Media

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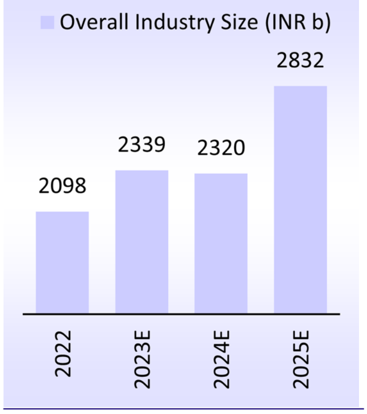
Digital Media: A blockbuster in the making!

Ernst & Young (EY) released its media industry report for CY22. It highlights the growth prospects of the industry, with special attention to the well-established digital ecosystem, which has played a significant role in its advancement. While the traditional TV market has managed to maintain its position, the rising number of digital subscribers presents potential risks.

Industry growth to be driven by the new age segment

In CY22, the Indian media and entertainment (M&E) sector grew INR348b (+19.9% YoY) to INR2.1t (10% above CY19 levels). Simultaneously, the ad market reached INR1,050b, mainly driven by the digital segment, which rose 30% YoY to INR571b. Digital ad too grew 30% YoY during the year. Interestingly, digital subscriptions in the Indian M&E sector have now reached INR72b, although they still represent only ~20% of TV subscriptions. The TV (linear segment) industry declined 2% YoY in CY22 with revenue of INR709b, still below the pre-Covid level of INR787b. The decline was primarily attributed to lower subscription revenue, although it was partially offset by a 2% growth in the TV ad market. On the other hand, the print sector recorded a healthy revival with 10% YoY growth rate. Additionally, the radio market displayed impressive growth of more than 30% YoY.

Overall industry to grow 10.5% CAGR over CY22-25



Source: MOFSL, Company

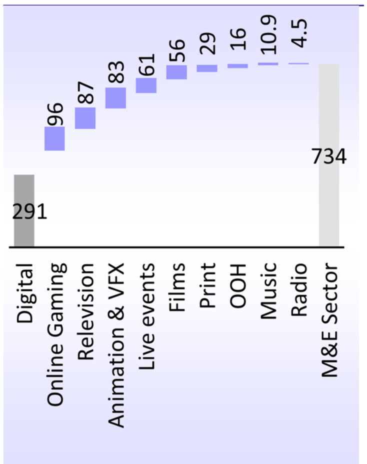
Outlook remains cloudy

The M&E sector is likely to grow at 11.5% YoY to reach INR2.34t (USD29.2b) in CY23. While the TV market is witnessing a challenging environment – with flattish 2.5% YoY growth to INR727b in CY23E – digital market may grow 18% YoY mainly led by the ad market. In CY23, the print industry is expected to grow 5% YoY, fueled by potential contributions from election advertisement. However, the radio market growth is projected to soften to 5% YoY during the year.

TV market languishing

In CY22, television advertising grew 2% YoY, coming close to its 2019 levels. This growth can be attributed to an increase in advertising volume. However, subscription revenue continued to fall for the third consecutive year, reporting a 4% YoY decline. This decline was primarily caused by a reduction of five million pay TV households and stagnant consumer-end ARPUs as NTO 3.0 was postponed. Now with the implementation of NTO, consumer-end ARPUs may grow. Linear viewership declined 7% from that in CY21, as connected TVs grew to 15m in CY22 from 5m in CY20. The recovery in revenue is likely to come from improved shares of regional channels and connected TV, partly offsetting the shift in viewer preference toward alternate content.

Digital to contribute the highest growth for CY22-25



Source: MOFSL, Company

Linear TV households to be stable at 169m, TV penetration to offset connected TVs

Out of the total 319m households in India, 152m households are yet to own a TV set. While there are households that consume content on smartphones; typically, 10m new Indian households are likely to view television, offsetting the impact of connected TVs.

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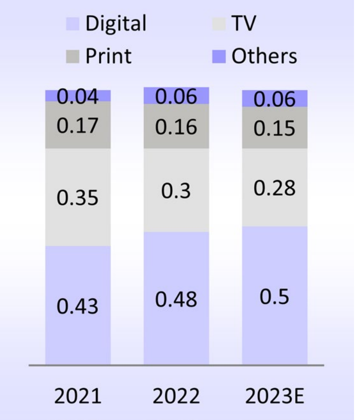
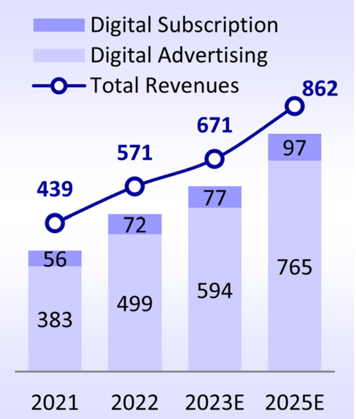
Improved share of digital segment within ad revenues



Source: MOFSL, Company

Digital segment reporting strong growth



Source: MOFSL, Company

Digital growth prospects remain robust

Digital advertising grew 30% YoY to reach INR499b in CY22. This accounted for 48% of total advertising revenue, indicating its continued gain in market share from traditional advertising channels. Its share in overall ad revenue has improved significantly to ~50% in CY22 from 32% in CY19. This surpassed TV's contribution, which stood at 30% during the year.

Digital subscription now at >60% of TV subscription market

Digital subscription grew 28% YoY to reach INR72b in CY22 as it clocked 99m paid video subscriptions across almost 45m Indian households. These subscriptions generated a revenue of INR68b, which accounted for over 60% of broadcasters' share of TV subscription revenue. Paid video subscriptions are expected to increase to 114m across 52m households by CY25, as the segment is likely to gain greater acceptance with the availability of a strong content library.

Filmed revenue to remain a mixed bag as theatricals continue to linger

- The segment grew 85% YoY in CY22; however, it remained at 90% of its CY19 levels. Theatrical revenue reached INR100b as theatres reopened and 1,600+ films were released in CY22.
- The segment is witnessing a possible structural shift, following the pandemic, driven by changing consumer preferences. This is evident from the increased share of OTT platforms, which has risen to 20% in CY22 from 10% in CY19. The current performance of theatrical releases and cinema occupancies remains below pre-pandemic levels. Further, it has also adversely impacted broadcasting rights, given the higher exposure to digital releases. The segment is likely to grow 10% over CY22-25, driven by an increased share of digital platforms in the overall industry. Further, regional movies are likely to play a key role in driving footfalls and revenue collection for theatrical releases.

