

Foreword

India's entertainment economy is growing rapidly, and the world is taking note. The country is among the world's youngest nations, with more than half a billion people under the age of 25. With favorable demographics and a rise in disposable incomes, the propensity to spend on leisure and entertainment is growing faster than the economy itself.

Enticed by economic liberalization and the huge volume of demand for leisure and entertainment, many of the global 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 investment in the country by global companies. Companies in the US and Western Europe see their growth increasingly linked to emerging giants like India, which is why they are now focused on the best way to enter, grow and brand their business in this market.

The Indian media and entertainment (M&E) industry now finds itself at a new inflection point – digital media. A surge in mass broadband adoption is expected, led by the launch of 3G and 4G services. In conjunction with the country's mobile phone user base, more than 750 million subscribers, the scale and impact of potential digital content consumption is enormous. This presents M&E companies, foreign and domestic, with an exciting opportunity to develop digital businesses that cater to a new generation of Indian digital consumers.

To succeed in this market, there are several success factors that global companies need to take into account. While there are many opportunities to tap, there are also unique challenges in the areas of content localization, distribution and pricing, regulations and piracy.

In this report, we examine India's M&E landscape and provide an overview of the key opportunities, challenges and critical success factors in doing business there.



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Executive summary

India is surging. The second fastest growing global economy and the fourth-largest economy in terms of purchasing power parity, India's increasing per capita income, growing middle class and working population are generating huge domestic demand for goods and services – including leisure and entertainment.

Global enterprises are taking notice. India ranked as the most important market for sales in Ernst & Young's recent survey, *Competing for growth: how business is growing beyond boundaries*, which interviewed some 400 C-suite and marketing professionals from global corporations. As global business leaders start to compete again for growth opportunities, there is an increasing sense of urgency among them to seize the prospects offered by the Indian market.

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, consumer spending and the growth of regional markets and specialty newspapers. Newspapers account for 42% of all advertising spend in India, the most of any medium.

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. The mandatory digitization of the country's TV distribution infrastructure has spurred growth of digital cable and DTH and created a need for these companies to fund expansion. And the third round of radio license auctions (phase III), expected in the near future, will see radio networks adding around 700 radio stations across the country.

And then there are India's diverse content markets. The majority of India's urban consumption comes from non-metro cities (so-called Tier 2 and Tier 3 towns) – regional markets with distinct cultures, languages and content preferences.

These regional markets – huge “markets within a market” – 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 digital content consumption. The consumption of digital content in India is at an inflection point. Although internet penetration is currently low, 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 the country’s mobile phone user base, of more than 750 million subscribers, the scale and impact of potential digital content consumption is enormous. 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 Indian 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. Although the development of corporate governance norms and ongoing structural and regulatory reforms are expected to mitigate these threats, global M&E companies should develop flexible business plans and identify and develop mitigation strategies for key risks.

Summary of key points

- **Localize content:** To succeed in India, global media companies need to localize their content and be sensitive to local culture. Content needs to be repurposed to suit local audiences.
- **Assess pricing and distribution channels:** Global companies need to thoroughly assess the market and distribution channels to price content appropriately. The price point in India is just a fraction of what consumers would pay in a developed market due to competition, regulations and piracy. However, the huge and fast-growing volumes more than make up for the low prices.
- **Understand regional nuances:** India has several internal markets with different languages and consumer preferences. For example, the M&E market in South India is distinctly different than that of northern India. To succeed, global companies need to adopt different strategies for each region, as there will be differences in demand, the type of content desired, the mode of distribution of content and the revenue models employed.
- **Financial risk mitigation:** Foreign investors should remember that the due diligence process in emerging markets such as India can pose unique challenges. Lack of transparency and concerns over the integrity of financial data can significantly diminish the ability to get a true picture of the financial results. Investors need to understand their exposure to financial contingencies. Identifying key risks and exposures will increase the chances of completing successful transactions in India.

Economy and demographics

The Indian economy is on a path of robust growth, with annual growth in GDP over the last three years averaging 8.6%.¹ India's GDP stood at US\$1.54 trillion in 2010.² The country remains the second fastest growing major economy in the world after China and the fourth-largest economy in terms of purchasing power parity (PPP).

The country is headed for a demographic sweet spot. Besides having the second-largest population in the world (1.21 billion in 2011),³ it is a young nation with a median age of 26.2 years

(compared with 29.3 in Brazil, 35.5 in China, and 38.7 in Russia).⁴ The country has the second-largest English-speaking population in the world⁵ and also has a large regional market, with 2 of its 22 official languages ranking among the top 10 spoken across the world (Hindi with 490 million and Bengali with 215 million).⁶

A growing middle class, rising per capita income⁷ and a rise in the working population are expected to fuel growth and demand for goods and services in the future.

Figure 1: India economic indicators

Indicators	
GDP ¹ (US\$b)	1,540
GDP growth ⁴ (% change from 2009)	8.3%
GDP per capita ⁴ (US\$)	3,400
Official language	Hindi/English
Urbanization ⁴	30%
Literacy rate ⁸	74%
Population ³ (millions)	1,210
Median age ⁴ (years)	26.2
Working population between 15–64 ⁴ (% of population)	64%
Advertising expenditure to GDP ratio ⁹	0.40
TV households ¹⁰ (% of total households)	57%
Internet users ¹¹ (% of total population)	7%
Broadband subscribers ¹² (% of total population)	1%
Mobile subscribers ¹² (% of total population)	62%

¹ "State of the Economy and Prospects," *Economic Survey 2010-11*, <http://indiabudget.nic.in/>, accessed 23 May 2011.

² "World Economic Outlook Database," *International Monetary Fund*, <http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx>, accessed 23 May 2011.

³ "Census of India," *Website of Census of India*, http://www.censusindia.gov.in/2011-prov-results/prov_results_paper1_india.html, accessed 23 May 2011.

⁴ "India," *CIA World Factbook website*, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>, accessed 24 May 2011.

⁵ *What's next for Indian media and entertainment*, Ernst & Young, 2008.

⁶ "Vernacular content market in India," *Internet and Mobile Association of India (IAMAI)*, September 2010, via ISI Emerging Markets.

⁷ "India's middle class population to rise, key driver for Asia's rise by 2050," *The Times of India*, 6 May 2011, via Dow Jones Factiva, © 2011, The Times of India Group.

⁸ RN Bhaskar, "The unemployable literates of India," *DNA Sunday*, 17 April 2011, via Dow Jones Factiva, © 2011, Diligent Media Corporation Ltd.

⁹ "AdStats: fact book on advertising expenditures," *J.P. Morgan*, 1 September 2010, via Thomson Research.

¹⁰ "Update on Indian M&E industry," *CRISIL Research*, December 2010.

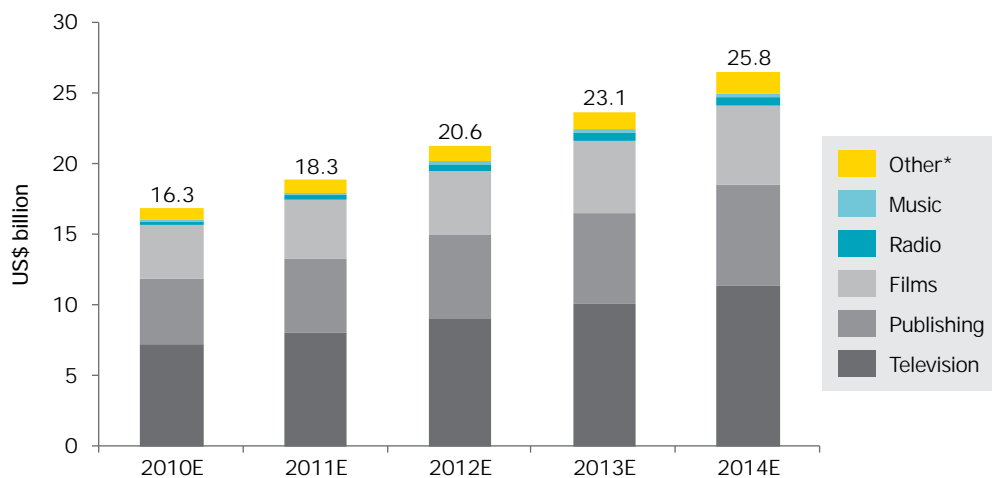
¹¹ "Interesting Facebook India Statistics," *Trak.in*, 24 June 2011, via Dow Jones Factiva, © 2011 Trak.in.

¹² "TRAI performance indicators: October to December 2010," *Telecom Regulatory Authority of India (TRAI) website*, http://www.trai.gov.in/WriteReadData/trai/upload/Reports/54/Indicator_Report_Dec-10.pdf, accessed 21 May 2011.

India's entertainment economy: trends, growth drivers and challenges

The Indian M&E industry was valued at US\$16.3 billion in 2010. The industry is forecast to grow at a compound annual growth rate (CAGR) of 12% to reach a value of US\$25.8 billion in the next four years.

Figure 2
M&E industry revenue by segment (2010E to 2014E)

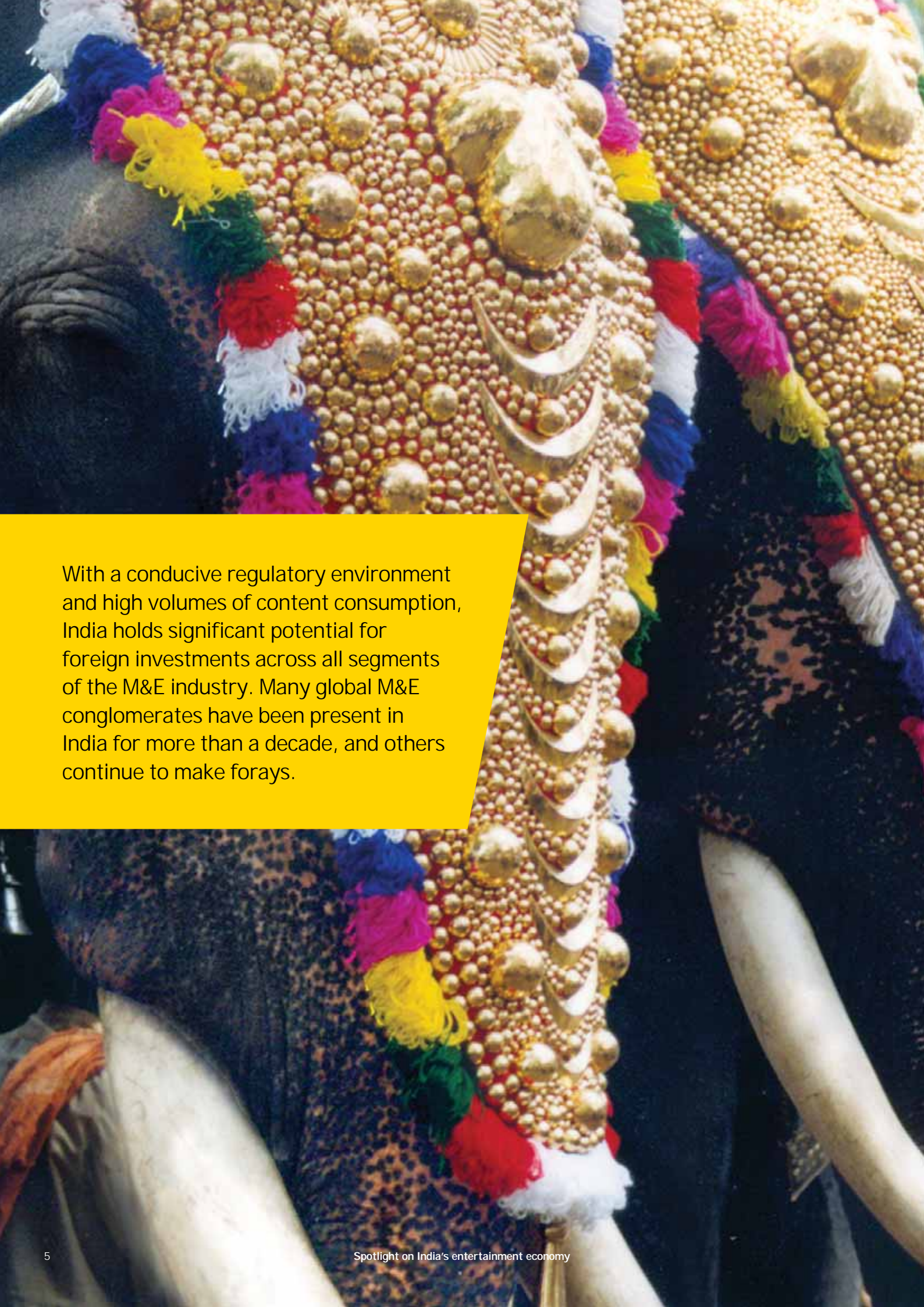


Source: "Update on Indian M&E industry," CRISIL Research, December 2010
*Other include outdoor, internet and mobile advertising

India's M&E industry is one of the fastest-developing in the country, driven by changing consumption patterns, increasing middle-income households and the propensity of consumers to spend on leisure and entertainment.

