INDIAN M&E SECTOR FIRING UP

Indian M&E Sector looks set to grow exponentially in the next five years.

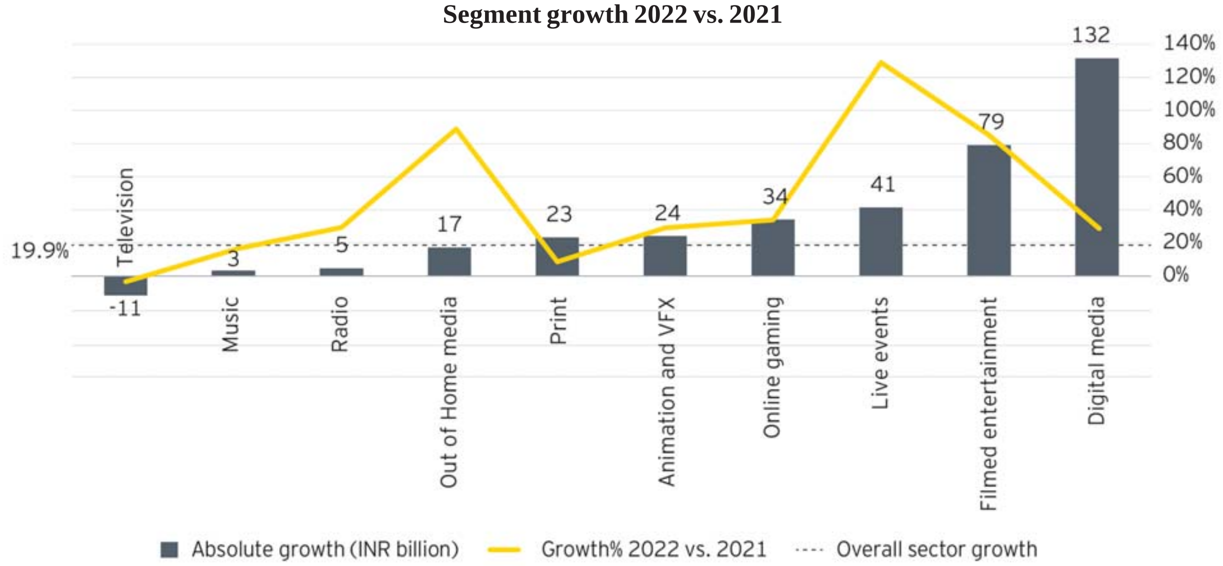
INDIAN M&E SECTOR GREW 20% IN 2022 TO REACH INR 2.1 TRILLION

	2019	2020	2021	2022	2023E	2025E	CAGR 2022-2025
Television	787	685	720	709	727	796	3.9%
Digital media	308	326	439	571	671	862	14.7%
Print	296	190	227	250	262	279	3.7%
Filmed entertainment	191	72	93	172	194	228	9.8%
Online gaming	65	79	101	135	167	231	19.5%
Animation and VFX	95	53	83	107	133	190	21.1%
Live events	83	27	32	73	95	134	22.2%
Out of Home media	39	16	20	37	41	53	12.8%
Music	15	15	19	22	25	33	14.7%
Radio	31	14	16	21	22	26	7.5%
Total	**1,910**	**1,476**	**1,750**	**2,098**	**2,339**	**2,832**	**10.5%**
Growth		**-23.2%**	**19.3%**	**19.9%**	**11.5%**		

All figures are gross of taxes (INR in billion) for calendar years | EY estimates

- The Indian M&E sector continued its strong growth trajectory. It grew by INR348 billion (19.9%) to reach INR2.1 trillion (US$26.2 billion), 10% above its prepandemic 2019 levels
- While television remained the largest segment, digital media cemented its position as a strong number two segment, followed by a resurgent print
- The filmed entertainment segment recovered as theatrical releases doubled, and reclaimed the fourth position overtaking online gaming
- The share of traditional media (television, print, filmed entertainment, OOH, music, radio) stood at 58% of M&E sector revenues in 2022, down from 71% in 2019
- We expect the M&E sector to grow 11.5% in 2023 to reach INR2.34 trillion (US$29.2 billion), then grow at a CAGR of 10% to reach INR2.83 trillion (US$35.4 billion) by 2025

