Deloitte.

MPA
MOTION PICTURE DIST. ASSOCIATION
(India) Private Limited

Economic Contribution of the Indian Motion Picture and Television Industry

March 2014

Industry Partners

Federation of Indian Chambers of Commerce and Industry

The Film & Television Producers Guild of India Limited

Film Federation of India

Disclaimer:

This Report and the information contained herein has been prepared by Deloitte Touché Tohmatsu India Pvt. Ltd (DTTIPL) solely for the purpose of information. The reader shall not use this Report for any other purpose and in particular shall not use this Report in connection with the business decisions of any third party and for advisement purposes.

This Report contains analyses that are intended to provide high-level information on the subject and are not an exhaustive treatment of the subject. The analyses in the Report are limited by the study conducted, the time allocated, information made available to DTTIPL or collected by DTTIPL. DTTIPL accepts no responsibility or liability to any party in respect of this Report. This Report is not intended to be relied upon as a basis for any decision and the reader should take decisions only after seeking professional advice and after carrying out their own due diligence procedures, detailed analysis to ensure that they are making an informed decision. This Report is not and should not be construed in any way as giving any investment advice or any recommendations by DTTIPL to the reader or any other party. The reader shall be solely responsible for any and all decisions (including the implications thereof) made by them on the basis of this Report.

This Report has been prepared on the basis of information made available, obtained and collected by DTTIPL in association with Motion Picture Dist. Association (India) Pvt. Ltd. The sources of any material information used in the Report has been mentioned or cited herein. The information obtained and collected from the various sources primary and secondary sources has been used on an "as-is" basis without any independent verification by DTTIPL. DTTIPL shall not be responsible for any error or omissions, or for the results obtained from the use of this information and provides no assurance regarding the accuracy, timeliness, adequacy, comprehensiveness and/ or completeness of such information and provides no warranty of any kind, express or implied, including, but not limited to warranties of performance and fitness for a particular purpose. DTTIPL shall not be liable for any losses and damages arising as a result of any inaccuracy or inadequacy or incomprehensiveness or incompleteness of such information

This report or any extract from it may not be copied, paraphrased, reproduced or distributed in any manner or form, whether by photocopying, electronically, by internet, within another document or otherwise without the prior written permission of DTTIPL

Glossary

Abbreviation	Full Name	Abbreviation	Full Name
ARPU	Average Revenue Per User	GEC	General Entertainment Channel
ASSOCHAM	The Associated Chambers of Commerce and Industry of India	HD	High Definition
BN or bn	Billion	INR or Rs.	Indian Rupees
CAGR	Compound Annual Growth Rate	IO	Input Output
CII	Confederation of Indian Industry	LMO / LCO	Last Mile Owner / Local Cable Operator
Cr.	Crore (1 crore = 10 million)	MN or mn	Million
CY	Calendar Year (ended December 31^{st})	MOSPI	Ministry of Statistics and Programme Implementation
C&S	Cable & Satellite	MSO	Multi System Operator
DTH	Direct To Home	OTT	Over The Top
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	(P)	Projected
(E)	Estimated	STB	Set Top Box
FICCI	Federation of Indian Chambers of Commerce and Industry	TRAI	Telecom Regulatory Authority of India
FTE	Full Time Equivalent	TV	Television
FY	Fiscal Year (ended March 31^{st})	USD / US$	United States Dollar
GDP	Gross Domestic Product		

A note on units used

- This report uses the lakh / crore system, which is prevalent in India, versus the million / billion system
  - 1 crore (cr.) = 10 million
  - 1 lakh (or lac) = 0.1 million
- All values in this report are in crores of Indian Rupees, unless otherwise specified
- Employment numbers are in lacs
- Most Indian companies end their year on 31 March from a reporting perspective. In this report, FY20xx represents the year ended 31 Mar 20xx
- All numbers in this report refer to FY2013, unless otherwise specified
- US$ 1 = INR 62 has been used in this report for any INR to US$ conversions