M&E companies in India are rapidly diversifying beyond their traditional domains to leverage synergies and build a presence across multiple segments of the M&E industry.

Digitization of content and platforms, redefinition of prevalent business models, globalization of the M&E industry, relatively easier access to capital and the emergence of multiple entertainment options have been some of the key trends that are shaping the M&E industry in India.



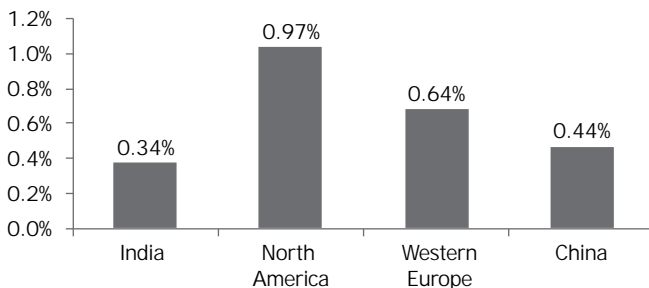
With a conducive regulatory environment and high volumes of content consumption, India holds significant potential for foreign investments across all segments of the M&E industry. Many global M&E conglomerates have been present in India for more than a decade, and others continue to make forays.

Key trends and growth drivers

1. **Increasing per capita consumption and media penetration:** India's growing per capita consumption and low media penetration are key drivers for the M&E industry's future growth. Increasing per capita consumption, helped by a growing middle class, is driving a rise in discretionary spends on leisure and entertainment. A 2010 report by Ernst & Young indicates that between 2004 and 2008, Indian household income grew by 11% in the country's 20 largest cities.¹³ This increase in consumption signals a potential for growth in media penetration, also backed by India's low advertising to GDP ratio. Currently at 0.34% – half the world average of 0.75% and lower than the US, UK and China – advertising spend is poised to increase as the economy grows.

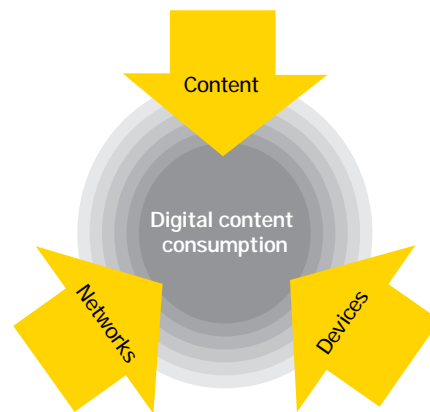
Figure 3

Advertising to GDP ratio



Source: "India: Media – publishing and printing," J.P. Morgan, 28 January 2011

Figure 4



2. **Wireless broadband content consumption:** Indian M&E companies have yet to face the "digital disruption" that has substantially transformed the business models of their global counterparts. Internet penetration in India is currently 7%, very low compared with countries such as Brazil (31%), Russia (41%) and China (34%).¹⁴ However, the rapid convergence of networks, devices and content – core elements of the digital entertainment process – will dramatically alter the Indian M&E industry going forward (Figure 4). M&E companies in India are in a unique position to learn from the experiences of their global peers and to develop new digital business models as they seek to capitalize on growing digital media consumption.

¹³ *The new market sheehers: tapping potential beyond the metros*, Ernst & Young, 2010.

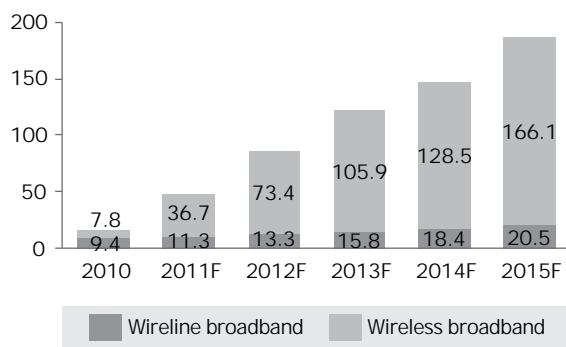
¹⁴ "Internet penetration to reach double digit in 3 yrs," *DNA Money*, 4 March 2011, via Dow Jones Factiva, © 2011 Diligent Media Corporation Ltd.; "China internet users grow to 457m end-2010," *ET net news*, 19 January 2011, via Dow Jones Factiva, © 2011 *ET Net Limited*; "Chile leads internet, cable penetration in LatAm," *Telecompaper Americas*, 9 December 2010, via Dow Jones Factiva, © 2010 Telecompaper; "Total number of Internet users in Russia up 22 % in 2010," *SKRIN Newswire*, 10 May 2011, via Dow Jones Factiva.

a. **Networks:** India is likely to witness a “late surge” in wireless-based broadband adoption and leapfrog wireline broadband technologies, which were pivotal to the mass adoption of the internet in other countries. The reach of mobile phones in India is enormous; there are currently more than 750 million mobile phone subscribers. The recent launch of 3G allows Indian mobile phone subscribers to access broadband at substantially less cost and investment than fixed-line broadband. Moreover, the rollout of mass-market 4G services (based on the Long-Term Evolution Time Division Duplex standard) is expected by mid-2012¹⁵ and will further increase the availability of wireless broadband services. It is estimated that there will be 166 million wireless broadband subscribers in India by 2015 – 8.1 times as many wireline subscribers (Figure 5).

b. **Devices:** Competition in the Indian smartphone market is drastically reducing handset prices and increasing adoption rates. The cheapest smartphone has dropped to US\$93 (as of early 2011) from US\$267 in 2009.¹⁶ The increasing adoption of smartphones allows users to consume content-rich digital content that was previously unavailable on older devices.

c. **Content:** Despite current bandwidth constraints, the consumption of mobile content is prevalent in India. A recent study revealed that 77% of Indian smartphone users have an average of 30 apps on their phones.¹⁷ Mobile subscribers in India are also more likely to consume mobile video than their counterparts in North America and Europe.¹⁸ Lower data subscription tariffs and increasing customer awareness are driving the market for these mobile apps, with music and social networking the most consumed.¹⁹

Figure 5
Projected broadband subscribers (in millions)



Source: “Global broadband forecast,” Ovum Research, July 2010

3. **Regional markets:** Consumption in India is dominated by Tier 2 and Tier 3 towns, which account for 73% of India’s urban consumption.²⁰ Advertisers are shifting spends to these regional towns to capitalize on increasing consumer spending amid growing saturation in the major metros (Delhi, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad). Between 1999 and 2009, the share of English-language newspapers in print advertising declined from 39% to 32% in favor of Hindi and regional-language newspapers.²¹ A similar trend is occurring in TV, where ad volumes on regional channels have surpassed those on national channels.²² The growing importance of regional media is leading domestic and international M&E companies to invest in these markets. Similarly, regional M&E companies are looking to build scale and expand nationally.

¹⁵ “BWA, still a distant dream in India?,” *CIO*, 29 April 2011, via Dow Jones Factiva, © 2011, Cybermedia.

¹⁶ “Smartphone market in India,” *Netscribes (India) Pvt. Ltd.* March 2011, via ISI Emerging Markets.

¹⁷ “Nokia reveals India’s app and music download trends from the Ovi Store,” *Digit*, 4 February 2011, via Dow Jones Factiva, © 2011, Nine Dot Nine Mediaworx Pvt. Ltd.

¹⁸ “How people watch: a global Nielsen consumer report,” *Nielsen website*, <http://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/Global%20Video%20Report%20How%20People%20Watch.pdf>, accessed 18 May 2011.

¹⁹ Nokia reveals India’s app and music download trends from the Ovi Store,” *Digit*, 4 February 2011, via Dow Jones Factiva, © 2011, Nine Dot Nine Mediaworx Pvt. Ltd.

²⁰ *The new market shehers: tapping potential beyond the metros*, Ernst & Young, 2010.

²¹ *M&E newsreel*, Ernst & Young, February 2011.

²² Sohini Mitter, “Regional media mkt sees resurgence as demand for local content grows,” *Financial Express (India)*, 26 March 2011, via Dow Jones Factiva, © 2011 Indian Express Pty Ltd.

4. **Niche content:** Changing lifestyle patterns and growing disposable income have spurred the demand for niche content, supported by strong advertiser interest in targeting wealthy and urban consumers. TV broadcasters have recently launched new niche channel genres such as home shopping, crime, science, travel and lifestyle, while newspapers have launched special interest supplements focused on luxury brands and youth.
5. **Digitization of distribution:** The digitization of the Indian M&E industry's distribution channels is a key growth driver, helping to increase industry revenues, curb piracy and reduce costs. The Indian film industry is implementing a large rollout of digital cinema, currently at more than 1,800 digital screens. This has reduced piracy and substantially increased the scale and reach of theatrical releases across the country – a game-changing phenomenon whereby 60% of box-office collections are realized in the first week of a movie's release.²³ The digitization of India's analog-dominated TV distribution infrastructure is reducing the revenue leakages associated with underreporting and is increasing broadcasters' subscription revenues. This is also expected to control the high carriage fees currently paid by broadcasters for distribution on analog cable.
6. **Conducive regulatory environment and positive policy changes:** There is active cooperation between the Government of India, regulatory bodies and M&E companies to introduce reforms that aid the development of the Indian M&E industry and spur further growth in the sector. The Government has relaxed entry regulations and restrictions governing foreign companies in India and has raised foreign direct investment (FDI) limits in the radio, TV, direct-to-home (satellite TV) and cable segments.²⁴ The Government is also encouraging digitization and addressability in the television industry by making it mandatory for cable TV operators to convert to digital addressable infrastructure by 31 March 2015,²⁵ which is expected to drive significant growth in digital cable and DTH. Furthermore, the phase III auction of radio licenses is expected to add approximately 700 radio stations in Tier 2 and Tier 3 towns and metros²⁶ and increase the long-term profitability of the radio industry.
7. **Focus on profitable growth:** Indian M&E companies implemented a number of cost-reduction initiatives during the economic slowdown in 2008-09. However, renewed growth has increased competition and is putting further pressure on their margins. This is leading several M&E companies to improve on the efficiencies achieved during the slowdown by standardizing and centralizing repetitive processes, setting up shared services centers and adopting technology to drive efficiencies. Indian print companies have made initial progress in this area by outsourcing printing facilities.

"The M&E industry in India has been, and will continue to be, one of the biggest beneficiaries of India's favorable demographics. Being one of the youngest nations in the world, with high volumes of content consumption, a vibrant indigenous content creation industry and a favorable regulatory framework, makes India an attractive investment destination for global M&E companies."

**Farokh T. Balsara, Media & Entertainment Leader,
Ernst & Young India**

²³ *M&E newsreel*, Ernst & Young, April 2011.

²⁴ "India plans to raise FDI cap in DTH, IPTV, FM radio," *Telecompaper Asia*, 25 May 2011, via Dow Jones Factiva, © 2011 Telecompaper.