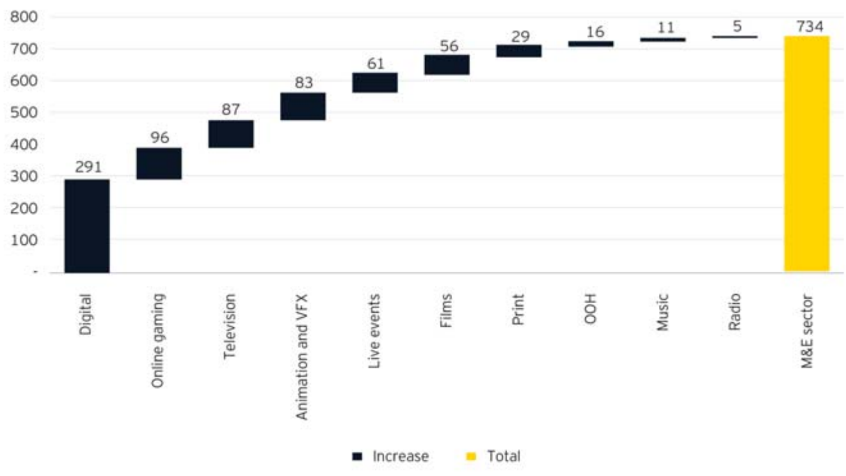
ANALYZING THE INR348 BILLION GROWTH



INR in billion (gross of taxes) | EY estimates

- Except for TV subscription, all M&E segments grew in 2022
- Digital media grew the most at INR132 billion and consequently, increased its contribution to the M&E sector from 16% in 2019 to 27% in 2022. If one were to include data charges associated with digital consumption in sizing, its share would stand at 50% of the total M&E sector
- Experiential (outside the home) segments recovered in 2022, and consequently, filmed entertainment and live events segments recovered by INR79 and INR41 billion, respectively
- Overall, half the growth was driven by traditional media, and the balance by digital, online gaming and VFX segments

THE M&E SECTOR WILL GROW INR734 BILLION TO REACH INR2.83 TRILLION IN 2025



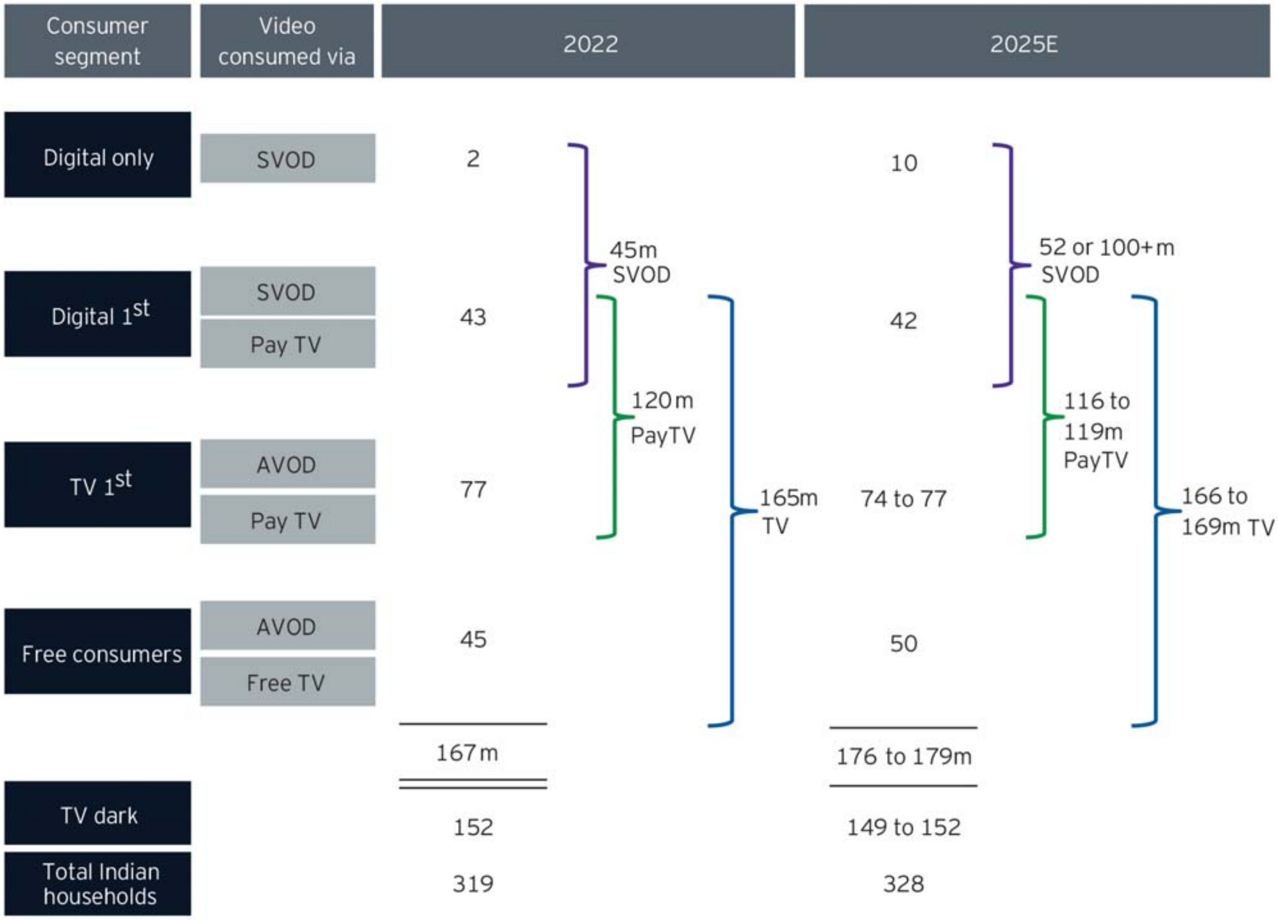
All figures are gross of taxes (INR in billion) | EY estimates