Contents

Introduction

Background & context

- Deloitte Touche Tohmatsu India Pvt Ltd (DTTIPL) has conducted this study on ‘Economic contribution of the motion picture and television industry in India’ for the Motion Picture Association (MPA)
- India has an active motion picture and television industry. India is the largest producer of films in the world, and has a large Cable & Satellite (C&S) base of c. 140 mn homes
- Our study assesses the contribution of the motion picture and television industry to the Indian economy, and provides estimates measuring the magnitude of that contribution for FY2013
- The Indian motion picture and television industry comprises an array of businesses and services. We have analyzed economic contribution by key value chain elements, viz:
  - Film production & distribution
  - Film exhibition
  - Non-theatre revenues*
  - TV production
  - TV broadcasting
  - TV distribution
- Economic impact has been estimated in terms of gross output, total value added, and employment generated by the industry. Of these metrics, total value added (which inherently eliminates any “double counting”) is the recommended metric to measure the economic contribution to the country. These metrics are discussed further on the following page

Note: * Includes Cable and Satellite (C&S) rights, Digital/online rights, Music and Home video rights

Gross output, value added, and employment generated, are the key metrics used to assess economic impact

Gross Output (GO)	Gross Value Added (GVA)	Total Value Added (Contribution)	Employment
Gross Output	**EBITDA or Gross Operating Surplus (GOS) + Wages**	**Gross Value Added + Net Indirect Taxes**	**Employment**
• **Gross Output** reflects the combined revenue of all film and TV industry participants • This includes an element of double counting of revenues. It is derived by adding up revenues of players across the value chain, which includes revenues of intermediate services / products. (e.g. In case of films, producer's share of revenue is reflected in both production & distribution revenues, and also in exhibition revenues) • Gross output includes indirect taxes such as service tax and entertainment tax	• **Gross Value Added** represents the value added to key factors of production - capital and labor – in the form of EBITDA and Wages respectively • **EBITDA or Gross Operating Surplus (GOS)** reflects the total returns to capital. It captures the direct taxes (i.e. income taxes and corporate taxes) paid by the industry • **Wages** represents the returns to labor, which includes payments made to contractual workers	• **Total Value Added** is the sum of the Gross Value Added and Indirect Taxes. It represents the total contribution of the film and TV industry to India's GDP • **Net Indirect Taxes (NIT)** includes service tax, VAT, entertainment tax, municipal tax, property tax, among others. For this study, we have considered service tax and entertainment tax, which are the key forms of indirect tax that the Film and TV industry are subjected to	• **Employment** reflects the number of jobs created as a result of film and TV industry activity in India • Employment generated has been estimated for key elements in the film and TV industry value chain viz. Production & Distribution, Exhibition, Home Video, Digital Revenues, and Digital Distribution for the film industry, and Production, Broadcasting, and Distribution for the TV industry

In addition to directly impacting the economy, the film and TV sectors also have an indirect impact

Our analysis takes into account the direct as well as indirect economic impact created by the industry to determine the total economic contribution. In other words, it measures not just the value add created by the industry itself, but also the value add created for other industries.

Gross Output

- Total operating expenses (other than wages) of the film and TV sectors have been considered as indirect gross output to other sectors of the economy
- For the purpose of indirect impact calculations, double counting from revenue as well as cost calculations has been eliminated

GVA and NIT

- The Ministry of Statistics and Programme Implementation (MOSPI) in India provides the ratio of GVA/ Output and NIT/ Output for various industries (Input-Output transactions table)
- Since the indirect impact pertains to impact across industries, the all-India ratios across industries have been applied to the indirect Gross Output estimated above
- The GVA/ Output ratio and NIT/ Output ratio that have been used are 0.47 and 0.02 respectively