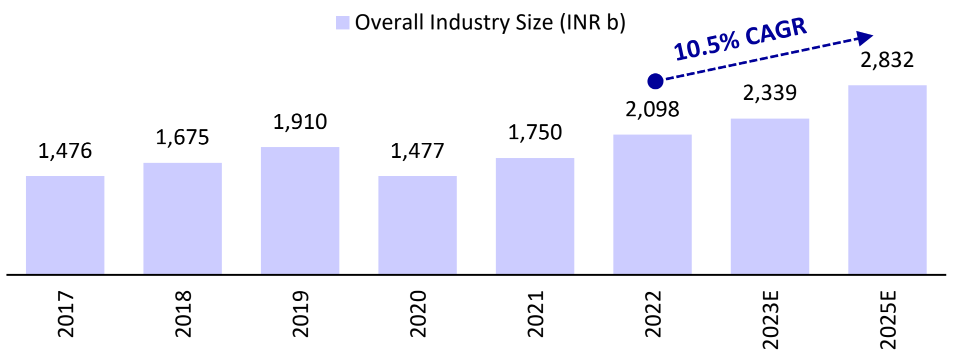
Industry continues to face a challenging environment

- The industry is facing continued headwind in the form of slower recovery in ad spends, adversely impacted by inflationary pressure, lower subscriptions, and changing customer preferences.
- **Zee:** While the merged entity currently trades at an attractive valuation of 4.9x EV/EBITDA on an FY24 basis, we believe that any certainty around timelines of the merger process would lead to a stock re-rating. Pending NCLT order toward the merger proceedings and the impact of SEBI orders on promoters would remain the key monitorables.
- **PVR:** The stock is trading at a P/E and EV/EBITDA of 21.5x and 9.6x on FY25E basis, respectively, given its weak performance in the recent past. This could be attributed to lower occupancies, which could be a result of weak content and growing prominence of OTTs in the recent past. Recovery in occupancy levels remains the main driver of incremental upside.

Overall industry growing in low double digits

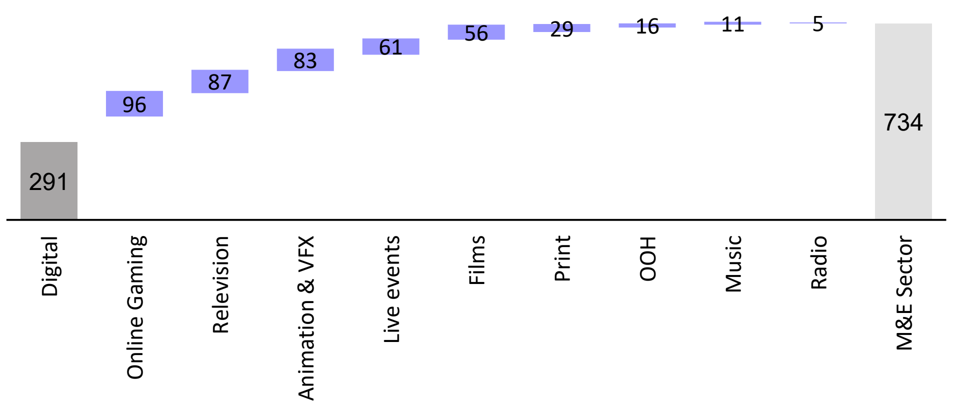
Continuing on its growth trajectory, the Indian M&E sector reported a healthy growth of 19.9% YoY by INR348b to reach INR2.1t in CY22. This was 10% above its pre-pandemic levels of CY19. The growth was largely led by the digital segment, which grew 30% YoY, while TV, the largest division witnessed a decline of 2% YoY. The sector further witnessed a resurgence in filmed entertainment, led by higher theatrical releases (1,600 films in CY22) and grew 85% YoY with theatrical revenue surpassing INR100b. The industry is expected to register a CAGR of 10.5% over CY22-25, led by growth in the digital segment, followed by online gaming to INR2.8t.

Exhibit 1: Overall industry to register a CAGR of 10.5% over CY22-25…



Source: FICCI-EY Media report

Exhibit 2: …primarily backed by the Digital segment (INR b)



Source: FICCI-EY Media report

New age segments such as online gaming and digital media reported robust growth, due to which the share of traditional media (television, print, filmed entertainment, OOH, music, radio) declined to 58% of the M&E sector in CY22, from 71% in 2019.

Exhibit 3: Digital and Online gaining share, while TV witnessing YoY decline (INR b)

	2018	2019	2020	2021	2022	22 v/s 21
TV Industry (INR b)	740	787	685	720	709	-2%
Print	306	296	190	227	250	10%
Filmed entertainment	175	191	72	93	172	85%
Digital Market (INR b)	169	308	326	439	571	30%
Animation and VFX	79	95	53	83	107	29%
Live events	75	83	27	32	73	128%
Online Gaming	49	65	79	101	135	34%
Out of Home Media	37	39	16	20	37	85%
Radio	31	31	14	16	21	31%
Music	14	15	15	19	22	16%
Overall Industry Size (INR b)	**1675**	**1910**	**1477**	**1750**	**2098**	

Source: FICCI-EY Media report

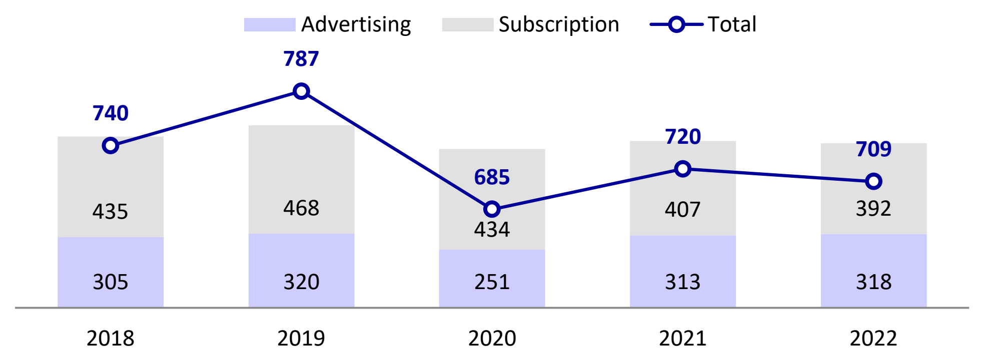
Segment-wise, ad revenue witnessed an overall growth fueled by 30% YoY growth in digital ads, reaching INR499b (48% share). In CY22, television advertising grew 2%, coming close to its CY19 levels. This growth can be attributed to an increase in advertising volume.