- The Indian M&E sector will grow at a CAGR of 10.5% and add INR734 billion in three years
- The key contributors to this growth will be digital, online gaming and television (together contributing to 65% of the growth), followed by animation and VFX (11%), live events (8%) and films (8%)

VIDEO TRENDS

I. THE FUTURE OF TELEVISION

Television households in million



Millions of Indian households | EY estimates | SVOD includes AVOD

- **Digital only:** consume content only on digital platforms, rarely access television
- **Digital 1st:** consume pay TV and at least one paid OTT service
- **TV 1st:** consume pay TV and generally only bundled/ free OTT content
- **Free consumers:** do not pay for content, either on TV or OTT
- **TV dark:** do not have access to large screen television but may have access to a smart or feature phone and consequently some households may access YouTube and AVOD platforms before TV

Bi-directional television households will reach 52 million (or cross 100 million)

- From 45 million households paying for one or more SVOD services, the number will grow to 52 million by 2025, if current pricing is maintained
- The slowdown in growth will be on account of affordability of OTT services
- However, if pricing is reduced to INR1 per day or thereabouts for a popular streaming service or a strong bundle of popular content is created for upto INR1,200 per year, the reach could cross 100 million households within three years as an add-on to linear television

Linear television households will remain stable

- The linear television universe will remain comparatively stable at 166 to 169 million
- The pay TV universe will continue to shrink, albeit at a slower pace, to 116 to 119 million active households by 2025, as the net impact of new pay subscribers is expected to be lesser than the conversion of households from linear TV to bi-directional (broadband) TV
- In our estimate, 10 million new Indian households will be created by 2025, and a similar number will take to television
- Television dark households will remain relatively flat unless something is undertaken along the following lines:
    - Creation of lower priced FTA packs
    - Differential pricing and bundling for rural markets, in agreement with TRAI
    - Reactivation of the millions of inactive set-top boxes through incentive schemes
    - Creating relevant content bundles for underpenetrated markets

Free television consumer base will grow

- The mobile phone is usually purchased prior to a TV at a household level, thereby reducing the pressure to buy a TV set
- However, we expect the free consumer base to grow as progress continues to spread among the television dark homes
- Initiatives which can increase the uptake of free television (i.e., convert television dark households) include:
    - Provide television hardware for free to below-poverty-line households
    - Incentives and tax concessions to reduce the hardware cost for the household
    - DTT enablement in top 40 cities to enable linear TV viewing on mobile

II. CONNECTED TV SETS WILL EXCEED 40 MILLION

- Smart connected TVs will exceed 40 million (daily active users) by 2025, thereby ending the monopoly of broadcasters on the large screen and leading to around 30% of content consumed on large screens to be social, gaming, digital, etc.
- The unified interface – whether on app, device or platform – will become the new landing page and earn placement and marketing revenues
- OTT aggregation will be a key driver of growth on CTV