²⁵ "Regulatory push towards digitization," *IDFC Research*, 7 February 2011, via Thomson Research.

²⁶ *M&E newsreel*, Ernst & Young, September 2010.

Challenges

1. **Low average revenues, although compensated by high volumes:** The Indian average revenue per user (ARPU) is still low compared with global averages. The average ticket price for a movie in India is US\$0.5.²⁷ However, the large and growing volumes make up for it. Sheer volumes make India a lucrative destination in the global arena. With increased corporatization and value creation, the ARPU is set to increase.
2. **Piracy:** The M&E industry has not been able to fully monetize its content due to rampant piracy. A 2008 report by Ernst & Young estimates industry losses due to piracy to be US\$4 billion per year in India.²⁸ However, in recent years the industry has started to adopt cost-effective technologies to curb piracy.



²⁷ "India dominates world of films," 29 July 2009, *The Economic Times*, via Dow Jones Factiva, © 2009 The Times of India Group.

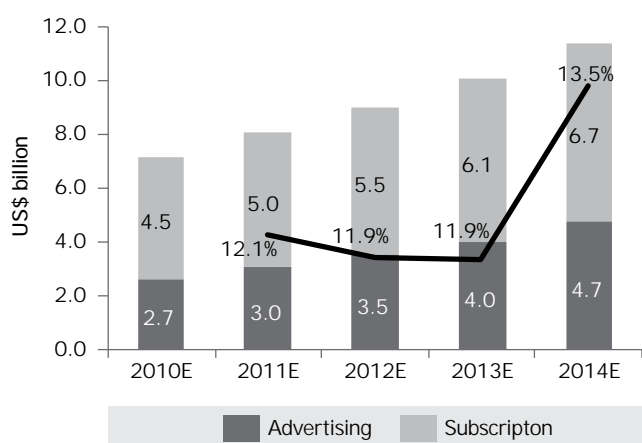
²⁸ *The effects of counterfeiting and piracy on India's entertainment industry*, Ernst & Young, 2008.

Sectors and growth opportunities

Broadcasting and cable television

Broadcasting and cable TV industry revenue for 2010 was estimated at US\$7.2 billion, up 13.3% from the previous year, mainly driven by a 19% growth in advertising revenue.²⁹ The industry is projected to grow at a CAGR of 12% to reach US\$11.4 billion by 2014.³⁰ The continued digitization of distribution infrastructure, the demand for regional and niche content, and low TV penetration will drive growth in this segment.

Figure 6
Television industry size



Source: "Update on Indian M&E industry," CRISIL Research, December 2010

Television broadcasting

Television, which reaches 133 million, or 60%, of households in the country, represents an integral part of the Indian M&E industry.³¹ The medium is also popular for advertisers, representing 44.5% of the overall Indian advertising market share.³² The TV broadcasting industry is dominated by Hindi and regional general entertainment channels (GECs), which collectively account for 52% of total viewership.³³ International broadcasters have long been present in this segment, spurred by conducive regulatory norms that allow 100% FDI in TV broadcasting (except for news broadcasting, which is capped at 26%).

- Increase in number of channels:** A number of new TV channels continue to appear every year across genres such as general entertainment, news and movies, as well as niche genres such as lifestyle, kids and infotainment. In 2010, 612 TV channels were on air, including 300 news channels.³⁴ This growth in channels, mainly in the GEC and news genres, and largely due to low barriers to entry, is increasing audience fragmentation. The intense competition among these channels is leading to investments in differentiated content and diversification into niche and regional channels.
- Digitization driving growth in subscription revenues:** Pay-TV broadcasters are dependent on advertising revenue (which generates 67% of their total revenues³⁵), mainly due to significant underreporting of subscribers by analog local cable operators (LCOs). However, the digitization of TV distribution infrastructure is increasing addressability and plugging revenue leakage in the broadcasting value chain. The growth of digital TV subscribers has also allowed broadcasters to charge premium prices for new content formats such as high definition (HD). As a result, subscription revenues are expected to increase.³⁶

²⁹ "Update on Indian M&E industry," CRISIL Research, December 2010.

³⁰ "Update on Indian M&E industry," CRISIL Research, December 2010.

³¹ "Update on Indian M&E industry," CRISIL Research, December 2010.


³² "The idiot box becomes intelligent," 1 February 2011, *Pitch*, via Dow Jones Factiva, © 2011 Adsert Web Solutions Pvt. Ltd.

³³ "Hindi GECs inch ahead of southern counterparts," *Mint*, 26 August 2009, via Dow Jones Factiva, © 2009 HT Media Limited.

³⁴ "The decade in media," *Mint*, 1 February 2011, via Dow Jones Factiva, © 2011 HT Media Limited.

³⁵ "Indian TV to see moderate growth in 2009 says research organization," *BBC Monitoring Media*, 22 April 2009, via Dow Jones Factiva, © 2009 The British Broadcasting Corporation.

³⁶ "India Entertainment & Media," *IDFC SSKI Research*, February 2010, via Thomson Research.



Digitization is creating exciting opportunities across the broadcasting value chain and providing more choice to consumers. DTH and cable operators are expanding aggressively and focusing on premium services. Broadcasters are leveraging the lower cost of digital delivery to expand by focusing on regional and niche content.



- **Broadcasting alliances:** Fragmented analog cable operators dominate the Indian TV distribution industry. The bandwidth constraints of analog cable drive these operators to limit the number of channels on a frequency band and to charge carriage fees to broadcasters to increase the placement of their channels. Broadcasters have formed distribution alliances to strengthen their ability to negotiate with distributors, control their carriage fees and minimize losses in subscription revenues due to underreporting.
- **Focus on regional content:** Consumption growth in Tier 2 and Tier 3 towns is driving advertiser interest in regional broadcast markets. A large local player typically dominates these markets, with a strong focus on relevant regional content. Regional broadcasters have recently increased their presence in niche genres such as music, youth and comedy in local languages. National broadcasters are actively looking to build a presence in regional markets by acquiring or partnering with local broadcasters.
- **Launch of niche channels:** International and domestic broadcasters have launched niche channels in India. Changing lifestyle patterns and increasing disposable income have spurred the demand for niche content, which commands premium ad rates and reaches a focused target audience. Niche channel genres such as soccer, children's channels and lifestyle are underdeveloped in India relative to mature markets such as the US and the UK.³⁷

³⁷ "Going niche is the future for Indian television," *Reuters News*, 20 October 2010, via Dow Jones Factiva, © 2010 Reuters Limited.

Television distribution

India is the second-largest pay-TV market in the world, with 108 million subscribers and a reach of 48% of Indian households.³⁸

The TV distribution industry is dominated by analog cable, which is highly fragmented and includes about 60,000 LCOs and 1,000 multi-system operators (MSOs).³⁹ However, fierce competition among DTH operators and a recent Government policy mandating the digitization of cable TV is driving the growth of digital TV.

- **Digitization of the last mile:** The Government's mandate for a compulsory nationwide shift to a digital infrastructure by March 2015 is leading to aggressive expansion by digital cable and DTH operators. The number of digital pay-TV homes is projected to more than double from 32 million in 2010 to 69 million in 2014.⁴⁰ Rising digitization is likely to plug revenue leakage prevalent in analog distribution infrastructure. Analog cable operators, who face high churn rates because of competition from DTH, are expected to compete more effectively once digitization takes place by offering HD, video-on-demand (VoD), interactive services and location-based advertising.
- **Consolidation in the cable industry:** Cable operators need to make significant investments in digitizing their distribution infrastructure to meet the Government deadline for mandatory digitization. This is driving a number of cable operators to raise funds and to consolidate.
- **DTH leads digital distribution:** DTH accounts for 82% of all digital TV subscribers in India.⁴¹ DTH players are aggressively expanding into cable-dark rural areas and areas served exclusively by analog operators. However, intense competition among DTH operators is affecting the profitability of the segment, with earnings before interest, taxes, depreciation and amortization (EBITDA) margins of 20–25% as compared to 30–40% in other emerging markets.⁴² The segment is likely to raise ARPUs by focusing on premium services and may partner with telecom operators to offer triple-play services to compete with digital cable. The government has recently increased FDI limits in the DTH segment to 74% to spur investments in product innovation and subscriber acquisition.
- **IPTV is a niche segment:** Internet protocol television (IPTV) has been recently introduced in India. However, low broadband penetration (currently 1%⁴³) is limiting the uptake of IPTV services to niche and wealthy consumers who can afford the high broadband speeds required. The introduction of 4G services may eventually drive increased adoption of IPTV.
- **Low but growing ARPUs:** India's pay-TV ARPU is one of the lowest globally at US\$3.6, compared to US\$70 in the US and US\$80 in the UK.⁴⁴ Intense competition in the digital cable and DTH segments, fragmentation and underreporting in the analog segment, and a price-sensitive market have constricted ARPUs. However, ARPUs are expected to grow, stimulated by the consolidation of analog TV operators and the growth of premium digital TV services.⁴⁵

³⁸ "TV distribution: carpe diem," *IDFC Research*, June 2010, via Thomson Research.

³⁹ "TV distribution: carpe diem," *IDFC Research*, June 2010, via Thomson Research.

⁴⁰ "Update on Indian M&E industry," *CRISIL Research*, December 2010.

⁴¹ "Update on Indian M&E industry," *CRISIL Research*, December 2010.

⁴² Ashish Sinha, "India to host largest number of DTH viewers by 2012," *Indian Express*, 19 May 2011, via Dow Jones Factiva, © 2011 The Indian Express Limited.

⁴³ "Global broadband forecasts," *Ovum Research*, July 2010.

⁴⁴ "TV distribution: carpe diem," *IDFC Research*, June 2010, via Thomson Research.

⁴⁵ "India Media: Pay TV Market: Consumer Preferences Indicate a Leg Up in Digitization," *Morgan Stanley*, 30 November 2010, via Thomson Research.

The impact of digital media on...

...broadcasting and cable television

Broadcasters are using digital media to foster greater engagement with young audiences who are increasingly online and multitasking while watching TV.⁴⁶ Young audiences are increasingly looking for an online experience that complements traditional TV programming, including exclusive video and gaming content and social media that they can consume at their convenience. Approximately 40% of active Indian internet users consume TV content online, although that content is mostly limited to short highlights of shows. Going forward, increased bandwidth availability will allow broadcasters and distributors to deliver full-length catch-up TV and leverage the interactivity of the online medium to create greater engagement with audiences.

- **Digital is enabling “virtual” audience participation:** Broadcasters are using text messages and interactive voice response (IVR) on mobile phones to increase engagement with audiences during game and reality TV shows. Around 45 million urban Indians send text messages during reality TV shows, which are charged at premium rates, in turn generating the majority of broadcasters’ digital revenue.⁴⁷ Broadcasters have also launched online versions of reality TV shows targeted at young audiences, some of which allow users to participate in the televised show.
- **Mobile TV adoption is expected to grow:** The use of streamed mobile TV services is increasingly popular among Indian audiences, with the recent Cricket World Cup and the Indian Premier League driving uptake.⁴⁸ Indians are 64% more likely to consume mobile TV than the global average.⁴⁹ The

Government has also announced plans to allocate a dedicated spectrum for mobile TV broadcast services on the Digital Video Broadcasting-Handheld (DVB-H) platform.⁵⁰ This will allow digital TV broadcast signals to be beamed directly to DVB-H enabled mobile phones, and is expected to improve video quality and drive further growth of the medium in India.⁵¹

- **TV content portals:** Broadcasters expect increased broadband adoption and the introduction of 4G to spur the demand for TV content portals and streaming content online. Broadcasters are planning destination site for users, with multiple content and services and multiple revenue streams. Broadcasters may also partner to aggregate popular shows and channels and invest in services that allow catch-up TV, while sharing revenue, risks and costs.
- **Wireless broadband is expected to drive the reach of digital TV:** Mandatory digitization and fierce competition has increased pressure on DTH and digital cable operators to roll out premium services, including HD, 3D and triple-play. The introduction of 4G is expected to drive further product innovation and hasten the introduction of VoD, peer-to-peer gaming and content portability. This may also allow digital cable operators to bridge the last mile through partnerships with 4G providers to enable the delivery of video, voice and data services to cable-dark areas. Broadband availability could also kick-start the growth of IPTV and web TV, which have faced limited uptake due to bandwidth constraints.