However, subscription revenue continued to fall for the third consecutive year, experiencing a 4% decline. This decline was primarily caused by a reduction of five million pay TV households and stagnant consumer-end ARPUs. While linear viewership declined 7% over 2021, 8m to 10m smart TVs connected to the internet each day, up from ~5m in 2021. Digital subscription grew 27% to reach INR72b as 99m paid video subscriptions across almost 45m Indian households generated INR68b. Print subscription revenue grew 5% YoY, aided by rising cover prices; it has stabilized at 15% to 20% below the pre-Covid levels.

TV market stagnant, likely to see soft growth in the near term

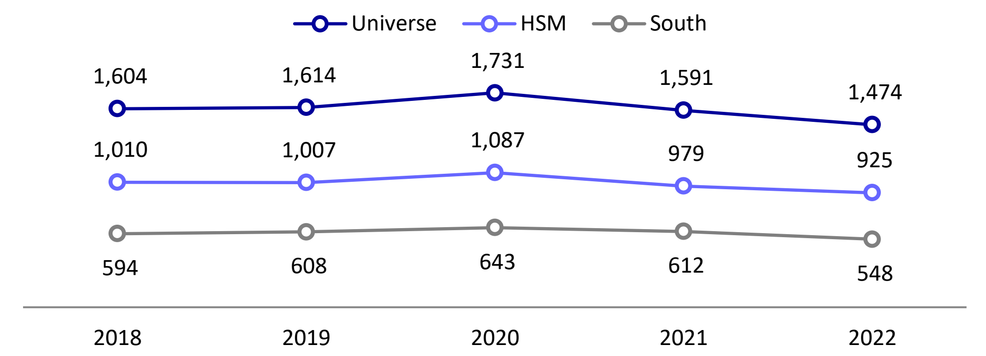
In CY22, the television segment's revenue declined 2% YoY to reach INR709b. This decline can be attributed primarily to a reduction in subscription revenue. The segment observed a decrease in pay-tv homes by 5m during this period. However, the ARPU remained unchanged. Viewership too dropped 7% YoY due to a fall in both Hindi and regional language viewership.

Exhibit 4: TV industry down 2% YoY in CY22 (INR b)



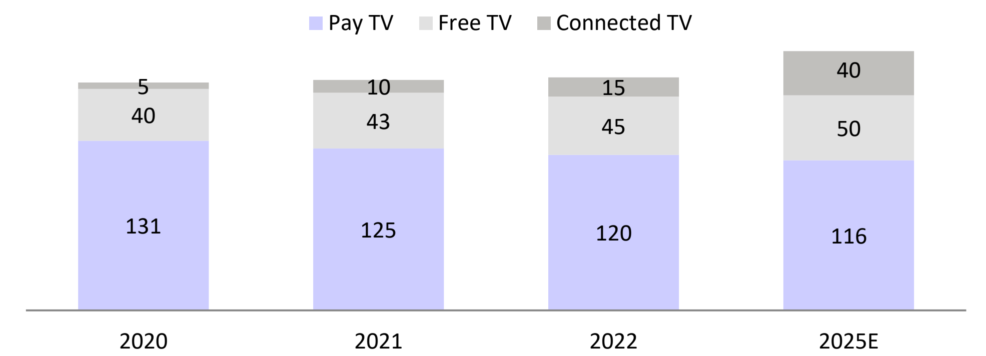
Source: FICCI-EY Media report

Exhibit 5: TV viewership across segments declines (impressions in b)



Source: FICCI-EY Media report

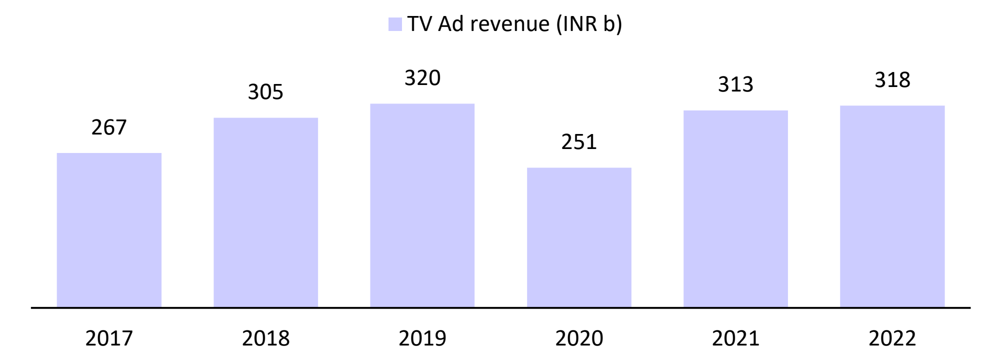
Exhibit 6: Pay-tv subscribers witness a decline, while connected TV subscribers grow (household subscribers in m)



Source: FICCI-EY Media report

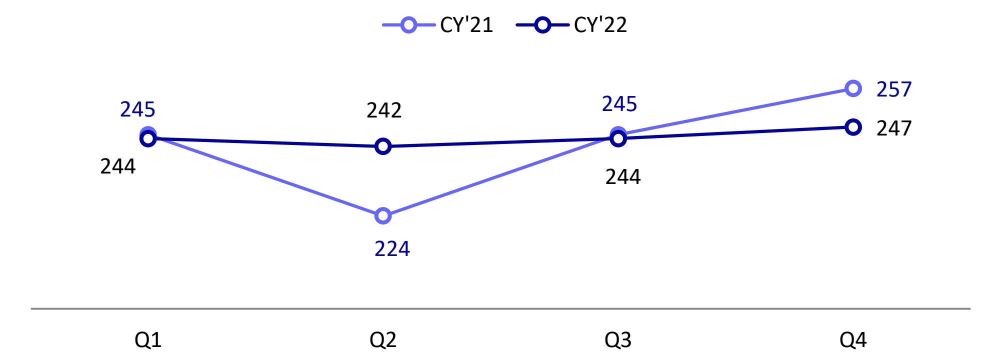
TV ad revenue too witnessed a modest growth of merely 2%, on account of retrieval by four large broadcast networks of content from DD Free Dish in CY22. This growth was mainly led by improved volumes as ad-rates remained fairly flat. On an exit basis, 4QFY22 witnessed a 4% YoY decline in ad revenue, primarily due to the Russia-Ukraine conflict and the looming threat of recession in developed markets. Despite major events such as FIFA World Cup 2022, ICC Men's T20 World Cup, and Gujarat state elections, the overall ad volumes were adversely impacted. E-commerce contributed more to the incremental growth in ad spending, while the shares of education and telecom reduced.