Employment

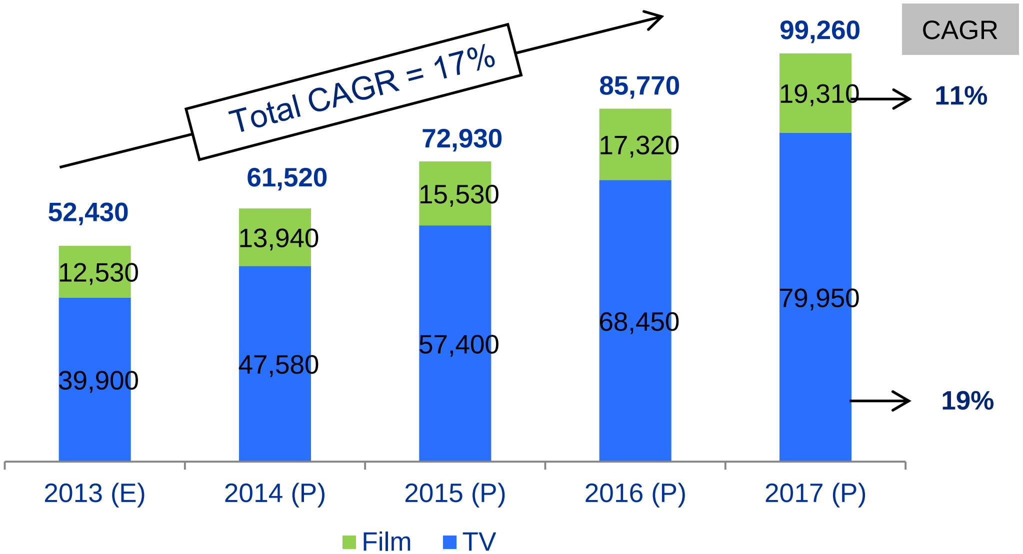
- The National Sample Survey Organization (NSSO) conducted a survey of c. 200,000 enterprises across rural and urban India, and one of the items estimated was the GVA per worker
- The GVA / worker for urban India across industries has been used in our study, since the Indian film and television industry is primarily based in urban parts of the country
- This average GVA / worker of INR 1.35 lacs (US$ 2,161) has been applied to the indirect GVA as estimated above in order to obtain an estimate of the indirect employment

[1] NSSO report on 'Service Sector in India (2006-07) – Economic Characteristics of Enterprises'

Executive Summary

Executive Summary - INR

Film and TV Industry Market Size in India (INR Cr.)



Summary of key economic impact metrics (INR Cr.)

FY2013	Gross Output		Contribution (GVA+NIT)		Employment (lacs)	
	Direct	Total	Direct	Total	Direct	Total
Indian Film	22,384	34,080	5,291	11,048	1.84	5.93
Indian TV	57,584	80,668	27,777	39,139	4.83	12.89
Total	**79,968**	**114,748**	**33,068**	**50,187**	**6.67**	**18.82**

Note: GVA: Gross Value Added; NIT: Net Indirect Tax
GDP at current market prices was estimated at INR 10,028,118 Cr. for 2012-13 as per the Economic Survey of India 2012-13
Source: Media reports, Industry discussions, Deloitte analysis

Film and TV industry size

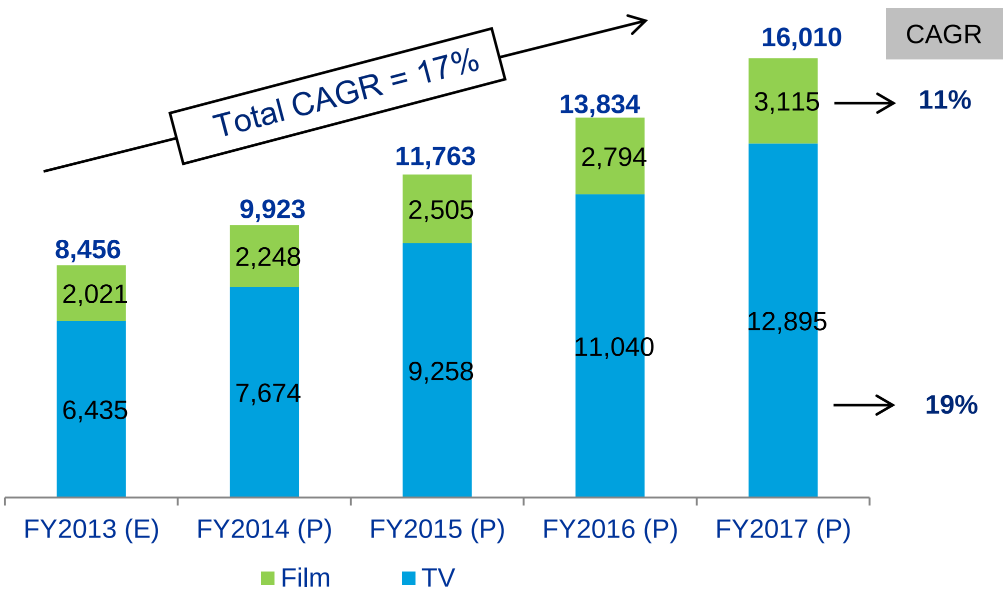
- The combined revenues of film and TV industry are estimated to be INR 52,430 Cr. In FY2013. They are projected to grow at a CAGR of 17% until FY2017

