

# Digitalization drives Indian M&E sector expansion

The Indian media and entertainment (M&E) sector is a US\$24 billion industry and is expected to reach US\$34 billion by fiscal year 2020–2021 (FY21) (EY FICCI report, March 2019). Already a global leader in many sub-segments, the industry is on the cusp of a further strong phase of growth on the back of digitalization, high internet penetration and increasing content consumption.

## SECTOR HIGHLIGHTS

India has the largest film industry in the world, in terms of the number of films produced and released every year (1,500 to 2,000 films). This segment shows a lot of future potential, as India is currently an under-penetrated market with limited multiplexes and low ticket prices that are showing signs of catching up to international levels.

Increased availability of data has led to content reaching Indian consumers in diverse regional markets and smaller towns. Dubbing in around four to six regional languages has helped Hollywood blockbusters like *Avengers*, *Mission: Impossible* and *Jurassic World* amass significant box-office returns in India. Recognizing this potential in regional markets, global streaming platforms such as Netflix and Amazon have recently focused on investing in local content and originals.

Higher uptake of high definition (HD) channels and digitization of cable services has helped India emerge as the second-largest pay-TV market after China. The massive fall in data prices in 2016 resulted in India having the cheapest mobile broadband prices in the world. This, coupled with the high video-content consumption habit in India, led to Hotstar, an Indian over-the-top (OTT) platform, having the highest number of concurrent video viewers (a staggering 25.3 million) anywhere in the world.

The print sector witnessed growth of 4.5% in FY19 to reach a size of US\$4.8 billion.<sup>6</sup> While advertising revenues continued to grow, circulation growth was muted due to digital adoption.

Foreign direct investment (FDI) regulations in the industry have been considerably relaxed over the past few years, especially in sectors like teleports, direct-to-home television (DTH) and cable networks.

## KEY SECTOR TRENDS

**Consolidation on the rise:** Over the past few years, sectors like multiplex, radio and cable have witnessed consolidation. Deal value in the M&E sector more than doubled between 2017 and 2018 to reach US\$2.8 billion, with about 66% of deals led by strategic investors (EY FICCI report, March 2019).

PVR Cinemas, India's largest multiplex chain (market cap of US\$1.2 billion), acquired SPI Cinemas, a leading multiplex player in South India, in a deal worth over US\$90 million, while Reliance Group acquired a majority stake in two of India's largest cable operators: Den Networks and Hathway Cable & Datacom.

The DTH business housed under Videocon d2h Limited was merged with Essel Group's Dish TV. This transaction was one of the largest ever deals in India's M&E sector. YES Securities acted as the lead financial advisor to Videocon Group in this deal.

Additionally, Music Broadcast Ltd. is acquiring Reliance Broadcast, which houses private FM brand Big FM. Regulatory approvals have already been sought for this deal.

<sup>6</sup> [https://home.kpmg/in/en/home/insights/2019/08/india-media-entertainment-report\\_2019.html](https://home.kpmg/in/en/home/insights/2019/08/india-media-entertainment-report_2019.html)

**Internet penetration driving data consumption:** Data usage per smartphone in the country stood at 9.8 GB per month in 2018, and this number is set to double by 2024.<sup>7</sup> India has one of the highest per capita consumption rates of online video in the world. This fascination for consuming entertainment online, along with the creative freedom being offered in the digital world, has resulted in content creators and talent switching over from old media forms to OTTs.

**Real-money games and e-sports models finally realizing their potential:** The gaming segment has been one of the outperformers in the M&E industry. In FY19, the gaming market grew at a rate of 41.6%<sup>6</sup> to reach US\$886 million. While traditional casual games continue to grow, the money-spinner is real-money gaming (RMG). RMG includes games like online rummy and poker, which contributed to an upswing in average revenues per user (ARPU). A new sub-segment, e-sports, is fast emerging and has the capacity to bring further high growth to India's gaming industry.

**Large Indian businesses in tech-media space:** Tech-enabled media services are gaining popularity, with companies like Prime Focus and Amagi dominating the landscape and becoming world leaders in their respective segments. Prime Focus is one of the top four visual effects (VFX) players in the world and also provides other technology products and services, such as CLEAR Media ERP Suite, and cloud-enabled media services, production and postproduction services to the M&E industry. The company has won multiple Oscar awards for its work. Another interesting company in this space is Amagi, which was among the first few players in the industry to use cloud technologies for broadcasting and targeted advertising.

## INVESTMENT OPPORTUNITIES

The broadband industry offers significant potential, owing to India's ever-rising data demand, and new avenues are opening up beyond Tier 1 and Tier 2 cities. Content creators are direct beneficiaries of this easily available data, with digital subscription growing by 250% last year, due to the rising spend on online content consumption. VFX and animation players are attractive targets because of the significant work flowing from international markets on the back of a cost-effective talent pool in India and an expanding audience on OTT platforms watching animated shows.

In an increasingly digital world, event management companies focusing on product activations have gained prominence as a crucial means of getting the look and feel of the product across to consumers, enticing them to buy products. There is also an opportunity for global players to invest in tech-enabled media service companies and consolidate their global leadership position.

The percolation of international and regional movies into the overall stream of movie-watching entertainment leaves no doubt about the multiplex segment's strong future outlook. This is one sector that is bound to see increased investment in the coming years.

The past few years have seen an increasing craze and fan-following of Indian sports leagues, such as the Indian Premier League (IPL) and Pro Kabaddi, as well as of international sports leagues like the English Premier League and events such as Wimbledon. There is a potential to monetize this fan-following to create a gaming powerhouse. Eventually, such companies could also move to include e-sports-based gaming under their belts, a model that is widely tipped to drive the next phase of this sector's growth in India.

India's family entertainment is limited to malls and theme parks, which attempt to house all sorts of entertainment and leisure facilities. However, the concept of entertainment centers and holistic entertainment destinations is a largely untapped market in India, leaving ample potential for investors to earn good returns. Players in the M&E space are now transcending boundaries and expanding outside India. While content creators are looking to acquire studios with strong IP in foreign countries, one of the biggest multiplex chains in India is actively looking at acquisitions in the Middle East and North Africa (MENA) region.

**Overall, the Indian M&E industry offers significant investment opportunities for both financial and strategic players, with several sub-segments poised for exponential growth in the near future.**



<sup>7</sup> <https://economictimes.indiatimes.com/tech/internet/data-usage-per-smartphone-in-india-set-to-double-by-2024-ericsson-report/articleshow/69860589.cms>