Exhibit 7: Ad revenue reports a modest growth of 2% YoY in CY22



Source: FICCI-EY Media report

Exhibit 8: TV ad volumes decline on exit basis in CY22 (daily insertions in '000)



Average ad insertions per day; Source: FICCI-EY Media report

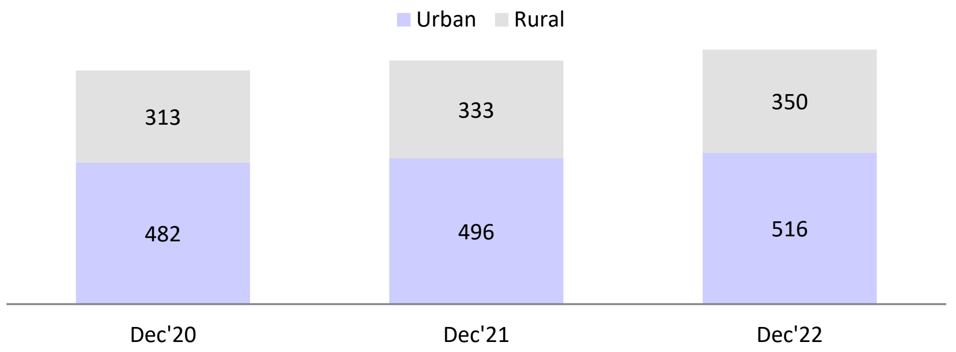
- Region-wise split indicated regional channels (816 hours/ channel) received 19% more ad volumes than national channels (686 hours/ channel) in CY22. Industry data indicated three of the top five genres, which saw the highest increase in new advertisers pertained to regional languages. In CY22, the number of advertisers using Television increased to 9,245 from 8,932 in CY21. Of these, 4,705 used only TV, resulting in an increase in advertiser base for the first time in three years.
- **Going ahead, the segment is likely to report a soft CAGR of 3.9% over CY22-CY25 to reach INR796b. The softer growth is primarily attributed to:**
- Reduction in Pay TV households to 116m in CY25 from 120m currently.
- Proposed ad cap rules by TRAI to limit ad time to 12mins/hr, which is expected to hit ad revenue. While the matter remains sub-judice, its implementation is expected to hurt revenue by 10-15%.
- Reduction in overall TV impression by 7% as the TV market continues to face heavy competition from OTT and other digital platforms.

Digital market well established

Increased internet penetration to drive demand

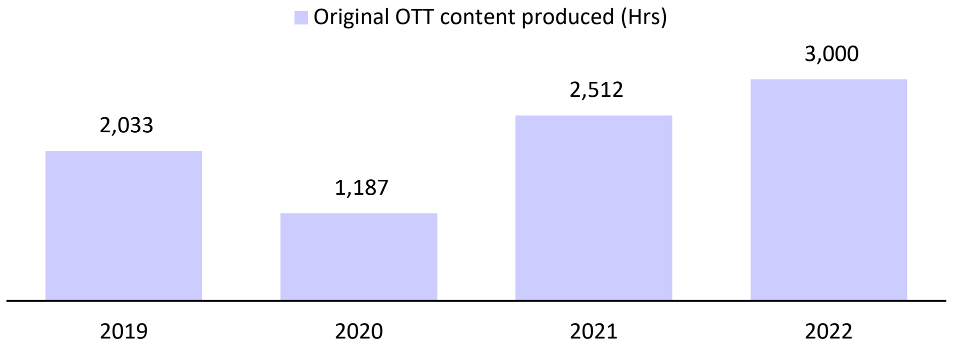
The overall digital segment is witnessing a strong growth, on the back of improved infrastructure. While the number of telecom subscribers remained stable at 1.2b, the Internet penetration improved 4% to 866m subscriptions in Dec'22. Studies further indicated that Urban internet subscriptions, which comprise 60% of all internet subscriptions, grew 4%, while rural internet subscriptions grew 5% in 2022. The average monthly mobile data usage per smartphone at 25GB per month in CY22 is set to register a CAGR of 14% to reach 54GB by 2028. This would be mainly led by increased consumption of online video because of improved share of regional content along with increased original content hours (3,000 hours; +19% YoY).

Exhibit 9: Internet penetration improves 6% YoY to 866m in Dec'22 (Subs in m)



Source: FICCI-EY Media report

Exhibit 10: Digital players ramping up original content rollout

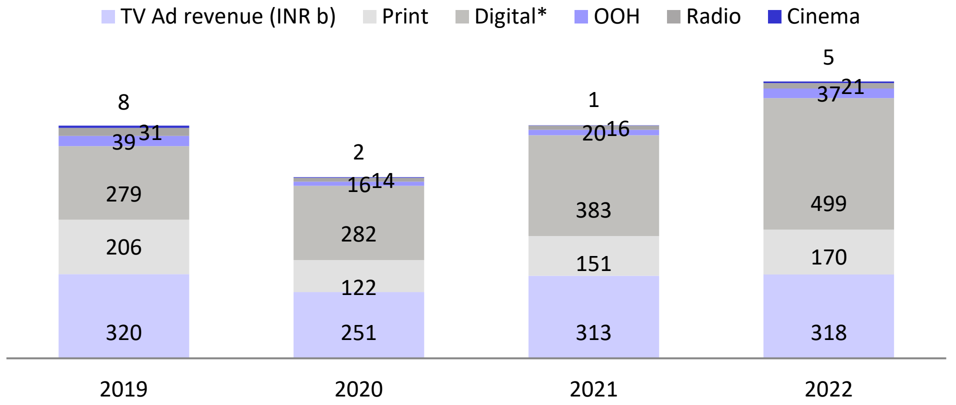


Source: FICCI-EY Media report

Digital ad revenue rises 30% YoY

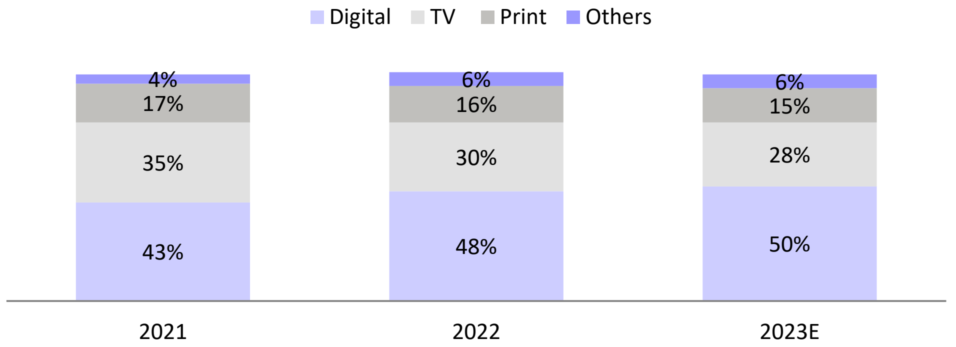
Digital advertising grew 30% YoY to reach INR499b in CY22, contributing to ~50% of overall ad spends in CY22 (from 31% in CY19). Studies indicate that ~600k to 800k SME and long tail advertisers spent INR180b on digital media, primarily on performance advertising on Google, Facebook, and e-commerce platforms. Of the total, new gen segments such as e-commerce platforms increased their spends to over INR70b, crossing 14% of total digital advertising. FMCG and e-commerce together constituted ~50% of the ad revenue on the digital platform.