Economic impact

- The total Gross Output (Direct + Indirect) of the Indian film and TV industry in FY2013 is estimated at c. INR 115,000 Cr.
- The total contribution (Direct + Indirect) of the film and television industry, calculated as sum of Gross Value Added (GVA) and Net Indirect Taxes (NIT), is estimated at c. INR 50,000 Cr. for FY2013, which constitutes ~0.5% of the Gross Domestic Product (GDP) of India
- The total employment generated by both industries is estimated at ~18.8 lac workers

Executive Summary - US$

Film and TV industry market size in India (US$ mn)



Summary of key economic impact metrics (USD mn)

FY2013	Gross Output		Contribution (GVA+NIT)		Employment ('000)	
	Direct	Total	Direct	Total	Direct	Total
Indian Film	3,610	5,497	853	1,782	184	593
Indian TV	9,288	13,011	4,480	6,313	483	1,289
Total	**12,898**	**18,508**	**5,334**	**8,095**	**667**	**1,882**

Film and TV industry size

- The combined revenues of film and TV industry are estimated to be USD 8,456 mn in FY2013, they are projected to grow at a CAGR of 17% until FY2017

Economic impact

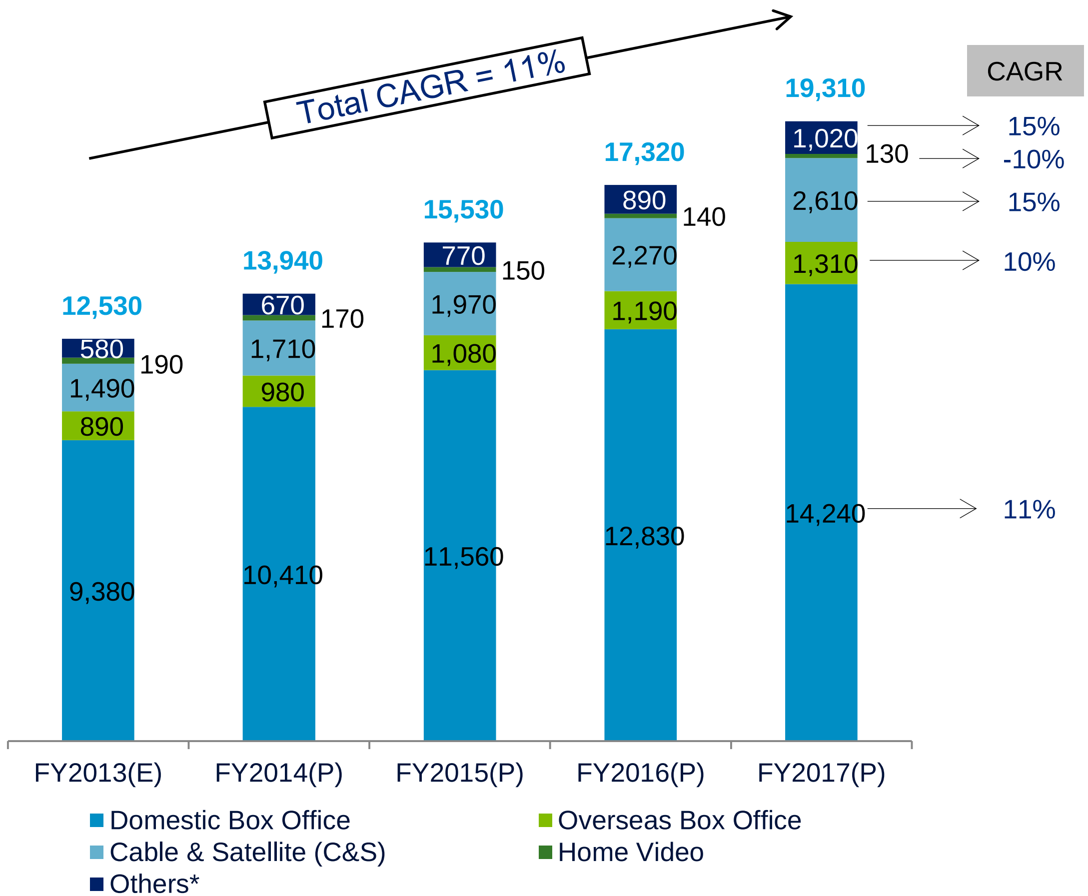
- The total Gross Output (Direct + Indirect) of the Indian film and TV industry in FY2013 is estimated at c. US$ 18.5 bn
- The total contribution (Direct + Indirect) of the film and television industry, calculated as sum of Gross Value Added (GVA) and Net Indirect Taxes (NIT), is estimated at c. US$ 8.1 bn for FY2013, which constitutes ~0.5% of the Gross Domestic Product (GDP) of India
- The total employment generated by both industries is estimated at ~1.8 mn. workers