⁴⁶ “11 for 2011,” *Financial Express (India)*, 28 December 2010, via Dow Jones Factiva, © 2010 Indian Express Pty. Ltd.; “What do young people want,” *Impact*, 22 May 2011, via Dow Jones Factiva, © 2011 Adsert Web Solutions Pvt. Ltd.

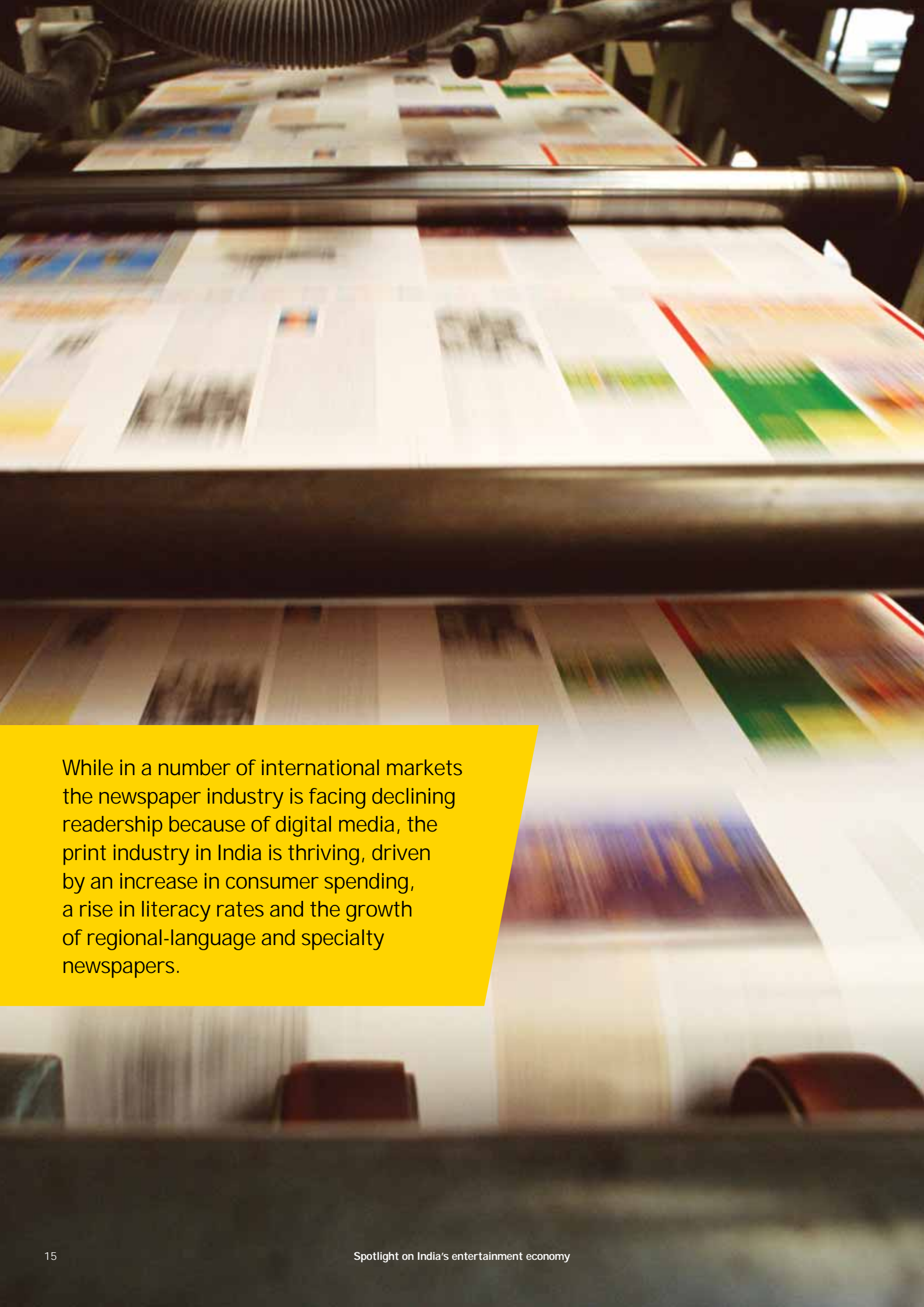
⁴⁷ “The Missed Call Platform,” *Pluggd.in (India)*, 13 March 2010, via Dow Jones Factiva, © 2010 HT Media Limited.

⁴⁸ “Aplya bags global rights for mobile video streaming of IPL for 2011 and 2012,” *Allootechie*, 10 May 2011, via Dow Jones Factiva, © 2011. Allootechie; “FM to TV, cricket marks another generational change in phones,” *Indo-Asian News Service*, 3 April 2011, via Dow Jones Factiva, © 2011 Indo-Asian News Service.

⁴⁹ “How people watch: a global Nielsen consumer report,” *Nielsen website*, <http://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/Global%20Video%20Report%20How%20People%20Watch.pdf>, accessed 18 May 2011.

⁵⁰ “DD plans mobile TV with private sector,” *Indian Business Insight*, 18 August 2009, via Dow Jones Factiva, © 2009, Informatics (India) Ltd.

⁵¹ *The M&E Quarterly*, Ernst & Young, July-September 2010.

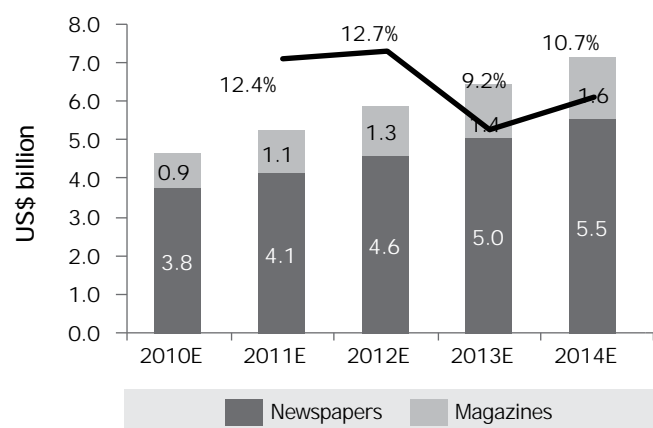


While in a number of international markets the newspaper industry is facing declining readership because of digital media, the print industry in India is thriving, driven by an increase in consumer spending, a rise in literacy rates and the growth of regional-language and specialty newspapers.

Publishing

Indian publishing industry revenue for 2010 was estimated at US\$4.7 billion and is projected to grow at a CAGR of 11% to reach US\$7.1 billion by 2014.⁵² A low readership penetration of 30%⁵³ compared with a literacy rate of 74% underscores the potential for further growth for publishing in India.

Figure 7
Publishing industry size



Source: "Update on Indian M&E industry," CRISIL Research, December 2010

Newspapers

While in a number of international markets the newspaper industry is facing declining readership because of digital media, the print industry in India continues to grow, driven by an increase in advertising spend, a rise in literacy rates and the growth of regional-language and specialty newspapers. The Indian newspaper industry is one of the largest in the world, with more than 74,000 newspapers in 22 languages and a readership of 325 million.⁵⁴ Newspapers are very popular with advertisers in India, accounting for 42% of all advertising spend, the most for any medium.⁵⁵

- **Diversification beyond print:** Growth aspirations fueled by capital availability have led publishers to enter into other media and forge partnerships with TV channels. Newspaper companies are entering into other businesses such as internet, TV, education, events and experiential marketing, radio and out-of-home advertising.
- **Growing Hindi and regional print markets:** The Indian print industry has witnessed a continued shift toward regional and Hindi markets due to rising literacy rates and increasing disposable incomes in non-metros, as well as advertiser interest in targeting these segments. Between 1999 and 2009, the share of English-language newspapers in print advertising declined from 39% to 32%.⁵⁶ The Hindi and regional markets are expected to grow faster than the English-language market, with the combined share of the Hindi and regional markets estimated to be 44% by 2015.⁵⁷ Print players are also launching hyper-local editions dedicated to particular areas, communities or sections of society to increase their reach in regional markets.⁵⁸

⁵² "Update on Indian M&E industry," CRISIL Research, December 2010.

⁵³ *M&E newsreel*, Ernst & Young, February 2011.

⁵⁴ *M&E newsreel*, Ernst & Young, February 2011; "More than 74,000 newspapers are registered in India," The Pak Banker Daily, 29 July 2009, via Dow Jones Factiva, © 2009, Right Vision Communications Private Limited.

⁵⁵ "Global advertising forecasts," GroupM, Autumn 2010.

⁵⁶ "Jagran Prakashan," Deutsche Bank, 3 December 2010, via Thomson Research.

⁵⁷ "DB Corp. Ltd.," J.P. Morgan, 28 January 2011, via Thomson Research; "Jagran Prakashan," Deutsche Bank, 3 December 2010, via Thomson Research.

⁵⁸ *M&E newsreel*, Ernst & Young, February 2011.

- **Low cover prices:** Indian newspapers have extremely low cover prices, with leading dailies being sold at less than US\$0.10, and typically packaged with a second free newspaper. Subscription revenues remain negligible for most newspapers, with distribution costs recovered through advertising sales.
- **India is becoming a popular destination for media services outsourcing:** Globally, media companies are outsourcing print media services such as layout design, classified and display design, graphics and data compilation to India, seeking to take advantage of low costs and a qualified English-speaking talent pool.⁵⁹
- **Newsprint and distribution costs:** The print industry's key areas of concern remain the costs of newsprint and distribution. Newsprint, which forms the largest element of cost, fluctuates significantly based on several uncontrollable factors. Distribution cost is linked to petroleum prices and labor costs, both of which have seen significant increases over the last few years.
- **Streamlined operations have improved profitability:** Newspapers have streamlined their operations by outsourcing non-core functions (including printing), reducing editorial and marketing costs and increasing automation.⁶⁰ These initiatives and a rise in advertising volumes are leading to increased EBITDA margins for English and Hindi newspapers, projected to rise from around 16% in 2010 to more than 20% by 2013.⁶¹

Magazines

Magazines comprise around 19% of the total publishing industry in India. They are viewed as a luxury product, and rely heavily on newsstand sales rather than subscription sales.

- **Growth of specialty magazines:** India's economic growth has created a demand for content, covering niche segments such as travel, health care, finance and lifestyle.⁶² Niche magazines are underpenetrated in India, with about 3 to 4 magazine titles for each niche category versus 7 to 10 titles globally.⁶³ This has led to 278 niche magazine launches in India between 2005 and 2010.⁶⁴ A number of niche magazines have increased their cover prices from about US\$0.50 a few years ago to US\$2 today.
- **Increase in foreign investments:** Foreign magazine publishers are actively entering the growing Indian magazine market, spurred by the relaxed entry norms for international print companies that the Government implemented in 2008. Foreign players can form a partnership with an Indian publisher to print the Indian edition of a magazine with up to 100% foreign content. This is likely to provide Indian readers with foreign magazines at affordable rates.⁶⁵ Between 2008 and 2009, 189 Indian editions of foreign specialty, technical and scientific magazines received Government approval.⁶⁶
- **Need for effective distribution:** The absence of a cost-effective and secure distribution network results in few readers opting for subscriptions, and hence, more than 80% of sales are through newsstands. This results in uncertain revenues for publishers. The lack of adequate sales outlets is also hampering the spread of distribution.

⁵⁹ "Publishing: India remains top outsourcing destination," *Business Standard*, 27 January 2010, via Dow Jones Factiva, © 2011 Business Standard Ltd.