Exhibit 11: Overall ad revenue growth led by Digital segment (INR b)



Source: MOFSL, FICCI EY media report

Exhibit 12: Share of Digital ad revenue improves to 48% of overall ad revenue in CY22

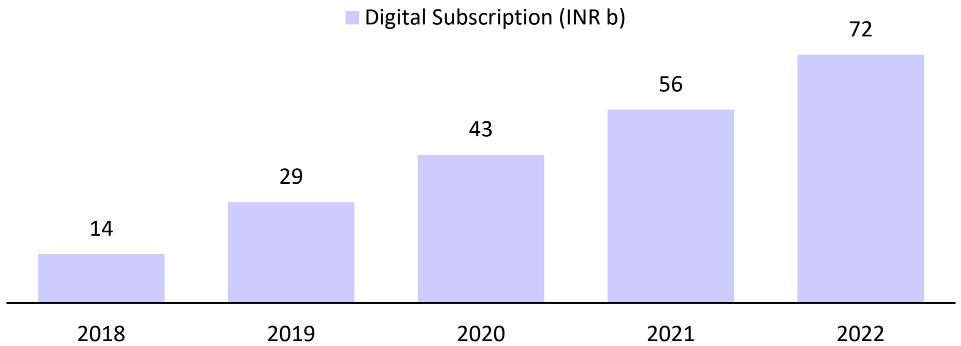


Source: MOFSL, FICCI EY media report

Subscription revenue picks up, led by improved acceptability

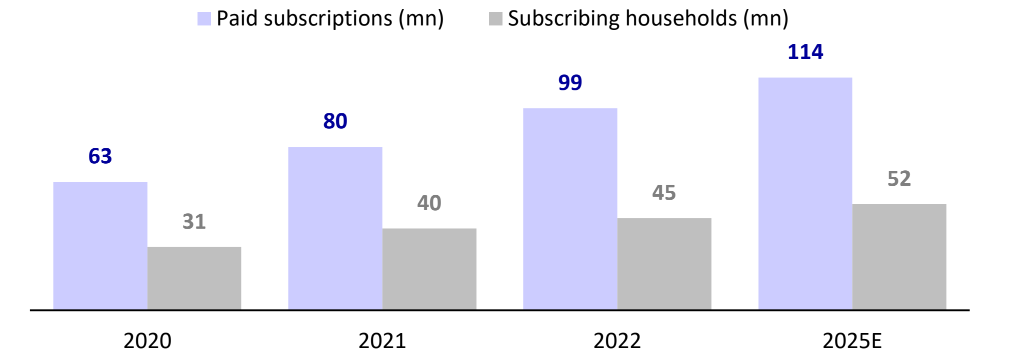
Digital subscription grew 27% to reach INR72b, which was mainly on the back of growth in video subscription revenue. It grew 27% in CY22 to INR68b, on the back of improved acceptability, as paid video subscriptions reached 99m in CY22, across ~45m households in India, with a total viewership of around 135-180m users. Improved internet penetration and acceptability of digital content is further evident from the fact that audio subscription witnessed a growth of 37% with the number of consumers reaching 4.6m. A shift from print to digital news consumption induced by the pandemic is further seen to continue as news subscription revenue touched ~INR1.2b in CY22.