Note: GVA: Gross Value Added; NIT: Net Indirect Tax
GDP at current market prices was estimated at INR 10,028,118 Cr. for 2012-13 as per the Economic Survey of India 2012-13
Source: Media reports, Industry discussions, Deloitte analysis

Motion Picture / Film Industry

The Indian film industry is estimated at INR 12,530 Cr. in FY2013, and expected to grow at a CAGR of 11% over the period FY2013 – FY2017

Estimated film industry market size (INR Cr.)



Source: Industry discussions, Media reports, and Deloitte analysis

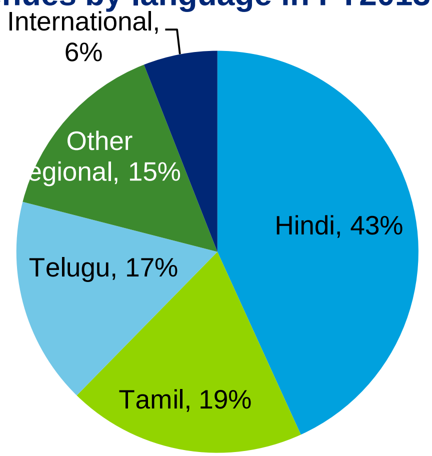
Notes:
*Others includes revenues from digital & music rights
(E): Estimated; (P): Projected

Key highlights

- Domestic box office collections accounted for a majority of film industry revenues, representing 75% of total industry revenues in FY2013
- C&S rights and online/digital aggregation revenues are the fastest growing segments, and expected to grow at a CAGR of about 15% over the period FY2013 – FY2017, driven by rising demand for movies on TV and increasing smartphone penetration across the country respectively
- The Home Video industry has been shrinking, and this is expected to continue, driven by increasing piracy and more importantly, by the growing popularity of digital platforms. Home video has lost share to Video on Demand (VOD) through DTH operators and OTT platforms

While the Hindi movie industry in India is the largest, the country also has a fairly large and active regional movie industry

Box office net revenues by language in FY2013 in %



Source: Box Office reports, Industry discussions and analysis

Box office revenues by language in FY2013

	Languages	INR Cr.	US$ mn
A	**Hindi**	**3,500**	**565**
B	**Regional**		
i	Tamil	1,550	250
Ii	Telugu	1,350	218
Iii	Other Regional	1,220	197
C	**International (English and Foreign language films)**	**480**	**77**
	Net Revenues	**8,100**	**1,306**
	Add: Entertainment tax	1,270	205
	Gross Revenues	**9,380**	**1,513**

