



For Immediate Release

Media & Entertainment Industry projected to grow at 12.5% over next five years to INR 1052 bn: FICCI-KPMG report

IPL proves innovation is key to success in troubled times

Poor advertising spends results in a lower growth rate for the industry for the current year

Mumbai, 17th February, 2009: The Indian Media and entertainment industry stood at INR 584 billion in 2008, a growth of 12.4 percent over the previous year. Over the next five years, the industry is projected to grow at a CAGR of 12.5 percent to reach the size of INR 1052 billion by 2013, says a **FICCI & KPMG report** on the sector release today. The report however, highlights that the market environment has become increasingly challenging for the sector, on the back of economic slowdown and the consequent slowdown in advertising revenues, especially in the last quarter of 2008. Sectors like TV, Print, Radio and Outdoor which depend on advertising revenues were largely affected and this is estimated to continue into the current year too. Advertising spends grew at CAGR of 17.1 percent in the past three years. Going forward, it is expected to exhibit a robust growth rate at CAGR of 12.4 percent over the next five years. Potential upsides could take this higher.

Growing acceptance of the digital TV distribution technology, entry of DTH players the success of many small budget movies, and the rising competition in the regional market were some of the key highlights of the previous year. However, it was IPL which proved that innovation in traditional formats resulted in runaway success.

Says **Dr. Amit Mitra, Secretary General, FICCI**, "India is one of the few countries where economic growth will be led by domestic consumption. With a low advertising spend to GDP ratio of 0.47 percent, a growing consumer class and middle class, young population, low media penetration and increasing discretionary spending; India continues to be an attractive market for Media & Entertainment".

Commenting on the highlights of the report, **Rajesh Jain, Head Information, Communication & Entertainment, KPMG India** said, "*Media companies are under pressure to change, innovate and re-examine their existing business models. Players need to draw upon new capabilities to survive in this environment. In the immediate future, media corporates are likely to focus more on operating margins, and assess opportunities for consolidation, while building on core strengths.*"

The projected 12.5 percent growth for the sector will be driven on the back of factors like favorable demographics, strong long term fundamentals of the Indian economy, expected rise in advertising to GDP ratio compared to developed economies and increasing media penetration.

Given the industry's changing landscape and emerging challenges, the focus of industry players too is changing; with a strong emphasis on profitable growth in the current scenario. Hence, media companies are increasingly concentrating on strengthening existing operations and assessing options for growth through consolidation, while continuing to innovate. Factors like Narrowcasting, Regionalization, Internationalization, Organized Funding, Digitization and Deregulation have become the 'buzzwords' in the industry.

Television:

The industry is estimated to have reached a size of INR 241 billion, a growth of 14.2 percent over 2007. The television industry is projected to grow at the rate of 14.5 percent over 2009-13 and reach a size of INR 473 billion.

Some of the growth drivers for the sector would include rapid growth in the number of digitized households, steady increase in ARPU realized through digital distribution platforms, growth in the number of channels, especially in niche and regional categories and growth in the number of TV and C&S households. To have addressability and reduce leakages, the report recommends pushing for government regulations for mandatory digitization of all TV distribution, development of alternate audience/viewership measurement systems, and rationalization of content production costs through discussions with stakeholders at all levels actors/technical staff, production houses and broadcasters. There is also need to create content for audiences in the Tier 2 and Tier 3 towns from where the next wave of growth is likely to come.

Filmed Entertainment:

The filmed entertainment sector is estimated to have grown at a CAGR of 17.7 percent over the past 3 years. The industry is clocked revenues of around INR 109.3 billion in size in 2008, a growth of 13.4 percent over 2007. Over the next 5 years, the industry is projected to grow at the CAGR of 9.1 percent and reach the size of INR 168.6 billion by 2013.

Growth drivers for the sector would include expansion of multiplex screens resulting in better realizations, increase in number of digital screens facilitating in wider film prints releases, enhanced penetration of home video segment, primarily in the sell through segment, increase in number of TV channels fuelling demand for film content, and hence resulting in higher C&S acquisition costs, improving collections from the overseas markets. Going forward the sector should focus on improving consumer connect by investing in new formats and content, more wide spread distribution of Home Video, e.g. at grocery stores etc., to

Trends in M&E industry:

Sports marketing, is expected to grow rapidly now as broadcasters, encouraged by the IPL example, start aggressively selling cricket and other sports as entertainment packages.

Narrowcasting (niche entertainment) is expected to increase further- Likely to see more audience fragmentation across a myriad of content genres.

Both **regional Print and TV** sector is witnessing a potential upside of advertising rate difference between national print dailies and TV channels.

International consumption of Indian media is expected to be an important growth driver for the industry.

Organized funding is an indicator of how the Indian M&E industry has come of age. Although with the economic downturn and the liquidity crunch, the overall availability of funding might take a hit in the short term but the long term prospects continue to be positive.

Advent of **3G services** in India, may further aid convergence, by making the mobile phone a convenient access point for video and audio media.

facilitate easy access, take coordinated and proactive action to tackle piracy, promote and experiment with new talent and improve organizational ability to attract and retain talent.