Exhibit 13: Digital subscription revenue continues to report strong growth…



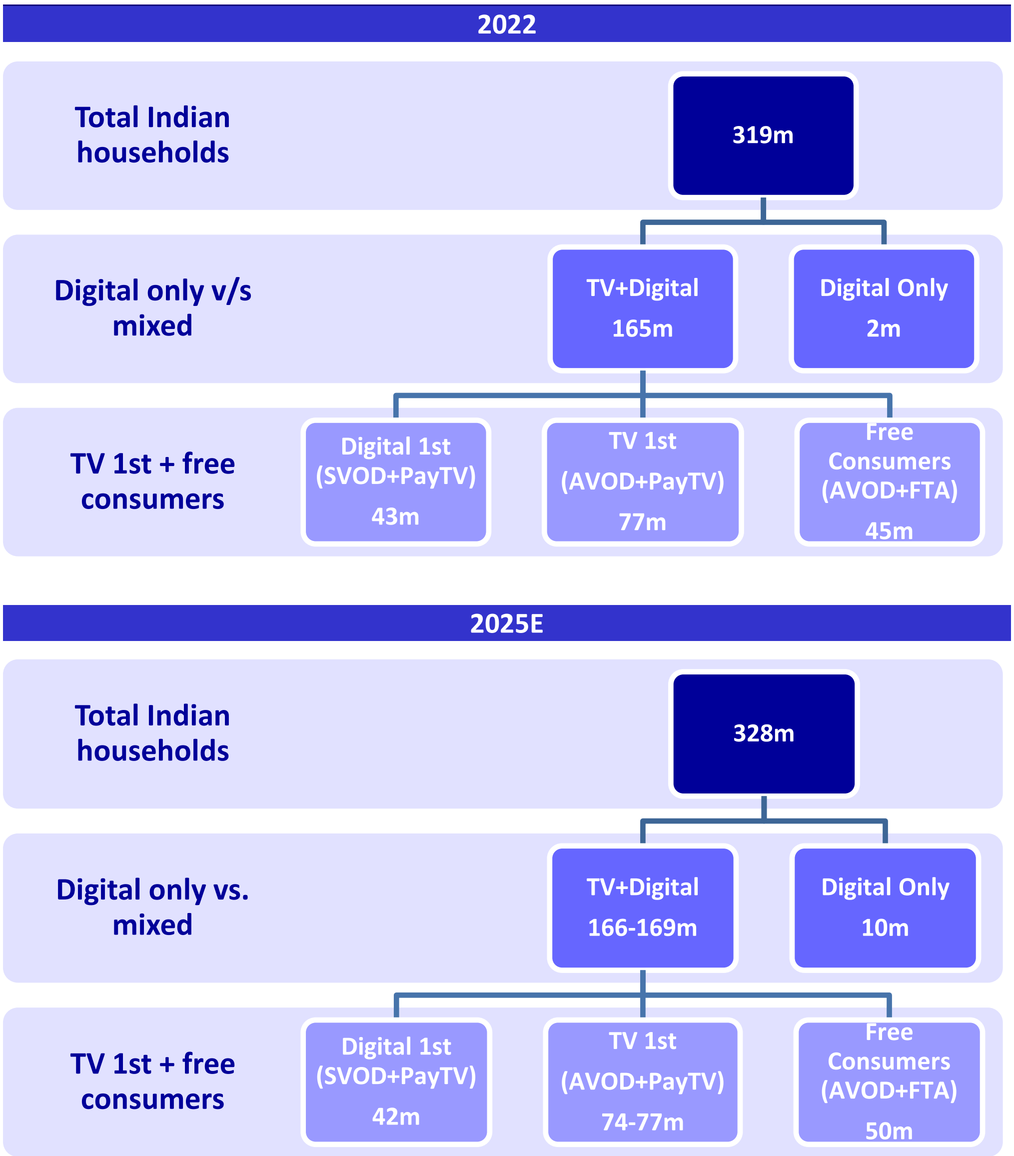
Source: MOFSL, FICCI EY media report

Exhibit 14: ....backed by healthy growth in household subscribers



Source: MOFSL, FICCI EY media report

Exhibit 15: Next leg of growth in subscription to be driven by the digital segment:

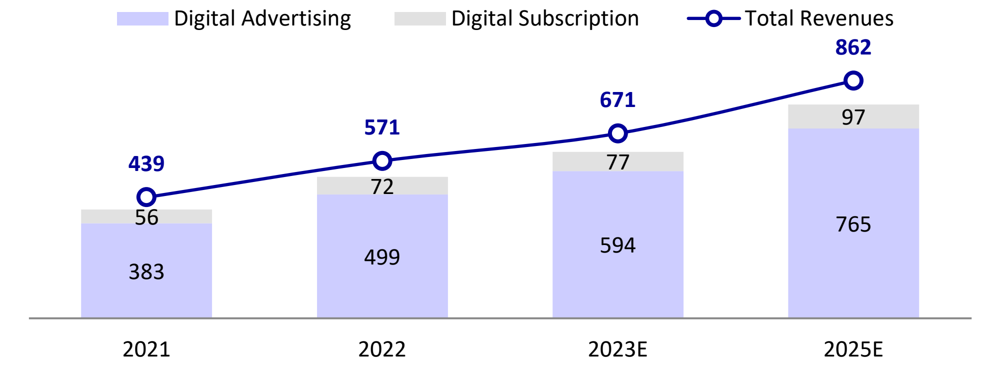


Source: MOFSL, FICCI EY media report

Digital segment to be at the forefront of growth

The digital segment is expected to register a CAGR of 15% over CY22-25 to reach INR862b. Within this, the digital advertising is expected to outpace the overall growth by registering a CAGR of 15% and gaining market share. It has reached 48% of total advertising in CY22, higher than the TV ad market at 30%. This is expected to further increase to 50% by CY23, and 54% by 2025, driven by SME and e-commerce. Entertainment OTT platforms, including sports, are expected to generate around INR60b of advertising revenue by CY25. Paid video subscriptions are anticipated to increase to 114m across 52m households if the current pricing remains stable. This could further exceed 100m households if annual pricing is reduced to ~INR1,000 for 3-4 services. The digital subscription segment is likely to register an 10% CAGR over CY22-CY25, which will be aided by improved acceptability of digital content. India offers one of the most affordable data charges globally (USD0.17 per GB v/s USD5.6 in the US and USD3.9 in Japan).

Exhibit 16: Digital segment to register a 15% CAGR over CY22-25 (INR b)



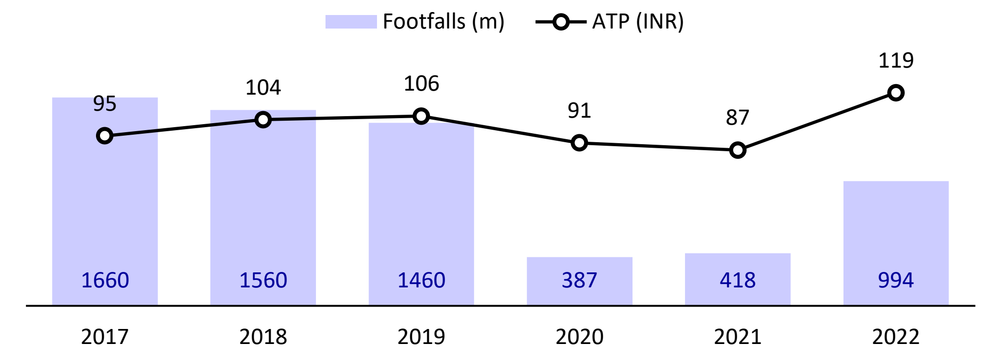
Source: MOFSL, FICCI EY media report

Filmed entertainment yet to reach pre-Covid levels

Pandemic-induced impact

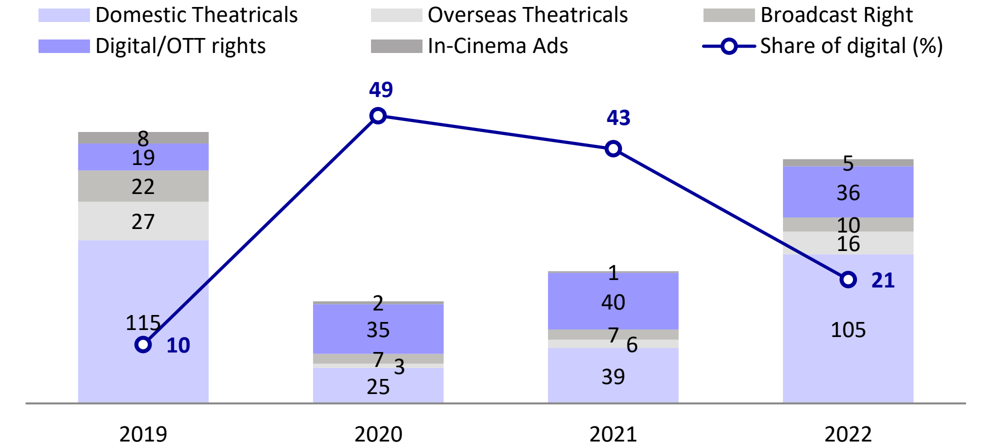
The film industry has faced significant challenges during the pandemic, experiencing the most severe impact among various sectors. With restrictions on public movement and cinema closures lasting for almost two years, the industry has struggled to recover to pre-pandemic levels. As per "UFO moviez" estimates, overall screen counts as on Dec22 stood at 9,382, which is ~2% lower than pre-pandemic levels. On an aggregate basis, domestic theatrical has seen improvement to reach INR105b in CY22 (INR115 in CY119). This has mainly been driven by a higher number of releases and ATP improvement. Overseas BO collection witnessed a decline due to lower number of releases (16 movies vs. 27 movies in 2019). The introduction of OTT release has further impacted the broadcasting rights and viewership as films were released on television after their theatrical and digital releases, as a result its share in revenue declined from 12% in CY19 to merely 6% in CY22.

