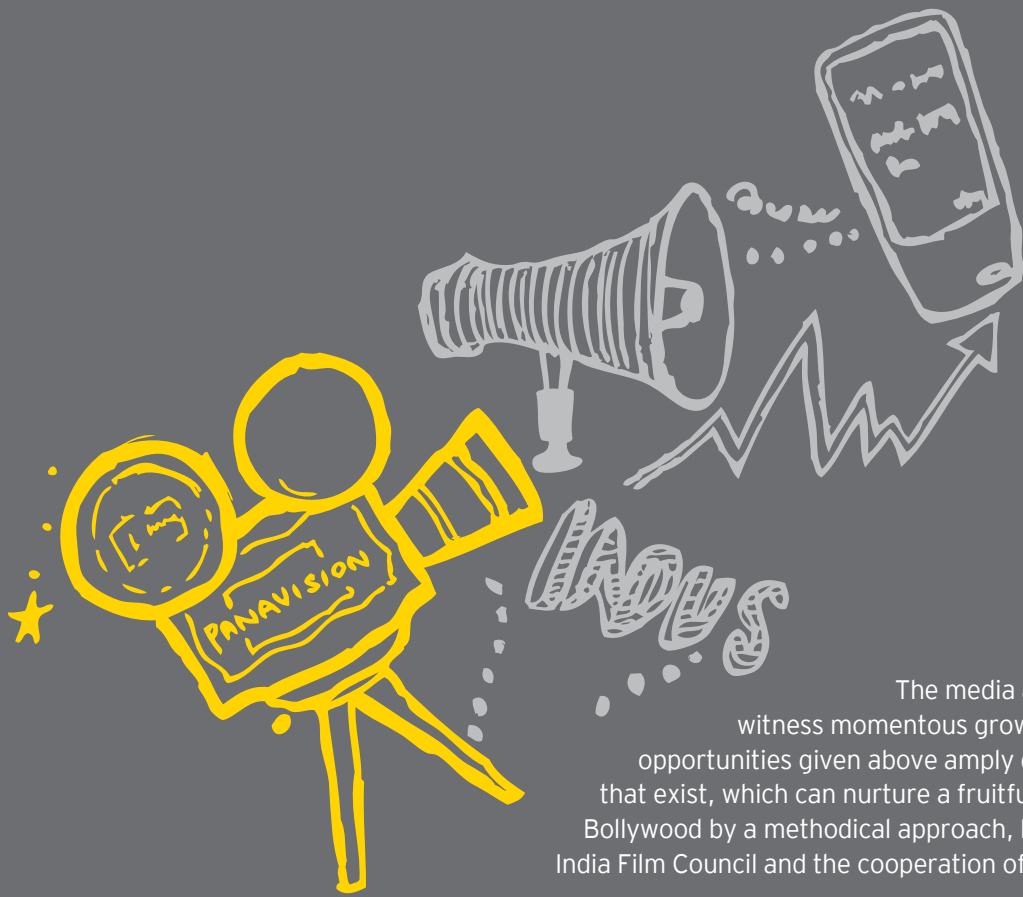
Film education in India

India currently has a dearth of institutes that impart formal training and education in film and creative technologies. At the grassroots level, there is a need to formally train technicians in the industry, who are largely self-trained. While we should take pride in acknowledging the aptitude and core skills of the workforce and its ability to quickly learn and adapt, we need to look ahead to what wonders these people can perform if they are formally trained. India's technology industry is a very relevant example, especially in the effort and skills technicians expend on even low-end process-oriented work.

Therefore, it is clear that with technology affecting all the spheres of film-making, technicians at the higher end of the spectrum need to be well trained in new technologies for Indian films to move to the next level.

The starting point of this initiative is perhaps for film-makers and studios to recognize how the use of modern technology can transform various aspects of film-making, including the creative, production and planning functions, effective communication of messages, cost efficiencies, etc., which can trickle down to all the different levels through formal or informal processes.

²¹ "Private sector participation in Indian higher education" Ernst & Young, November 2011



The media and entertainment Industry is poised to witness momentous growth. The examples of achievements and opportunities given above amply demonstrate the numerous possibilities that exist, which can nurture a fruitful collaboration between Hollywood and Bollywood by a methodical approach, backed by organizations such as the LA India Film Council and the cooperation of the governments of the two countries.

From behind the cameras, acting in studios to managing the lights and the action, every individual in the media and entertainment industry strives to rise above and go beyond previously set standards and present the world with a picture-perfect experience to make an impact, not only on audiences, but also on the economies of the countries to which they belong.

Conclusion

Therefore, it is of prime importance to encourage art, artists, technicians, directors and producers and give them the opportunity to showcase their talent. In doing so, they will reflect cultures, propose novel and sometimes path-breaking ideas, capture situations and reproduce history. The media and entertainment industry therefore needs all the possible help to realize its rich potential and make the impact it so richly deserves to make.

Our M&E practice

Industry is the cornerstone of Ernst & Young's approach to professional services. M&E is one such significant focus area. The firm's M&E practice has more than 2,000 professionals across more than 100 countries, who focus on various issues and challenges the industry faces. Globally, Ernst & Young leads the audit market share in the overall M&E industry on the 2008 Fortune 100 list. The firm is also the leader among the Big Four in the overall M&E space on the 2007 Russell 3000® Index.

Whether it is the traditional press and broadcast media or the multitude of new media options, audiences now have more choice than ever before. For M&E companies, integration and adaptability are becoming critical success factors. Ernst & Young's Global Media & Entertainment Center brings together a global team of professionals with in-depth technical experience in assurance, tax, transaction and advisory services to help you achieve your potential.

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Established in November of 2010 by a Joint Declaration between the City of Los Angeles and the Indian Film Industry, the LA India Film Council was formed to facilitate and strengthen motion picture production, distribution, technology, content protection, and commercial cooperation between the above two communities.

The Governing Council is an amalgamation of a prestigious panel of members from India and the U.S. This body collectively strives towards creating a support system that facilitates motion picture production, distribution, technology, content production, content protection and commercial cooperation between Hollywood and Bollywood. The current Governing council members are: Film Federation Of India, Film and Television Producers Guild of India, National Film Development Corporation, Federation of Indian Chambers of Commerce and Industry, AP Film Chambers, California Film Commission, LA Mayor's Office, MovieLabs, Technicolor India, DQ Entertainment, Reliance MediaWorks, Prime Focus, Peter Law Group, Whistling Woods International, Film and Television Institute of India, University of Southern California-School of Cinematic Arts and Motion Picture Dist. Association (India) Pvt. Ltd., UCLA School of Theater, Film and Television.

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