⁶⁰ *M&E newsreel*, Ernst & Young, February 2011.

⁶¹ Media industry update, *CRISIL Research*, December 2010.

⁶² *The Indian magazine segment – navigating new growth avenues*, Ernst & Young, September 2010.

⁶³ *The Indian magazine segment – navigating new growth avenues*, Ernst & Young, September 2010.

⁶⁴ *The Indian magazine segment – navigating new growth avenues*, Ernst & Young, September 2010.

⁶⁵ Sruthijith K.K., "Govt gives green signal to editions of foreign news magazines," *Livemint*, 19 September 2008, via Dow Jones Factiva, © 2008 HT Media Ltd.

⁶⁶ *The Indian magazine segment – navigating new growth avenues*, Ernst & Young, September 2010.

The impact of digital media on...

...publishing

Online news consumption in India is growing, up 37% year-over-year to 15.8 million unique users in 2009.⁶⁷ However, in contrast to other countries where digital consumption has led to falling traditional readership, print circulation in India is seeing strong growth. Publishers expect that traditional print will continue to dominate in India, backed by strong consumer preferences and the continuing penetration of the medium in smaller towns. Indian publishers also cite the examples of Japan and South Korea, where consumption preferences remain aligned with the traditional medium, despite high rates of internet adoption.⁶⁸ Although Indian publishers remain focused on circulation, they are launching internet portals and e-commerce solutions to supplement the traditional medium with online offerings.

- **Internet portals and e-commerce dominate publishers' digital revenues:** Online classifieds is the largest category of online advertising in India, estimated at US\$200 million in 2010 and expected to grow at more than 30% annually.⁶⁹ The cost of classifieds is substantially cheaper online than in print and provides advertisers and users with search and interactive features not possible in the traditional medium. To capitalize on growing online classified

spend, Indian publishers have launched internet portals in categories such as jobs, dating, education and real estate.⁷⁰ Publishers have also launched e-commerce and group buying sites that allow them to leverage their large readership and network of advertisers.

- **Online news editions are likely to remain ad-supported:** The top 20 Indian newspapers by readership have all launched ad-supported online editions. These online editions are likely to remain ad-supported, as Indian customers are accustomed to consuming print at a very low cost.
- **Personalized news and opinion:** There is evidence that Indian consumers are increasingly using the internet to consume opinion. For example, a recent survey revealed that most Indian Twitter users access the service to follow news.⁷¹ New online news portals have been launched with opinions and blogs from well-known journalists, which allow users to post their views and interact with contributors. There is a growing opportunity for newspapers to leverage their brands and editorial resources to create engaging "opinion-based" online editions that attract online audiences.

⁶⁷ "EconomicTimes.com top financial & business news website," *Economic Times*, 24 February 2011, via Dow Jones Factiva, © 2011 The Times of India Group.

⁶⁸ "World press trends – 2010," *World Association of Newspapers and News Publishers*, 2010.

⁶⁹ "Indian internet has finally arrived!," *Caris & Company*, 16 September 2010, via Thomson Research.

⁷⁰ Vanita Kohli Khandekar, "Big Media Goes Online," *Businessworld website*, <http://www.businessworld.in/index.php/Big-Media-Goes-Online.html>, accessed 21 May 2011; "Don't believe apps will replace publishing business," *Mint*, 3 March 2011, via Dow Jones Factiva, © 2011 HT Media Limited.

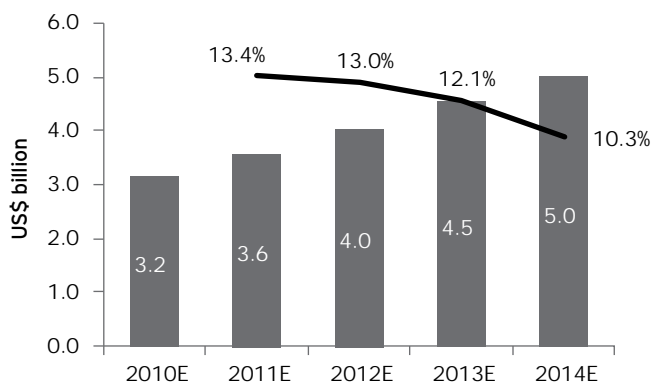
⁷¹ "Majority of Indians use Twitter for news," *The Times of India*, 6 November 2009, via Dow Jones Factiva, © 2009, The Times of India Group.

Films

The Indian film industry is the largest in the world, with more than 1,000 films produced every year in more than 20 languages. With 3.3 billion tickets sold annually, India also has the highest number of theater admissions.⁷² The Indian film market derives almost 90% of its revenue from non-English language movies,⁷³ largely dominated by Hindi films, followed by South Indian films and other regional films.

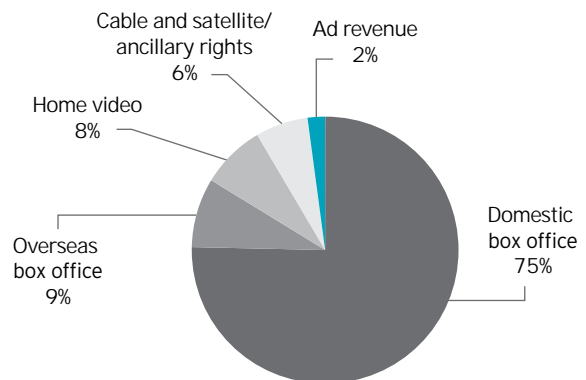
The Indian film industry is projected to grow from US\$3.2 billion in 2010 to US\$5 billion by 2014 at a CAGR of 14.1%.⁷⁴ Growth is expected to come from the expansion of multiplexes in smaller cities, investments by foreign studios in domestic and regional productions, the growing popularity of niche movies and the emergence of digital and ancillary revenue streams.

Figure 8
Indian film industry revenue



Source: "Update on Indian M&E industry," CRISIL Research, December 2010

Figure 9
Revenue breakdown of Indian film industry



Source: "Update on Indian M&E industry," CRISIL Research, December 2010



⁷² *Tune in to emerging entertainment markets: spotlight on BRIC*, Ernst & Young, March 2010.

⁷³ "Once upon a time in the east," *The Economist*, via Dow Jones Factiva, © 2011 The Economist Newspapers Limited, London.

⁷⁴ "Update on Indian M&E industry," *CRISIL Research*, December 2010.

- **Rise of multiplexes:** Multiplexes continue to gain prominence across major Indian cities, and companies have lined up investments to accelerate multiplex penetration in smaller towns.⁷⁵ The number of multiplex screens is expected to double in the next five years, from 900 to 1,775 screens.⁷⁶
- **Digitization is providing scale and reducing piracy:** Digital prints cost 80% less than conventional film prints, allowing producers to reach five times the number of screens at the same cost. This has significantly improved realization, as 60% of box-office collections are now earned within the first week of a movie's release.⁷⁷ Digital cinema allows companies to control exactly where movies are showing and how many times they are shown. It also expands the reach of releases, from large cities to remote towns and villages across India.⁷⁸
- **Emergence of new sources of revenue:** In the last few years, the window available to monetize a film's revenues at the box office has shortened considerably. This is driving film studios to exploit ancillary streams of revenue such as pay-per-view, mobile, online gaming, and licensing and merchandising. The revenue from these ancillary streams and cable and satellite (C&S) rights are projected to grow at a CAGR of 16% from 2009 to 2014.⁷⁹ The pre-sale of satellite and home video rights has also gained momentum.
- **Regional-language cinema forms an integral part of India's film industry:** 60% of all movies produced in India are in the four South Indian languages of Telugu, Tamil, Kannada and Malayalam.⁸⁰ This market is witnessing rising investments from Indian and foreign studios, with a gradual shift in favor of regional films as compared to Hindi films. Studios are also releasing dubbed versions of popular Hollywood films, while multiplexes are increasing their screenings of regional movies.
- **Small-budget films go mainstream:** Small-budget niche films with high-quality scripts have recently gained acceptability among mainstream audiences. Strong content and word-of-mouth marketing have helped studios to generate high returns from these films, thereby diversifying their risk from big-budget movies.
- **Outsourcing of film services:** Services such as postproduction, animation, visual effects, and 2D to 3D conversion are being increasingly outsourced to India, driven by the availability of a skilled workforce and the low cost of services.
- **Globalization of the Indian film industry:** Indian producers are improving the international marketability of large-budget Indian movies by building partnerships with international screenwriters, composers and technicians. International film studios are also producing and distributing Hindi and regional movies. Of the top six international movie studios, four are involved in distributing or producing Indian movies. A number of Indian film studios and M&E companies are also expanding their international footprint by acquiring international theater chains and production studios.
- **Organized film financing and incentives:** Film financing in India, which was traditionally dominated by informal sources, is migrating toward organized sources such as banks and film funds. Film producers are also tapping other means of finance, including incentives, in-film branding and pre-sale bridge finance. India has co-production agreements with various countries such as the UK, Germany, Italy and Brazil, and a protocol with France. The rebates and grants offered by these agreements can directly fund films on the basis of the locations in which they are shot, while tax credits are allowed postproduction.

⁷⁵ "Multiplexes revive plans to expand into smaller towns," *Mint*, 23 November 2010, via Dow Jones Factiva, © 2010 HT Media Limited.

⁷⁶ "Update on Indian M&E Industry," *CRISIL Research*, December 2010.

⁷⁷ *M&E newsreel*, Ernst & Young, April 2011.

⁷⁸ *Tune in to emerging entertainment markets: spotlight on BRIC*, Ernst & Young, March 2010.

⁷⁹ "Update on Indian M&E industry," *CRISIL Research*, December 2010.

⁸⁰ *Tune in to emerging entertainment markets: spotlight on BRIC*, Ernst & Young, March 2010.

The impact of digital media on...

...films

Indian film companies are using digital media to generate new ancillary revenues and to promote films through direct-to-consumer engagement. Indian audiences are actively consuming digital film content; film-related songs, games, and mobile themes account for 50% of Indian mobile value-added service (VAS) revenues.⁸¹ Going forward, studios will integrate digital media more effectively, including social networks, games, and exclusive video and music content, to engage audiences, promote theatrical releases and develop new revenue streams. Increased bandwidth availability will also open new revenue streams for studios to exploit bandwidth-heavy content, including feature-length films and online multiplayer gaming.

- **Innovations in theatrical 3D content:** Recent releases of Hollywood movies in 3D have generated higher returns for studios by allowing theaters to charge a premium to audiences and maintaining exclusivity to technology-enabled theaters. Domestic studios are investing in 3D for local films to improve profit and reduce the impact of piracy.
- **Studios experimenting with new release windows:** Studios are releasing films in different media in distinct windows and charging differentiated prices to consumers. Films are now available for home theatrical screening the day of theatrical release, and beamed directly to homes by digital cinema. Customers pay a onetime membership fee to join this exclusive service and are also charged between US\$444 to US\$1,560 on a per-screening basis.⁸² Studios are also making films available on pay-per-view, with DTH, digital cable and IPTV distributors offering movies at prices as low as US\$0.55 per screening supported with advertising.
- **Licensing content for games and mobile apps:** Consumption of film-related mobile content, such as songs, games and mobile themes, accounts for 50% of overall VAS revenues in India.⁸³ Initial experiments with “pre-loading” exclusive feature-length movies onto mobile phones have proved unpopular with Indian customers,⁸⁴ indicating an affinity to consume long-form film content on larger screens. Instead, studios are focusing on bandwidth-light games and apps that engage consumers and create “stickiness” for their films.
- **Using social media to market movies:** Indian studios are realizing the importance of direct-to-consumer engagement through social media to generate positive word of mouth during the release of a film. Some are charging customers to participate in exclusive online chats between lead actors and audiences prior to a release.⁸⁵ Studios are also trying to mitigate the spread of negative reviews of films (a significant risk given shorter theatrical release windows) and can adopt practices from their global counterparts, using social networks to gather feedback at different stages of a movie – from development through release.
- **Web-based home entertainment:** The Indian home entertainment market represents just 8% of film industry revenues due to relative high pricing and piracy.⁸⁶ As a result, film studios are unable to fully exploit their large libraries of content. However, studios expect the introduction of 4G and mass broadband availability to open a new market for home entertainment through the online delivery of movies over internet-connected TVs, PCs and tablets. As broadband penetration increases, there is a growing need to develop effective distribution models and for studios in India to invest in digitizing and meta-tagging content for digital delivery.