III. THE 2 X 4 LCO MODEL WILL BE THE DE FACTO REACH DRIVER

- LCOs will rejuvenate their last-mile distribution businesses with digital offerings, and will drive connectivity for India, supported by larger telcos and ISPs
- The LCO will evolve to provide two wires into each home – a linear TV connection for live television and a broadband connection
- Last-mile digital services will include aggregation of content (across TV & OTT), data, smart home capabilities and community social interaction and news

IV. FIRST-TIME USER GROWTH IN MOBILE VIDEO REACH WILL SLOW DOWN

- As the price of entry-level smartphone handsets has increased significantly since the onset of the pandemic due to supply chain issues and a depreciating Indian Rupee, the number of feature phone uses who are converting to smartphones has been slower
- Of the installed base of mobile phones, new smartphone users coming from feature phones was 6.1% in 2019, which fell to 5.7% in 2020, 5.6% in 2021, and 5.4% in 2022, according to Counterpoint Research
- The smartphone cost factors are not expected to ease significantly over the next two years
- Accordingly, first time user growth in digital video reach will remain muted as compared to previous years as per industry discussions, at between 10 and 20 million, unless low cost phones are launched

V. NEW CONTENT WINDOWS AND SEGMENTS WILL EMERGE

- Monetization will be at the mercy of consumers' willingness to pay, and unlike international markets, Indian markets are more heterogenous and need to be finely segmented
- Accordingly, premium SVOD, theatrical, SVOD, bundled SVOD, satellite, TVOD and finally free television windows could come into existence for different types of content

TELEVISION

Television segment fell 1.5% in 2022

	2019	2020	2021	2022
Advertising	320	251	313	318
Distribution	468	434	407	392
Total	**787**	**685**	**720**	**709**

INR billion (gross of taxes) | EY analysis

Advertising

- Television advertising grew 2% in 2022, almost equalling its pre-COVID-19 levels
- Ad growth was driven by volume, which grew at 2% while rates remained constant on average

Subscription

- Subscription revenue continued to fall for the third year in a row
- It experienced a de-growth of 3.8% compared to 2021 mainly due to a reduction of five million pay TV homes, with ARPU remaining relatively flat

Viewership and reach

- There were 120 million active pay TV homes and 45 million free TV homes
- Time spent on linear television fell 7% in 2022 due to a fall in both Hindi and regional language viewership
- Smart TV sets, however, increased to 25 million though only 8 to 10 million connected to the internet daily

Future outlook

- Total television screens (linear and bi-directional) are expected to reach 206 million by 2025 from 180 million today
- However, the mix would be different
  - We estimate that growth of overall television households shall be driven by connected TVs which could cross 40 million by 2025 and free television which could cross 50 million
  - Pay TV households are expected to decline by two million in 2023, before falling slowly to 116 million households by 2025
- Subject to implementation of ad caps and regulatory restrictions on pricing, we expect pricing growth will be around half of inflation for subscription and inflationary for advertising, and hence television revenues will overall continue to grow to INR796 billion by 2025

REACH

Number of television channels reduced marginally to 885

	September 2020	September 2021	September 2022
FTA	584	558	532
Pay	327	348	353
Total channels	**911**	**906**	**885**

MIB website; TRAI Performance Indicators Report

- 60% of channels were free-to-air as compared to 64% in 2020, reflecting the impact of the NTO, where many broadcasters converted FTA channels into pay
- News channels comprised 44% of total channels

Number of television channels reduced marginally to 885

	December 2020	December 2021	December 2022
MSO	1,702	1,747	1,747
DTH	5	5	5
HITS	1	1	1

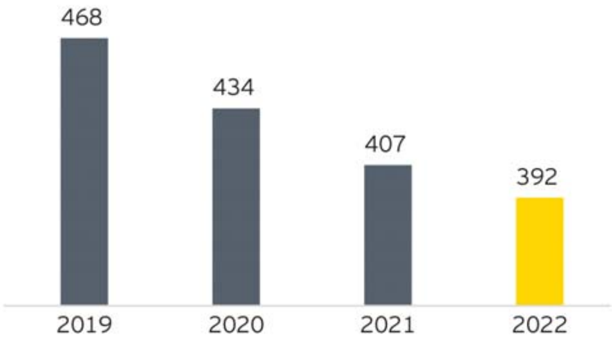
MIB website

- MSO registrations remained constant in 2022 at 1,747
- The Indian market is serviced by four paid DTH providers and one free DTH provider as of December 2022
- DTH platforms include Dish TV, Tata Play, Airtel DTH, Sun Direct and DD FreeDish
- NXT Digital continues to operate the lone headend in the sky (HITS) service in India