Exhibit 17: Industry-level footfalls continue to remain sluggish; ATP improves



Source: MOFSL, FICCI EY media report

Exhibit 18: Improved digital share driving filmed entertainment market growth (INR b)

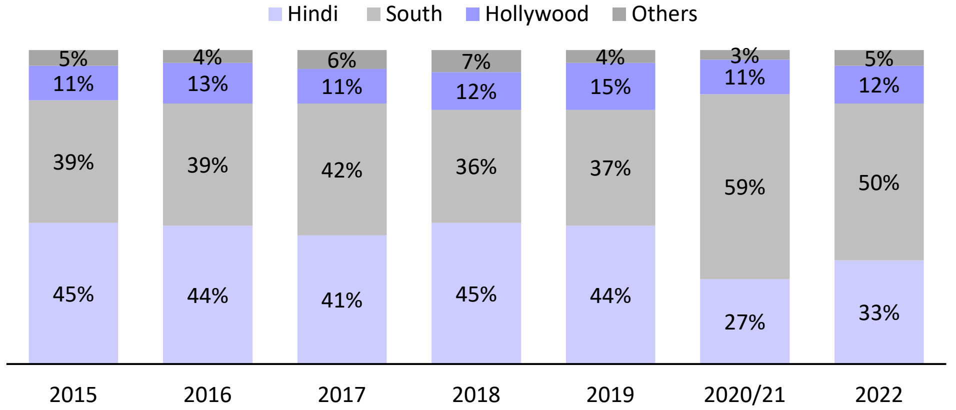


Source: MOFSL, FICCI EY media report

Segment witnessing a resurgence post-pandemic

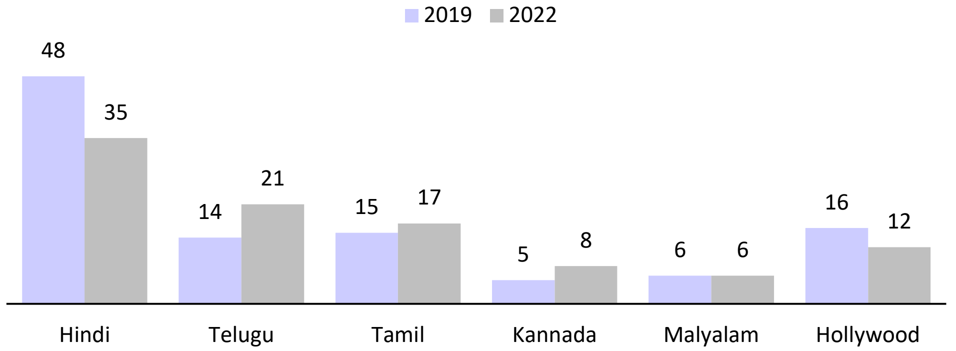
After being severely impacted by the pandemic, the segment witnessed higher release of domestic films in CY22, which helped improve domestic theatrical revenue. This however remained below pre-Covid levels due to lower occupancies. According to industry discussions, frequent cinema goers have reduced their visits from 2-4 times a month to just once a month, while infrequent visitors (a few times a year) have also decreased. Despite this, box office revenue surpassed the INR100b mark, primarily driven by strong performance of cinemas in South India (50% share) and improved ticket prices. However, Bollywood movies continue to struggle in terms of performance. The industry has seen a significant increase in the number of releases this year across various languages, with a total of 1,623 movies hitting the screens. This represents a 9% increase compared to the levels seen in 2019. The resumption of eight-week exclusivity window and opening up of theatres have resulted in a decline in the premium paid by OTT platforms to acquire content. As a result, the number of direct releases on OTT platforms witnessed a decline in CY22. However, the dominant position of these OTT players and their constant efforts to acquire content to expand their subscription base continues to pose threat to the traditional theatrical release model.

Exhibit 19: Improved share of Southern Cinema in the overall box office collection supports revenue



Source: MOFSL, FICCI EY media report

Exhibit 20: Gross box office collection (GBOC) for South crossing pre-pandemic levels, while other segments continue to linger (GBOC in INR b)



Source: MOFSL, FICCI EY media report

Exhibit 21: Improved share of regional movies in top 10 collections

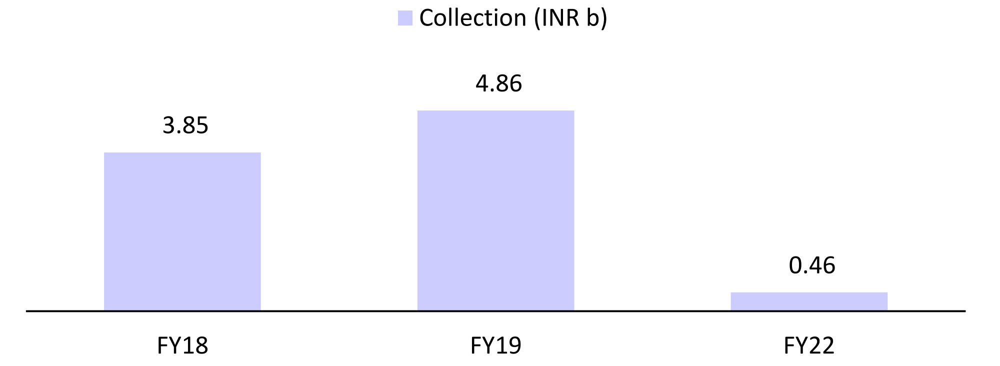
2022			2018		
Movie	**INR b**	**% of total**	**Movie**	**INR b**	**% of total**
KGF Chapter 2	10.0	22.5	Sanju	4.4	15.6
RRR	9.0	20.3	Padmaavat	4.0	14.2
Avatar: The Way of Water	4.7	10.5	Simmba	3.0	10.5
Kantara	3.6	8.2	2.0	5.5	19.6
Brahmastra Part One: Shiva	3.2	7.1	Race 3	2.2	7.7
Ponniyin Selvan - Part 1	3.1	7.0	Baaghi 2	2.1	7.5
The Kashmir Files	3.0	6.6	Thugs Of Hindostan	1.9	6.9
Vikram	2.9	6.5	Badhaai Ho	1.8	6.3
Drishyam 2	2.8	6.4	Stree	1.7	5.9
Bhool Bhulaiyaa 2	2.2	4.9	Raazi	1.6	5.6
Total collection	**44.5**	**35.5**		**28.1**	**80.4**
Share of non-Bollywood	**33.4**	**64.5**		**5.5**	**19.6**

