

## THE INDIAN MEDIA AND ENTERTAINMENT INDUSTRY

### Films

India boasts of the world's largest film industry. According to a 2005 PricewaterhouseCoopers Report, "*The Indian Entertainment Industry, An Unfolding Opportunity*," the Indian entertainment industry is worth about US\$4.5 billion, and is expected to grow at a compounded annual growth rate of about 18% over the next 4 years to US\$10 billion by 2009. The increasing number of multiplexes and digital theatres, growing cinema advertising and merchandising, and the home video/DVD market (which is projected to grow at 30% for the next 5 years) are all expected to contribute to growth of the industry. This once fragmented industry is now converging with content providers to cater to multiple delivery platforms. The improving infrastructure, friendly-film culture, and conducive regulatory and investment environment makes India a favored destination for the global media and entertainment ("M&E") industry.

E-commerce and the Internet now offer the film industry an opportunity to market and distribute its products to an ever-widening audience. Further, merchandising and brand protection are likely to be a key revenue stream in coming years. A peculiar feature of the Indian distribution system is that music rights comprise about 15% of the film's total revenue.

The M&E industry is now bringing a "reverse cultural colonization," and major international film producers are seeking co-production opportunities in India, as well as outsourcing distinctive elements of the production process.

### Regulators

The Ministry of Information and Broadcasting ("MIB"), which was constituted under the Government of India ("GOI"), formulates policies for the M&E industry. The National Film Development Corporation ("NFDC") deals with finance, production, distribution, and import of films. The Central Board of Film Certification ("CBFC") certifies the films produced or imported into India. The Telecom Regulatory Authority of India (TRAI) works with the MIB and the GOI to regulate telecommunication services, broadcasting, and cable services by issuing consultation papers, tariff orders, etc. Prasar Bharti is the autonomous public service broadcaster responsible for Doordarshan, the national TV network of India. Doordarshan is devoted to public service broadcasting and caters to 90%

of India's population. Prasar Bharti also supervises All India Radio, which provides social responsibility and public service broadcasting through local radio stations.

### *Co-production Agreements*

India recently entered into film co-production agreements with Italy and the United Kingdom, and is negotiating similar agreements with China, Canada, and Germany. Intergovernmental co-production agreements (or treaties) enable private, quasi-government, or government agencies to enter into contracts to produce films together. The co-produced films enjoy national status in both the contracting states. The treaties also facilitate the pooling of creative, artistic, technical, financial and marketing resources for co-production, and enable sharing risks and benefits from a wider natural audience base.

### *Film Financing*

Traditionally, films were financed through private sources, where private financiers, distributors and music companies paid advances to established filmmakers and charged high interest rates in return. However, the scenario is changing and institutional financing is making its way into films. New financing models are evolving where the producer enters into an agreement with a distributor prior to the completion of the film as a collateral to secure funds. This not only reduces the financing costs, but also enables the producer to get completion bonds and insurance. The structure is being further improved, where the producers will be able to secure ratings from reputed agencies and specialized guarantee funds at lower rates. Further, securitization of receivables is being looked at as a serious financing option.

### *Foreign Direct Investment ("FDI")*

100% FDI is permitted in both the cinema and advertising sectors with no entry-level pre-conditions.

Subject to complying with the up-linking policy of the GOI, and with prior GOI approval, FDI is permitted for up-linking of television channels as follows:

1. 49% for establishing up-linking HUB/Teleports;
2. 100% in a non-news and current affairs television channel; and

3. 26% (including investments by Foreign Institutional Investors) in a news and current affairs television channel.

The FM radio market has been recently opened to FDI, and the license fees have been rationalized. FDI of 20% is permitted in private FM broadcasting except for news and current affairs.

### **Print Media**

The newspaper market in India is estimated to grow at a compounded annual rate of 6%. Restrictions on FDI have been liberalized, and new distribution systems are expected to improve the circulation. In addition, emerging digital technologies are enabling publishing companies to tap other sources of revenue.

### *Regulators and FDI*

The information wing of MIB is composed of two main entities, namely, the Press Council of India, responsible for preserving the freedom of the press, and the Press Information Bureau, in charge of disseminating GOI information to the print and electronic media. FDI in the print media sector, with prior GOI approval, is allowed up to 100% in the publishing of scientific magazines, periodicals and journals, and 26% in the publishing of newspapers and periodicals dealing in news and current affairs, subject to safeguards like verification of antecedents, retention of editorial and management control, etc. Communications facilities may be granted to a foreign news agency only if an Indian news agency is involved in the distribution, supply, etc.

Lack of corporate and organized business structures, vertical integration and piracy are the key issues facing the M&E sector. The GOI and the industry are striving to resolve these issues, and things are changing for the better.

### **Outsourcing**

A recent study conducted by the National Association of Software and Services Companies estimates the total revenues from animation production services in India is US\$200-300 million, and growth of this sector at 20% per annum.

India offers huge potential to become an outsourcing hub for the M&E sector. Companies like Walt Disney, Sony, etc., are outsourcing the creation of cartoon

characters and special effects to India. Indian cities such as Mumbai, Chennai, Bangalore, Hyderabad, and Trivandrum are emerging as India's major animation hubs. Indian companies engaged in animation and special effects include, Toonz Animation, Maya Entertainment and Zee Institute of Creative Arts. Indian software companies provide computer animation services like 2D animation, 3D animation, special effects (morphing, color correction, blue screen, compositing), animation consultancy and animation production services. Indian studios can deliver episodic television animation, ad films and direct-to-video. 50-60% of post-production work like photography, visual effects, film scanning, recording and sound editing can be outsourced to India. Indian studios provide editing (linear and non-linear) solutions for commercial and short films as well as "line production" services, including scouting locations, arranging local technicians and equipment, obtaining government permissions, etc.

Indian companies are professionalizing their work culture by improving their quality base, and providing clients with upfront costs and financial auditing. Consequently, many international companies are outsourcing their film operations to India to take advantage of these lower costs.