DISTRIBUTION

Distribution income continued to fall in 2022

Subscription revenues



INR billion (gross of taxes) | EY estimates

- Television subscription revenues in India decreased 4% in 2022 due to a reduction in the paid subscriber base by around five million television homes, while ARPU remained stable as channel pricing was not increased during the year
- The fall in pay television homes has been attributed to both cord-cutting at the top end as well as movement to free television (DD FreeDish) at the bottom end of the customer pyramid

FreeDish continued its growth trajectory

- Free television, on the other hand, continued to grow its base to reach an estimated 45 million subscribers on the back of less-expensive television sets, economic issues, and addition of new channels to the platform

Connected TV sets reached 25 million

- At the other end of the cost spectrum, connected smart television sets continued their explosive growth
- While certain months of 2022 witnessed 25 million unique sets connecting to the internet, many were infrequent and transient, connecting less than two to three times a month, while around 8 to 10 million connected daily
- Several platforms and manufacturers have started providing advertising services on their smart TV platforms to the extremely desirable "top of pyramid" audience
- Connected smart TV sets are expected to reach 40 million by 2025, given the imminent large-scale roll out of 5G services in India and continued growth of wired broadband

End-customer prices were flat

- End-customer prices remained stable at an average of INR223 per month (net of taxes), given that regulations prohibited pricing changes for a large part of the year

Active paid subscriptions continued to reduce in 2022

	2020	2021	2022
Cable*	72	68	64
DTH*	56	55	54
HITS*	2	2	2
Free TV**	40	43	45
Total	**171**	**168**	**165**

Television subscriptions in millions | Industry discussions, billing reports, TRAI data, EY estimates

*Net of inactive/ temporarily suspended subscribers

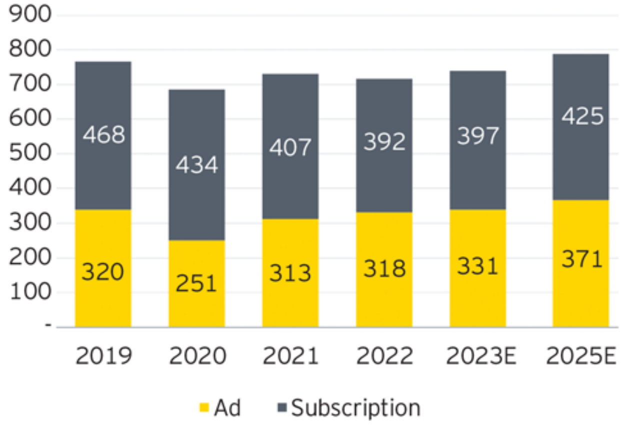
** Free TV is derived as a balancing figure after reducing paid and pirated TV homes from total TV universe less temporarily deactivated homes

- While HITS remained relatively stable, DTH saw a decline of one million homes while cable lost four million homes
- The fall in paid subscriptions is attributed to:
  - subscribers who are churning out and moving to free TV and/ or digital streaming, including social media, short video, and gaming platforms
  - some number of subscribers moving consumption to connected TVs
- Broadcasters whom we interviewed claimed to have earned revenues for between 107 to 115 million paid subscriptions in 2022, as compared to 110 to 130 million reported in 2021, indicating a potential base of pirated connections between five and ten million homes