Source: Sacnilk.com, BoxofficeIndia.com, MOFSL

Change in consumer preference visible

The exposure of OTT during the pandemic-related lockdowns allowed consumers to binge on content across segments and languages (Indian regional and International content), which led to a significant shift in content preferences. A deep dive into box office data further indicated box office collection data for movies rated "<4 IMDB ratings" witnessed a significant decline in FY22, indicating lower tolerance for sub-par content. This is substantiated by the recent under performances of Big ticket movies such as Aamir Khan's Laal Singh Chadha, Akshay Kumar's Rakshabandhan, and Vijay Devarakonda's Liger. Further, the improved acceptance of regional content such as Pushpa, RRR, and KGF has indicated that it is only relatable and escapist content that appeals to the audiences and draws incremental footfall and not the big stars that work their magic on the big screens. The increasing influence of digital platforms on box office collections, coupled with significant investments made by well-funded OTT players, poses a growing threat to the dominant position of theatres in the film industry.

Exhibit 22: Box office collection for "<4 IMDB-rating" movies plunges in FY22



Source: Sacnilk.com, BoxofficeIndia.com, MOFSL

Exhibit 23: OTT platforms continue to spend aggressively to acquire content

Movie	Date	Amount (INR b)	OTT
Pathaan	Apr'23	1.0	Amazon Prime
Tu Jhoothi Main Makkar	May'23	0.5	Netflix
Gehraiyaan	Feb'22	1.0	Amazon Prime
Atrangi Re	Dec'21	0.8	Disney+ Hotstar
Govinda Naam Mera	Dec'22	0.6	Disney+ Hotstar
Laal Singh Chadda	Oct'22	0.9	Netflix
KGF 2	May'22	3.2	Amazon Prime
Pushpa: The Rise	Jan'22	0.3	Amazon Prime
Bhool Bhulaiya 2	Jun'22	0.3	Netflix
Gangubai Kathiyawadi	Apr'22	0.7	Netflix
Jhund	May'22	0.3	Zee5

Source: MOFSL, media reports

Exhibit 24: Movies with strong star cast see direct OTT release

OTT movies released	Date	OTT app	Starcast
Bloody Daddy	Jun'23	Jio Cinemas	Shahid Kapoor
Sirf Ek Bandaa Kaafi Hai	May'23	Zee5	Manoj Bajpayee
Kanjoos Makhichoos	Mar'23	Zee5	Kunal Khemu
Mission Majnu	Jan'23	Netflix	Siddharth Malhotra
Govinda Naam Mera	Dec'22	Disney+ Hotstar	Vicky Kaushal, Kiara Advani
Gehraiyaan	Feb'22	Amazon Prime	Deepika Padukone, Ananya Pandey
Bob Biswas	Dec'21	Zee5	Abhishek Bacchan
Atrangi Re	Dec'21	Disney+ Hotstar	Akshay Kumar, Dhanush
Sardar Udham Singh	Oct'21	Amazon Prime	Vicky Kaushal
Shershah	Aug'21	Amazon Prime	Siddharth Malhotra
Bhuj: The Pride of India	Aug'21	Disney+ Hotstar	Ajay Devgn, Sanjay Dutt
Toofan	Jul'21	Amazon Prime	Farhan Akhtar, Paresh Rawal

Source: MOFSL, media reports

Improved penetration and revamping of strategy could drive growth:

- While the growth in the theatrical segment post pandemic has mainly been driven by pricing, the next leg of growth is expected to accrue from improved penetration. While the current occupancies continue to linger, companies would now look to expand their presence within the underpenetrated markets of Tier 2 and below cities. However, multiplex and broadcasting partners will have to find a balance between managing the capex heavy model and at the same time provide cinema experience at an affordable pricing, which could remain a key challenge. Broadcast rights are expected to remain muted as they have become a distant third window after theatrical and digital releases. Digital rights growth will be volume driven, with a similar number of tent-pole films, but more mid-budget films. In theatre, ad revenue too will continue to remain dependent on the occupancies.
- Further, the cinema segment is expected to split into two distinct categories, each catering to different audience segments with varying price-points. On one hand, there will be premium "multiplex-type" content that targets an audience of around 30m to 40m people. This content will likely come with higher ticket prices. On the hand, there will be less expensive mass content that aims to attract a larger audience of 100m to 120m people.

Media players continue to see a challenging environment

The segment continues to see headwinds in the form of slower recovery. Ad spends were negatively impacted by inflationary pressure, lower subscriptions, and changing customer preferences toward consumption of content.

Zee Entertainment: Merger timelines visibility remains a key

- Continued weakness in ad revenue, adversely impacted by the inflationary environment, especially in the FMCG segment is expected to pick up from 2HFY24. However, outlook on subscription revenue is expected to see some visibility with the implementation of NTO 3.0.
- Continued investment in digital content is expected to improve Zee5's KPIs. However, it will remain a drag on the profitability, given the digital segment continues to remain in an investment mode.
- The merged entity with a revenue potential of ~INR190b and EBITDA of INR45b is trading at a reasonable valuation of 4.9x EV/EBITDA on FY24 basis. However, any certainty around merger timelines remains a key monitorable.
- The recent ruling by SEBI disqualifying Mr. Puneet Goenka has further prolonged the merger process and continues to be a crucial factor in its resolution. Although the NCLT has reserved its order on the merger proceedings, even if the decision is in favor of the merger, the appointment of new leadership will be necessary for the merged entity.

PVR: Slower recovery in occupancies to remain a drag

- The slower recovery in occupancies is being witnessed, which remains a drag on the business. A dry pipeline of movies and lower traction after "Pathaan" have further added to the concerns.
- Occupancy levels, which stood at ~31% in the pre-Covid period, have now come to ~25% (merged entity) as on Mar'23 as the overall top-line growth was mainly driven by improved pricing.
- Continued uncertainty around acceptability of content, slower recovery in advertising revenue, along with increased risk of rising scale and the traction of movie releases over OTT platforms will continue to pose headwinds.
- The company is currently trading at an EV/EBITDA and P/E valuation of 9.6x/21.5x on FY25 basis, which we believe is fairly priced, given the uncertainty around recovery in occupancies.

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