⁸¹ “Mobile VAS in India,” *IAMA*, July 2010, via ISI Emerging Markets.

⁸² Deepak Ajwani, “Your Movie, Your Show,” *Moneycontrol website*, http://www.moneycontrol.com/news/features/your-movie-your-show_540394.html, accessed 31 May 2011.

⁸³ “Mobile VAS in India,” *IAMA*, July 2010, via ISI Emerging Markets.

⁸⁴ Kushan Mitra, “Mobile Navigator,” *Business Today*, 16 December 2007, via Dow Jones Factiva, © 2007 Living Media India Ltd.; Ernst & Young research.

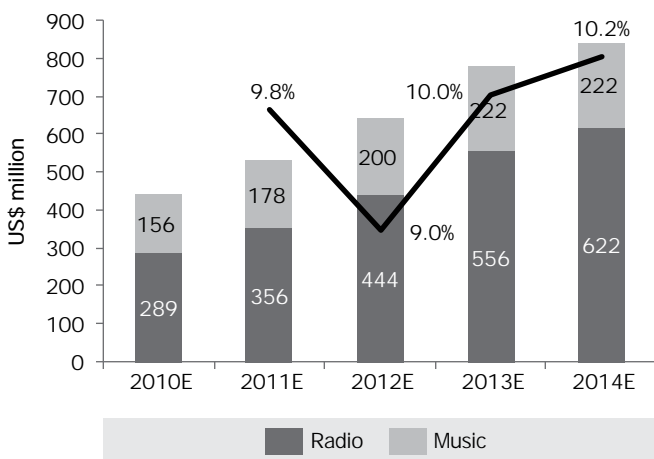
⁸⁵ “Chat-bug bytes Aamir Khan,” *The Times of India*, 9 June 2001, via Dow Jones Factiva, © 2001 The Times of India Group.

⁸⁶ “Update on Indian M&E industry,” *CRISIL Research*, December 2010.

Radio and music

The radio and music industries contribute just 2.4% of the total Indian M&E industry revenues.⁸⁷ Both segments, however, provide highly popular forms of entertainment; FM radio reaches 30% of Indians, while Indian youth are the second-largest audience for paid digital music globally.⁸⁸ Combined, the radio and music industries were expected to generate US\$445 million in 2010 and are projected to grow at a CAGR of 17.3% to reach US\$844 million by 2014.⁸⁹

Figure 10
Radio and music industry revenue



Source: "Update on Indian M&E industry," CRISIL Research, December 2010

Radio

In India, the Government-controlled All India Radio (AIR), together with 36 private radio companies that operate nearly 246 FM radio stations, cater to the radio segment.⁹⁰ Following the opening of the sector to private players in March 2000, the completion of the second round of radio license auctions (phase II) in 2005 provided a further thrust to the sector.

- **Increase in radio advertising:** Advertising volumes for radio in the top four Indian metros increased 39% year-over-year in 2010,⁹¹ driven by on-ground activation campaigns for advertisers. The lack of an effective audience measurement mechanism and the need to create greater value for their advertisers has led Indian radio companies to develop integrated marketing solutions, including out-of-home advertising, events and activations. The increased reach of radio audience measurement (currently in the top four metros but expected to expand to nine additional cities) will increase advertisers' willingness to use the medium.
- **Growth impetus through phase III FM radio licensing policy:** The yet-to-be-announced phase III FM radio licensing policy is likely to give further impetus to the FM radio industry and open up the sector to licenses for almost 700 new stations across 220 towns.⁹² The policy may also allow multiple licenses in a city to a single player and allow radio companies to share back-end infrastructure.

⁸⁷ "Update on Indian M&E industry," CRISIL Research, December 2010.

⁸⁸ *M&E newsreel*, Ernst & Young, July 2010; "Indian youth keen on paid music downloads Music Matters survey," *Radio & Music*, 27 August 2009, via Dow Jones Factiva, © 2009 Radioandmusic.com.

⁸⁹ "Update on Indian M&E industry," CRISIL Research, December 2010.

⁹⁰ "The Indian telecom services performance indicators," *TRAI website*, http://www.trai.gov.in/WriteReadData/trai/upload/Reports/54/Indicator_Report_Dec-10.pdf, accessed 1 June 2011.

⁹¹ "Media sector update," *Centrum Broking*, 30 March 2011, via Thomson Research.

⁹² *Tune in to emerging entertainment markets – spotlight on BRIC*, Ernst & Young, March 2010.



- **Reduced royalty costs will encourage scale:** Previously, radio networks were required to pay a “needle hour” royalty to music companies of US\$14.7 per hour of music played. The cost of these royalties amounted to 10%–50% of a radio station’s annual revenues.⁹³ A recent order by the Indian Copyright Board has fixed royalties to 2% at radio stations’ net revenues, which will help make smaller stations commercially viable.⁹⁴

Music

- **Film music dominates the music industry:** Film music, including Bollywood and regional film music, accounts for 67% of music sales in India.⁹⁵ Film producers typically create an album for a film and license the exploitation rights to a music company.⁹⁶ The acquisition costs for these music rights can be prohibitive and are typically 25% to 30% of a film’s total cost.⁹⁷ Music companies bear the entire risk for an album’s success, which is closely linked to the film’s success. Because of the dominance of film music, the Indian music industry is less focused on developing stand-alone artists than in other countries.⁹⁸
- **Music companies are diversifying:** Music companies have diversified into film production, edu-tainment content for children and non-film music.⁹⁹ They are also entering into artist management to increase non-film music revenues¹⁰⁰ and are exploring the concert promotion business to meet a growing demand for live entertainment.¹⁰¹

⁹³ *M&E newsreel*, Ernst & Young, September 2010.

⁹⁴ “SC vacates stay on Copyright Board Music Royalty order; sends matter back to Madras HC,” *Radio & Music*, 5 April 2011, via Dow Jones Factiva, © 2011 Radioandmusic.com.

⁹⁵ “Update on Indian M&E industry,” *CRISIL Research*, December 2010.

⁹⁶ “Bhushan Kumar: TV, Radio networks are our partners in spirit,” *Radio & Music*, 7 March 2011, via Dow Jones Factiva, © 2011 Radioandmusic.com.

⁹⁷ *M&E newsreel*, Ernst & Young, July 2010.

⁹⁸ “A&R: industry’s unsung catalysts,” *Radio & Music*, 7 March 2011, via Dow Jones Factiva, © 2011 Radioandmusic.com; *M&E newsreel*, Ernst & Young, July 2010.

⁹⁹ *M&E newsreel*, Ernst & Young, July 2010.

¹⁰⁰ *M&E newsreel*, Ernst & Young, July 2010.

¹⁰¹ “White Spirits Market in India 2010,” *Marketresearch.com*, 30 August 2010, via Dow Jones Factiva, © 2010, Marketresearch.com; “Out with frustration, bring in the funny,” *DNA*, 14 May 2011, © 2011 Diligent Media Corporation Ltd.; A&R: industry’s unsung catalysts,” *Radio & Music*, 7 March 2011, via Dow Jones Factiva, © 2011 Radioandmusic.com; “*M&E newsreel*,” Ernst & Young, July 2010.

The impact of digital media on...

...radio and music

India's large mobile phone subscriber base and active mobile content consumption are providing exciting opportunities for radio and music companies to extend their reach. Indian radio companies already derive 30% of their listenership from mobile phone users¹⁰², and digital mobile music sales dominate Indian music industry revenues – contributing to about 50%¹⁰³ of total sales. However, in the current mobile entertainment ecosystem, telecom operators own the relationship with the end customer, leaving radio and music companies with little control over pricing of digital products and services. Increased bandwidth availability and smartphone adoption will allow radio and music companies to establish a direct-to-consumer model for mobile content delivery based on music streaming services over data networks.

- **Radio networks are using digital to extend reach:** Indian FM radio companies are leveraging the reach of mobile devices to target listeners in metros and Tier 2 and Tier 3 towns with live radio feeds from stations across their national networks.¹⁰⁴ Listeners access radio feeds through a dedicated interactive voice response (IVR) provided by their mobile service provider and use voice commands to select any station from the company's broadcast network. Radio networks share in the subscription income generated by telecom operators for these services.
- **Digital dominates music industry revenues:** Digital music contributes more than half of Indian music industry sales¹⁰⁵ with ringtones and caller ring back tones (CRBT) on mobile phones, garnering about 75% of these revenues.¹⁰⁶ Music companies, however, do not maintain a direct relationship with customers, as telecom operators control the point of sale and dictate pricing and revenue sharing. Revenue sharing norms for mobile VAS in India are typically 30:70 in favor of telecom operators – a strong contrast to global norms, where content providers typically have a majority share.¹⁰⁷
- **Opportunities for direct-to-consumer mobile streaming services:** Increased wireless broadband and smartphone adoption is allowing radio and music companies to develop mass market music streaming services on mobile devices. Radio and music companies can stream content directly to consumers on 3G (and eventually 4G) networks through mobile apps. Music companies are exploring subscription, advertising and hybrid-based services that will allow users to stream, search, share and recommend content from their extensive libraries.

¹⁰² "Radio City is using digital for distribution: Apurva Purohit," *Exchange4media.com*, 5 May 2011, via Dow Jones Factiva, © 2011 Adsert Web Solutions Pvt. Ltd.;

"Users dump CDs, move to digital music," *Business Standard*, 23 April 2011, via Dow Jones Factiva, © 2011, Business Standard Ltd.

¹⁰³ "The Asian Pay TV surge," *Business Standard*, 8 November 2010, via Dow Jones Factiva, © 2011 Adsert Web Solutions Pvt. Ltd.

¹⁰⁴ *M&E newsreel*, Ernst & Young, September 2010.

¹⁰⁵ "The Asian Pay TV surge," *Business Standard*, 8 November 2010, via Dow Jones Factiva, © 2011 Adsert Web Solutions Pvt. Ltd.

¹⁰⁶ "DIGITAL: The rest of the world," *Music Week*, 9 April 2011, via Dow Jones Factiva, © 2011 CMP Information Limited.

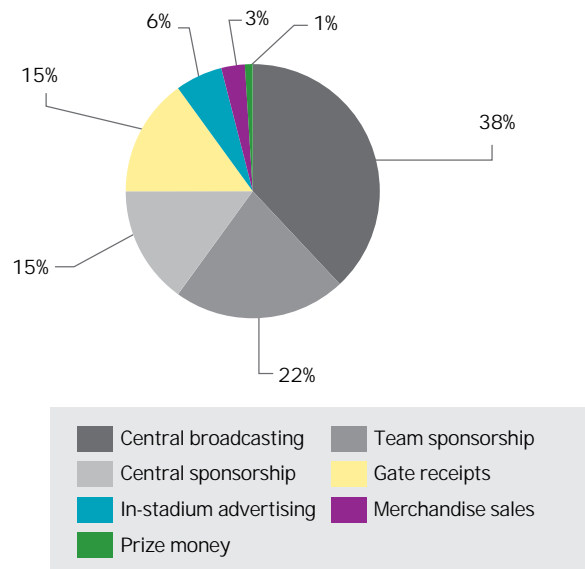
¹⁰⁷ "OnMobile Global," *Morgan Stanley*, 9 June 2010, via Thomson Research.