Print Media:

The Indian Print Media industry is estimated to have grown by 7.6 percent in 2008 and reaching around INR 172.6 billion in size. The industry is projected to grow at a CAGR of 9 percent over the next five years and reach around INR 266 billion in size by 2013.

Growth in the Print media industry is achievable through sustained growth in advertisement revenues due to increased advertising spends from emerging sectors such as Education, Organized Retail and Telecom, improving literacy levels in the country, optimization of cover prices leading to improved penetration and growth in sales volume, more launches in the niche segment, like newspaper supplements and specialty magazines, by players. The industry needs to invest in quality improvements, especially in regional media to attract advertisers; collective negotiations and bulk purchase of newsprint, constitute forums to encourage and promote regular reading habits among youth, adopting innovative practices like trading media space in publication platforms in return for equity and improve organizational ability to attract and retain talent.

Radio:

Radio ad spends account for about 4 percent of the total advertising spends in India today, having grown from just 2 percent in 2004. Consequently, the radio industry is estimated to have grown at an impressive CAGR of 19.7 percent over 2006-08. It is estimated to have reached a size of INR 8.4 billion by end of 2008, a growth rate of 13.5 percent over the previous year. It is expected to grow at a CAGR of 14.2 percent over 2009-13 and reach a size of INR 16.3 billion by 2013.

Increase in the number of radio stations – around 700 new licenses expected to be issued to Private FM stations in Phase 3, expected regulatory reforms that are likely to improve profitability and stimulate foreign investments, emergence of robust audience measurement tools which could further catalyze growth in radio ad spends and growth in locally targeted advertising on radio are some of the growth drivers for the radio industry in the country.

Music:

The size of the Indian music industry was estimated at around INR 7.3 billion in 2008, down from INR 8.3 billion in 2005, implying a degrowth of 4.8 percent during the period. One of the primary reasons for this degrowth has been the erosion of sales of physical formats, a trend which is expected to continue well into the future. Physical formats such as audio cassettes and compact discs, which accounted for approximately 87 percent of industry revenues in 2005 currently account for just fewer than 60 percent in 2008.

Going forward physical revenues are expected to decline at a CAGR of 9 percent between 2008 and 2013. While the actual degrowth of formats such as audio cassettes is expected to be much higher, this is likely to be partially offset by initiatives taken by some leading music companies such as Sony BMG, T-Series and SaReGaMa to release MP3 music on compact discs at price points similar to that of the ubiquitous audio cassette. Overall the music industry is expected to grow at a CAGR of 8% over 2009-13 to reach INR 10.7 billion.

Out of Home (OOH):

OOH media has grown at a CAGR of 17.3 percent over the past 3 years, and is estimated to have reached INR 16 billion in size in 2008, a growth of 14 percent over 2007. The sector's performance was affected in the second half of the year owing to the overall economic slowdown. It is projected to grow at a compounded rate of 12.8 percent over the next 5 years and reach a size of around INR 29.3 billion by 2013. Currently, the growth is centred largely in Tier 1 towns, with metros accounting for more than half of the total OOH market. Sectors spending the most on this medium include Telecom, Media & Entertainment and Financial Services companies.

One of the biggest challenges that the sector faces today is the lack of a central regulator governing OOH media. Rules and regulations vary from state to state, which inhibits standardizations across locations and leads to unregulated growth. Further the ongoing liquidity crunch has forced many real estate developers to go slow on construction activities, thus affecting the supply of retail space. This is likely to affect the spread of ambient media.

Animation:

At an estimated size of INR 17.4 billion in 2008, the Indian animation industry is miniscule as compared to the global animation industry with estimated revenues in excess of INR 1530 billion by 2010. However, the Indian animation industry has been growing rapidly with an estimated CAGR of 20.1 percent in 2006-08. It is estimated to reach a size of about INR 39 billion by 2013. Among the different segments of the animation industry, the animation production services segment is estimated to grow the fastest with a CAGR of 17.8 percent in 2009-13.

Gaming:

Console gaming is the largest money churning in the global market and is gaining prominence in India too. In 2008, the Indian console gaming segment registered total revenues of INR 4.1 billion which is expected to go up to INR 9.4 billion in 2013. Plagued by a number of issues such as content discovery and revenue leakages the Indian mobile gaming segment has not lived up to the potential and is estimated at INR 1.4 billion in 2008 in terms of end user revenues. The PC gaming market has however, grown to INR 978.6 million and expected to grow at a CAGR of over 36 percent through 2013. The primary growth drivers for PC games in India are the growing broadband subscriber base, multifunctional nature of PCs, availability and price points of PC game titles.

Overall the gaming industry is expected to grow at a CAGR of 33% over 2009-13 to reach INR 27.4 billion.

About FICCI:

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

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

About KPMG:

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

KPMG in India has offices in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune and services over 5,000 international and national clients. The firms in India have access to more than 3500 Indian and expatriate professionals.

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