FUTURE OUTLOOK

We expect television revenues to grow to INR796 billion by 2025

TV segment revenues



INR billion (gross of taxes) | EY estimates

- We expect television advertising to grow at a CAGR of 5.3% to reach INR371 billion by 2025, driven by:
  - End of the Russia-Ukraine crisis, resulting in a stable global economy that would restore supply chains, reduce costs and, in turn, increase consumption
  - Strong performance of regional channels and sports on Free TV
  - Growth of India's per capita income from approx. US$2,500 today to US$3,000 by 2025
  - State elections in 2023 and national elections in 2024
  - However, risk factors do exist, such as:
    - Rise of a new sector to replace ad income lost from sectors such as gaming, crypto and betting
    - Free IPL on digital and its impact on TVs share of ad revenues from the property
- Subscription income will see a 2.7% CAGR growth to reach INR425 billion by 2025, on account of several conflicting factors:
  - Television households will grow due to:
    - Growth in population will increase Indian households by nine million till 2025
    - Low entry barrier to consume free television
    - Continued electrification of rural areas
    - Distribution of free STBs (as envisaged by Prasar Bharati) and subsidized STBs by private players
    - Relative pricing of television to broadband remains — currently — much in favor of television
    - Availability of television sets for as low as INR 6,000
- But active television homes will face downward pressures as well:
  - Continued movement of the pay TV base to OTT platforms as broadband and 5G penetration increase
    - Increased time spent on alternate platforms like YouTube, social media, and gaming platforms, which are vying for a share of free time
    - Inability to completely pass on inflationary pricing growth to end consumers in a falling market
- In view of the above, total television segment revenues are expected to grow at a CAGR of 4% to reach INR796 billion by 2025

TV will reach 200 million homes by 2025

	2020	2021	2022	2025E
Pay TV (cable + DTH + HITS)	131	125	120	116
Free TV	40	43	45	50
Unidirectional TV	171	168	165	166
Connected TV (bi-directional)	5	10	15	40
Total TV subscriptions	**176**	**178**	**180**	**206**

EY estimates | millions of subscriptions

- ❖ Overall TV connections will keep growing at a healthy pace to reach 206 million by 2025
- ❖ The market is clearly segmenting into pay TV, free TV, and connected TV, each being sizeable in itself
- ❖ Content studios, broadcasters and distributors will need to address the needs of each of these segments separately, to effectively monetize their products and services
- ❖ There is a need to create custom products for connected television consumers who need more than just linear feeds
- ❖ Windowing and other strategies can help monetize the free television audience as well, which is growing due to increased channel count and entry into regional language markets
- ❖ Syndication of content to create newer windows and across non-television products will also be key in an era of increasing content costs

Free IPL streaming can impact TV revenues

- ❖ With the announcement of IPL being provided free on digital streaming, we expect this viewership to increase significantly, and this could make it difficult to grow ad revenues on TV as viewership will split across platforms
- ❖ For context, while 44% Indian sports fans watch live sports only on TV, a sizeable 36% are using both traditional and digital media to watch live sports, while the remaining 20% are watching exclusively on Digital

The proposed ad cap rule could significantly impact revenues

- ❖ The Telecom Regulatory Authority of India (TRAI) has approached the Delhi High Court against seeking stricter implementation of the 12-minute ad cap rule, to bring about a level playing field and the matter is currently sub judice
- ❖ Implementation of the ad cap will significantly affect ad volumes, especially for news channels and some entertainment channels for their key impact properties, that have been historically airing ads for more than the earlier prescribed limit of 12 minutes per hour
- ❖ To compensate for the drop in revenue due to limited ad volume, ad rates would need to increase significantly, which we believe will be extremely difficult and lead to a 10% to 15% drop in ad revenues

Film and niche genres may continue to struggle on pay TV networks

- ❖ Viewership of film channels will continue to decline as audiences move away from TV to OTT for convenience of viewership

The road to growth will require innovation and incentives

- ❖ Multi-window innovation, i.e., formats, packaging, and pricing across TV consumer segments
- ❖ Broadcasters will need to create smart bundles — at differential price points — for different audiences, subject to regulatory permissions
- ❖ Public-private partnership to incentivize TV dark homes to buy televisions through:
  - ◆ Free distribution of sets under government programs
  - ◆ Subsidized distribution of television sets and STBs
  - ◆ Creating a low-cost India TV + receiver product
- ❖ Industry action to enable activation of the current base of several million deactivated boxes
- ❖ Increased adoption of HD channels to enable differentiation
- ❖ Custom two-pronged strategy, apart from linear channel distribution on CTV platforms:
  - ◆ Custom content packages for premium consumers, e.g., a 10-to-15-minute morning and/or evening news capsule based on subjects that interest a viewer
  - ◆ Time shifted viewing of linear content

Source: EY-FICCI Report ME Report