Sports

Cricket is the most popular spectator sport in India, and follows movies as the second-biggest form of entertainment. The recently formed Indian Premier League (IPL) is already one of the most valuable sporting brands in the world, currently valued at US\$3.7 billion.¹⁰⁸ Interest in other sports has increased since India hosted the 2010 Commonwealth Games,¹⁰⁹ challenging the notion that it is a single-sport country.¹¹⁰ This momentum, combined with a young population and a rising propensity to spend on leisure, presents the sports industry with a number of growth opportunities.

- **IPL sets the benchmark for Indian sports franchises:** The IPL is the largest commercial sports franchise in India. The league generates revenue from broadcasting, sponsorships, licensing and merchandising and ticketing. This revenue is shared with teams, which earn additional revenue from their own sponsorships, prize money and player trading. The IPL uses a shortened, innovative game format to increase entertainment for audiences, which is also well suited for TV consumption. The league has also monetized other media through the sale of rights for mobile TV, online streaming and video, gaming and theatrical exhibition.

Figure 11
Revenue distribution of IPL teams, 2011



Source: "India - Media," IIFL Research, 3 May 2011, via Thomson Research



¹⁰⁸ "IPLs value down 11 to 3.67 bn as honeymoon period is over BrandFinance," *Indiantelevision*, 11 April 2011, via Dow Jones Factiva, © 2011 Indiantelevision.com.

¹⁰⁹ "Medal tally," *XIX Commonwealth Games website*, <http://www.cwgdelhi2010.org/medal-tally>, accessed 22 May 2011.

¹¹⁰ "Indian Businesses See Openings Beyond Cricket," *Business World website*, http://www.businessworld.in/bw/2010_05_25_Indian_Businesses_See_Openings_Beyond_Cricket.html, accessed 26 May 2010.

- **A growing interest in other sports:** Sports other than cricket continue to grow in popularity, including field hockey, soccer, wrestling and tennis. The 2010 Hockey World Cup, held in India, recorded strong viewership of 53 million, up from 39 million in the 2006 edition.¹¹¹ Recent performances by Indian athletes at various international sporting events, including the 2008 Beijing Summer Olympics, the 2010 Commonwealth Games and the Badminton World Federation Super Series, have also built a following for non-cricket sports personalities. In addition, foreign sporting events continue to make gains. For example, viewership of the English Premier League (EPL) has risen 18%, from 32.6 million in 2008 to 38.5 million in 2009.¹¹² This has led European soccer clubs to increase their presence in India through licensing and partnerships, with some clubs introducing their own coffee chains and theme shops.¹¹³
- **Investments in sports development:** In the last year, large private groups announced partnerships with sports

management companies and associations to develop other sports such as basketball, boxing, soccer, golf and tennis. The companies have announced long-term contracts with sports bodies to nurture talent and develop a comprehensive commercial model of professional leagues and franchises. The Basketball Federation of India recently signed a 30-year contract with a sports management company to commercialize basketball in India.

- **The sports industry is spurring the growth of ancillary businesses:** Businesses such as online ticketing and sports management, which act as enablers to the monetization of sports, have recently grown. Sports management companies are beginning to invest in developing talent and infrastructure to create marketable sports personalities. There is also a growing opportunity for facilities management companies to invest, operate and monetize stadium infrastructure in India. Of the 770 million people below the age of 35 in India, only 50 million have access to organized games and sport facilities.¹¹⁴

Although cricket is the most popular spectator sport in India, interest in other sports has recently increased significantly. This momentum, combined with a young population and a rising propensity to spend on leisure, presents the sports industry with a number of growth opportunities.

¹¹¹ "Sports+TV=big money," *Business Today*, 2 May 2010, via Dow Jones Factiva, © 2010 Living Media India Ltd.

¹¹² "Here's the kicker," *Mint*, 13 January 2010, via Dow Jones Factiva, © 2010 HT Media Limited.

¹¹³ "English, German, Spanish clubs scout for India partnerships," *Economic Times*, 29 November 2010, via Dow Jones Factiva, © 2010 The Times of India Group.

¹¹⁴ *India...get, set, go...: The evolving sports ecosystem in India*, Ernst & Young, March 2010.

The impact of digital media on...

...sports

Digital media provide a targeted platform for Indian sports leagues and teams to reach, engage and monetize audiences between live matches. Internet usage in India is dominated by male audiences aged 15 years and over, providing an effective medium for sports teams to target their core fan base and enhance their brand value. Males aged 15 years and over make up 60% of Indian cricket TV viewership¹¹⁵ and 83% of Indian soccer viewership.¹¹⁶ Because of its strong following, the IPL has been particularly effective at leveraging digital media to license digital content, develop its brand presence and provide additional value to its sponsors.

- **Enhancing brand reach through social networks:** Indian sports teams are engaging directly with fans through online platforms such as blogs and social networks. Some IPL teams have more than 1 million registered fans on their Facebook pages.¹¹⁷ Through interactive engagement on these platforms, teams are extending the reach and impact of their brands and providing an additional activation medium for their sponsors.
- **Mobile apps and games:** Sports teams are partnering with developers to create games and mobile apps. These innovations provide an additional touch point for fans to interact with their favorite teams and for team sponsors to engage with audiences. Cricket mobile games are particularly popular – more than 50% of the 15 million mobile apps and games downloaded in India during the first quarter of 2011 were cricket-related.¹¹⁸
- **Online and mobile live streaming:** Despite internet bandwidth constraints, online and mobile streaming of live cricket games is prevalent in India. YouTube, the online broadcast partner for the third edition of the IPL, recorded 50 million page views for the tournament in 2010.¹¹⁹ Licensing fees for online and mobile broadcast rights for cricket tournaments are also providing significant ancillary revenue to organizers. Rights holders are enhancing the online viewing experience by integrating interactive features such as scores, match schedules and statistics.
- **Online ticketing:** Ticketing companies are simplifying the ticket-booking experience through online and mobile platforms. These platforms provide greater transparency in ticketing sales and increase ticketing revenues – earlier a marginal contributor to overall revenue. Indian ticketing companies allow teams to sell premium tickets and create innovative bundles with merchandise and travel packages. Some ticketing companies have integrated their booking platforms with social networks to promote and market sporting events online.

¹¹⁵ "ICC World Cups: myths and realities," *TAM Media Research website*, http://www.tamindia.com/tamindia/ICC_World_Cups_Myths_and_Realities.pdf, accessed 22 May 2010.

¹¹⁶ "Football consumption by Indian TV audience," *TAM Media Research website*, http://www.tamindia.com/tamindia/NL_Tam/TAM%20Sports%20-%20India%20Football%20Forum.pdf, accessed 22 May 2011.

¹¹⁷ "Mumbai Indians gets a million fans on Facebook," *Indiantelevision*, 22 March 2011, via Dow Jones Factiva, © Indiantelevision.

¹¹⁸ "Bigger bucks for game developers," *Financial Express (India)*, 26 February 2011, via Dow Jones Factiva, © 2011 Indian Express Pty Ltd.

¹¹⁹ "Clean sweep for cricket across digital platforms," *Business Standard*, 21 February 2011, via Dow Jones Factiva, © 2011 Business Standard Limited.

Investing in the Indian M&E industry: key regulations

- **A conducive regulatory environment for the M&E industry:** In recent years, the Government has relaxed entry regulations and restrictions governing foreign companies in India. Presently, FDI up to 100% is allowed in the film and advertising industry, 100% in TV broadcasting (except news) and 26% in publishing newspaper and periodicals dealing in news and current affairs.¹²⁰ The Government has also increased the FDI limits for DTH and IPTV from 49% to 74%.¹²¹

Figure 12

FDI and foreign institutional investor (FII) investment by segments

Segment	Sectoral limits (%)
Broadcasting	
FM radio	26 (FDI+NRI ¹ +PIO ² +FII)
Cable network	49 (FDI+NRI+PIO+FII)
DTH	74 (FDI+NRI+PIO+FII)
Headend-in-the-sky (HITS)	74 (FDI+NRI+PIO+FII)
Setting up an uplinking facility/hub	49 (FDI+FII)
Uplinking news and current affairs channel	26 (FDI+FII)
Uplinking non-news and current affairs channel	100
Print media	
Publishing of newspaper and periodicals dealing with news and current affairs	26 (FDI+NRI+PIO+FII)
Publication of Indian editions of foreign magazines dealing with news and current affairs	26 (FDI+NRI+PIO+FII)
Publication of scientific, technical or specialty magazines, journals and periodicals	100
Publication of facsimile editions of foreign newspapers	100
Others	
Advertising	100
Films, music and live entertainment	100

¹ A Non-Resident Indian (NRI) is a person resident outside India who is a citizen of India or is a person of Indian origin.

² A Person of Indian Origin (PIO) is an individual (not being a citizen of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal, Bhutan) who:

- At any time held an Indian passport,
- Or
- Whose father, mother, grandfather or grandmother was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955).

Source: Ministry of Commerce and Industry – Department of Industrial Policy and Promotion

- **Favorable policy changes:** Some segments within the M&E industry have received a new lease on life due to critical policy changes. The migration from fixed license fee regimes to revenue-sharing license fee regimes has been a trigger for the radio segment, and the mandatory digitization of TV distribution has been a landmark development in the TV segment. The film segment has been accorded an industry status, and multiplexes have been exempted from entertainment tax. India imposes no restrictions on the number of Hollywood films that can be released in a year.

¹²⁰ "Facsimile editions of foreign papers get govt nod," *The Times of India*, 13 February 2009, via Dow Jones Factiva, © 2009 The Times of India Group.

¹²¹ "Automatic nod for 49% FDI in DTH," *Financial Express (India)*, 6 June 2011, via Dow Jones Factiva, © 2011 Indian Express Pty Ltd.

Doing business in India

This guide provides global M&E companies with a general overview of business organizations, taxation and business principles in India. For further information, please refer to Ernst & Young's detailed reference guide to doing business in India, available at <http://www.ey.com/IN/en/Services/Tax>.

Entry options

- **Liaison/representation office:** Foreign corporations are permitted to open liaison/representative offices in India to undertake specific liaison activities on their behalf, including acting as a communication channel between them and Indian customers. The opening of a liaison/representative office is subject to approval by the Reserve Bank of India (RBI). Applications by companies are typically subject to close scrutiny.
- **Branch or project office:** Foreign corporations may open branch offices to conduct activities permitted by the RBI after obtaining approval from the RBI. Setting up a branch office without RBI approval is possible within a special economic zone (SEZ), subject to certain conditions.
- **Local Indian subsidiary companies:** Foreign corporations can set up subsidiary companies in India, subject to FDI guidelines. Further, foreign corporations can set up a joint venture company with an Indian or foreign partner.
- **Limited liability partnership (LLP):** An LLP provides more flexibility in operations compared with a subsidiary. Recently, FDI has been permitted in LLPs subject to prescribed conditions.

Funding of Indian businesses

Modes of funding need to be carefully evaluated when investing in India because of the country's foreign exchange regulations. This section outlines the various options through which an Indian subsidiary can be funded.

- **Equity share capital:** Equity share capital is a conventional method of funding a local Indian subsidiary company.
- **Preference share capital:** Foreign corporations can also invest in India through the issuance of preference shares. Foreign investments through convertible preference shares that are fully and mandatorily convertible into equity shares are treated as FDI. Preference shares that are not mandatorily convertible into equity shares are considered external commercial borrowings (i.e., debt) and need to conform to external commercial borrowing (ECB) guidelines (discussed in the following section).
- **Debentures and borrowings:**
 - **Debentures:** Companies can raise funds by issuing debentures, bonds and other debt securities or by accepting deposits from the public. Debentures can be redeemable; perpetual, bearer or registered; and convertible or non-convertible. Like preference shares, the treatment of debentures as FDI or ECB depends on their convertibility into equity shares.
 - **ECB:** Debt raised in foreign currency (from internationally recognized sources) falls within the purview of the definition of ECBs (as per the regulations), and they are regulated by the Ministry of Finance and the RBI. ECBs can be accessed under two routes: the automatic route



(without RBI approval) and the approval route (with RBI approval). The funds raised can be used for prescribed purposes and are subject to end-use restrictions. M&E companies need to carefully evaluate debt funding options, as the sector is not normally covered under the automatic route. All cases outside the purview of the automatic route are reviewed by an empowered committee of the RBI.

- **Trade credits:** Trade credits for imports are also permitted in some situations.
- **Other forms of funding:** These include the issue of American Depository Receipts, Global Depository Receipts, and Foreign Currency Convertible Bonds.

Mergers and acquisitions

Corporate reorganization can be carried out in the form of mergers, demergers, arrangements, capital reductions, slump sale, buy-back, acquisitions, etc. Some of these are driven by court processes, while others can be carried out by corporate law processes without approaching the court. Further, certain reorganizations also require procedures involving the Competition Commission of India.

Repatriation of capital and income

Foreign capital invested in India is generally allowed to be repatriated in the form of dividends or interest payments after payment of taxes due, provided the investment was made on a repatriation basis.

Other payments, like royalties, technical service fees and consultancy fees, are permitted, subject to conditions.

Incentive regimes/benefits/other beneficial provisions

- **SEZs:** Units can be set up in SEZs for manufacturing, trading or services activity. Profits derived by undertakings set up in SEZs are allowed as a deduction from the computation of taxable income for income tax purposes subject to prescribed conditions. However, income earned by SEZ units will be subject to Minimum Alternate Tax (MAT) starting in financial year 2011-12.
- **Intangibles:** Certain prescribed intangibles are entitled to depreciation at 25%. Film production costs or costs of acquisition of distribution rights for a film are entitled to 100% amortization, depending on the date of release of the film.
- **Others:**
 - Expenses on research and development can be entitled to a weighted deduction of 200% of the cost incurred, subject to conditions.
 - There are provisions under the Income Tax Act, 1961 (IT Act), that allow income tax exemption on certain income from international sporting events held in India, subject to conditions. Further, specified income of non-resident sportsmen may be subject to tax at 10% (plus applicable surcharge and education cess).
 - Under the IT Act, income from the sale, distribution or exhibition of cinematographic films is not covered under the definition of royalty. Income of a non-resident from activities confined to shooting of a film in India can be evaluated for exemption from income tax.

Direct taxes

- **Corporate income tax:** The Indian tax year for companies extends from 1 April to 31 March of the following year. Corporations reporting international transactions are required to file their Return of Income (ROI) by 30 November. All other corporations are required to file an ROI by 30 September, even in the event of a loss. Non-resident

corporations should evaluate filing a ROI in India if they conduct business in the country. Non-resident corporations are taxed on the income earned from a business connection in India or from other Indian sources. If there is a tax treaty between India and the country of residence of the taxpayer, the provisions of the IT Act or the tax treaty, whichever is more beneficial, will apply.

Figure 13

Corporate tax rates

Particulars	Percentage ¹
Corporate income tax for domestic corporations	30
Corporate income tax for foreign corporations	40
Corporate income tax for LLPs	30
MAT on book profits	18.5
Alternative minimum tax on book profits for LLPs	18.5
Dividend distribution tax	15
Withholding tax on dividends	0
Withholding tax on royalties or fees for technical services	10 ²
Withholding tax on interest to non-resident corporations	20 ³
Wealth tax	1 ⁴

Capital gains	Percentage ¹
Long-term capital gains	20 ⁵
Short-term capital gains	30-40 ⁶

Net operating losses	Years
Carryforward	8
Unabsorbed depreciation	Indefinitely

¹ The rates listed have to be increased by applicable surcharge and education cess.

² These rates apply for agreements entered into on or after 1 June 2005 and that satisfy other conditions.

³ This rate applies to interest on foreign currency loans given to an Indian concern or to the Government of India.

⁴ Wealth tax is applicable on certain specified assets if the taxable value of a corporation's net wealth exceeds INR3 million.

⁵ Long-term capital gains arising from the transfer of equity shares or the units of an equity-oriented mutual fund on any recognized stock exchange in India are exempt from tax if Securities Transaction Tax (STT) has been paid on such transactions.

⁶ In general, short-term capital gains are taxed at normal corporate tax rates. However, short-term capital gains arising from the transfer of equity shares or the units of an equity-oriented mutual fund on any recognized stock exchange in India on which STT has been paid are taxed at 15%.

- **Other considerations:**
 - India has a strict withholding tax regime, and, therefore, tax withholding from payments requires careful evaluation.
 - Payments in the absence of a tax registration number may be subject to a higher rate of tax withholding.
 - The Authority for Advance Ruling (AAR) can be approached for questions relating to the tax liability of a non-resident from a transaction that has already taken place or one that will be undertaken. The rulings of the AAR are binding on the tax authorities as well as the applicant.
 - Amalgamations and demergers are tax-neutral, subject to the satisfaction of prescribed conditions. Non-satisfaction of conditions also has implications on losses to be carried forward.
- **Direct Tax Code (DTC) 2010:** This section summarizes the various provisions introduced under the DTC 2010, which will go into effect on 1 April 2012 and will replace the existing direct tax legislations (IT Act and the Wealth Tax Act). Tax rates proposed under DTC 2010 are summarized in Figure 14.
- Some important provisions of DTC 2010 include:
 - Introduction of general anti-avoidance rules, which permit the revenue authorities to declare an arrangement that has the main purpose of avoiding tax (beyond a specified threshold) as impermissible.
 - Controlled Foreign Company (CFC) rules for taxability of income earned by a foreign company controlled by resident shareholders.
 - The definition of royalty will also include:
 - Income from distribution of cinematographic films
 - Payments for transfer of rights to live coverage of events
 - Payments for use of transmission by satellite, cable, optic fiber
 - The current profit-based incentive regime will be replaced by an investment-based incentive regime.

Figure 14
Proposed tax rates under DTC 2010

Particulars	Percentage ¹
Basic tax rate for domestic and foreign corporations	30
MAT	20
Branch profit tax (which includes tax on profits attributable to a permanent establishment)	15

Net operating losses	Years
Carryforward	Indefinitely

¹ The rates listed have to be increased by applicable surcharge and education cess.

Transfer pricing

The Indian transfer pricing regulations require that any international transaction between two or more associated enterprises (including permanent establishments) must be at an arm's length price (ALP). Currently, safe harbor rules and advance pricing arrangements (APAs) are not in force in India, although the DTC 2010 proposes implementing them.

Indirect Taxes

India has federal and state structures to levy indirect taxes and hence, has multiple indirect taxes. The Government is making efforts to introduce a unified Goods and Services Tax (GST).

The key indirect taxes levied by the Central Government are a customs duty, an excise duty and a service tax and a set of mechanisms under the Central Value Added Tax (CENVAT) regime. At the state level, the Government has transitioned to a VAT regime (applicable on sale and deemed sale of goods) from the earlier Sales Tax regime. Additionally, states levy entertainment tax, entry tax and luxury tax. Some of the states have delegated certain powers to local bodies to collect entry tax, show tax and entertainment tax. Apart from this, the Government provides various incentives to a goods and services exporters in the form of import licenses, tax rebates and tax-free imports.

- **Service tax levied by the Central Government:** More than 100 specified services are liable for service tax in India. Most M&E services, such as broadcasting, advertising, sale of advertisement space or time, subscriptions, temporary transfer of intangibles, sponsorships, postproduction, photography and event rights, are subjected to a unified

tax of 10.3%. Traditionally, service tax was payable on a cash basis. However, recently, the Central Government has issued Point of Taxation Rules (POT) to shift tax liability on invoicing (if invoiced within 14 days of completion) or receipt, whichever is earlier. Export rules have been framed to allow service providers to grant an exemption from tax and allow a refund of input tax paid. Similarly, import of taxable services (including recharges) is subject to tax under reverse charge. Service providers are eligible for exemption from certain taxes levied by the Central Government. However, state taxes paid by service providers are generally an additional cost. Over the years, compliance with service tax law has become complicated and the Government has introduced prosecution provisions for certain defaults. Service tax has always provided an opportunity to service providers to structure their operations to maximize tax benefits.

- **Entertainment tax levied by state and local governments:** State and local governments levy entertainment tax on various entertainment and amusement activities. Traditionally, film exhibition, cable and DTH subscriptions, video games, amusement parks and events have been subject to entertainment tax. Some of the states are considering entertainment provided through telecommunications and the internet to be subject to entertainment tax. Entertainment tax rates are fairly high as compared to taxes levied on other luxury goods and services. For example, the entertainment tax rate for movie exhibition in Mumbai is as high as 45% while the same movie sold on a DVD is liable to a 20% tax rate. Most of the states offer entertainment tax exemptions to new multiplexes, sporting events and certain films subject to specific conditions.



- **VAT/sales tax levied by state governments:** Each state government in India levies VAT on sale or deemed sale of goods in its respective state. Central Sales Tax (CST), which is levied for interstate transactions, is collected and administered by the originating state. VAT varies between 12.5% to 15% across different states; and a lower rate, between 4% to 5%, is applied on certain goods (including intangibles, video compact discs and DVDs). Certain essential goods (including books) have been exempted from VAT. Generally, setoff is available on VAT paid on procurements within the state. VAT is also applicable on transfer of intangibles (either temporary or permanent) such as copyrights, trademarks, franchise rights and patents at a rate of 4% to 5%. VAT exemption is available in certain states for the temporary transfer of copyrights in films meant for theatrical distribution.
- **Central excise duty levied by the Central Government:** Excise duty is applicable on the manufacture of goods within India and is payable by the manufacturer. Most products attract a uniform rate of 10.3%. Excise duty is generally levied as a percentage of value of goods manufactured and cleared from the factory. Exemption to excise duty is available if units are set up in specified areas. Standard or lower rates are applicable to goods used by the M&E sector.
- **Customs duty levied by the Central Government:** Customs duty is levied on the import and export of goods into India under the Customs Act 1962. The present effective rate of customs duty is 26.85%. However, the Government has granted certain exemptions to imports relating to the M&E industry:
 - Temporary period import of equipment by a foreign film unit to shoot a film in India
 - Newsprint (uncoated and coated paper used for printing of newspaper and periodicals)
 - Royalty paid on import of films, music, gaming software on specified media
 - Digital high-end projects relating to DTH operations
- **Goods and Services Tax (GST):** It is proposed that the current indirect tax regime in India be replaced by a comprehensive dual GST to be levied concurrently by the Central Government (CGST) and the state governments (SGST). In order to introduce GST, certain constitutional amendments are required to provide powers to the Central and state governments to tax the supply of goods and services. The draft constitutional amendment bill (now in Parliament) seeks to subsume the following taxes:
 - Union levies:
 - Central excise duty and other specified excise duties
 - Taxes on newspapers and advertisements
 - Taxes on services
 - State levies:
 - Entry tax (not levied by local bodies)
 - Taxes on sale and purchase of goods
 - Taxes on advertisements
 - Taxes on entertainment, betting and gambling (not levied by local bodies)

The new tax structure will have a significant impact on all aspects of business in India. However, many of the design features of the GST have yet to be finalized and are being discussed at the central and state level.



Conclusion



India's growing middle class, rising disposable incomes, high volume of content consumption and conducive regulatory environment hold significant potential for foreign investments across all segments of the M&E industry. Digital adoption, at a tipping point due to wireless broadband availability, will create additional opportunities for global companies to cater to a new generation of digital consumers. As global M&E companies start to compete again for growth opportunities globally, there is an increasing sense of urgency to capture the opportunities offered by the Indian market.

In order to succeed in India, it is necessary for companies to understand and adapt to economic and cultural nuances and invest in content and services tailored for the local market. Global companies need to thoroughly assess the market and distribution channels to price content appropriately and adopt different strategies to serve the several internal markets that exist in the country. While M&E companies operating in emerging markets like India continue to be exposed to risks ranging from local competition, fraud, corruption and piracy, ongoing structural and regulatory reforms and the development of corporate governance norms will mitigate these threats.

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