Source: Box Office reports, Industry discussions and analysis

Key highlights

- Films in India are usually segmented into 3 key groups, based on language: A) Hindi; B) Regional (includes Tamil, Telugu, Other Regional); C) International (includes English and foreign language films)
- The Hindi film industry is the largest in India, representing 43% of net box office revenue
- Within the Regional film industry, Tamil and Telugu are the largest segments comprising ~36% of net box office revenues
- The 'Other Regional' segment (comprising ~15% of net box office revenues) in FY2013 was estimated to be:
  - Malayalam (FY2013): INR 250-275 Cr (US$ 40-44 mn); Kannada (FY2013): INR 250-275 Cr (US$ 40-44 mn); Bengali (CY2012): INR 100 Cr (US$ 16 mn); Marathi (CY2011): INR 100 Cr (US$ 16 mn); Punjabi (CY2011): INR 50 Cr (US$ 8 mn); industry participants suggest that the Bhojpuri industry is also a notable contributor to regional cinema
- Large national producers such as Reliance Entertainment, Eros, Disney UTV, Viacom 18 Motion Pictures, Fox Star Studios as well as independent producers like Emmay Entertainment (Nikhil Advani), Akshay Kumar and Grazing Goat Productions plan to spend 20% of their annual budgets on regional cinema
- International films is currently a small, but growing segment, driven by rising numbers of English (and other foreign language) speakers, as well as increasing numbers of international movies witnessing dubbed releases across the country

Source: Industry discussions; "Real estate firm to co-produce Marathi film", January 20, 2014, Business Standard; "Prop no more", November 13, 2011, Business Today; "Reliance Entertainment, Eros, Disney UTV and others see bright future in regional films", March 29, 2013, The Economic Times

The industry is witnessing various changes: digital adoption across the value chain; international films gaining share, and TV broadcasters looking for regional content

Digital adoption across the value chain

- Nearly all theatres have adopted digital projection and receive their content digitally
  - This has enabled producers / distributors to have a larger release across theatres as the costs of physical transportation and print manufacturing is avoided
- Most film producers have also adopted digital cameras during production
  - Digital cameras are estimated to be used for 80-90% of the regional films as well as 90% of medium and smaller budget Hindi films

---

International / foreign films gaining share

- The increased dubbing of international / foreign films coupled with an increase in multiplexes have helped drive the box office share of foreign films from ~5% a few years ago to ~8% today
  - The number of foreign films dubbed into Indian languages has doubled over the past 5 years. Foreign films are being dubbed into Hindi, Tamil and Telugu which has helped them reach audiences beyond tier 1 cities
  - Multiplexes traditionally had a presence primarily in large metros. However, over the past few years, smaller towns like Gwalior, Indore, Bhopal, Ujjain, Nagpur, Raipur, Jabalpur in the central region and Asansol, Midnapur, Durgapur, and Balasab in West Bengal have witnessed a significant rollout of multiplexes

---

National TV broadcasters looking for alternative / regional content

- The escalating costs of C&S rights of Hindi films have led national broadcasters to look for alternative sources of content. While the first six months of 2010 saw 25 telecasts of dubbed films on Hindi General Entertainment Channels (GECs), the number rose to 117 during the same period in 2012
  - South Indian films, especially those in Tamil and Telugu, appear to have a high dose of action and drama, coupled with good production values, which makes them appealing to viewers across the country
  - On average, a Hindi film that has a production cost of about INR 10-15 Cr. (US$ 1.6-2.4 mn) expects about INR 3-5 Cr. (US$ 0.5-0.8 mn) for its C&S rights. In contrast, Hindi dubbed versions of South Indian films are available to broadcasters for INR 1-2 Cr. (US$ 0.16–0.32 mn)
- The appeal of South Indian films' content, along with availability at a relatively lower price, has led to an increase in interest among national broadcasters over the past 4-5 years

 Source: Industry discussions ; "Hindi channels dub to dip in the southern flavour", July 19, 2012, The Hindu Business Line

The traditional box office value chain consists of production, distribution and exhibition, and the direct economic impact of each element has been estimated

Production	Distribution	Exhibition

Production / Distribution

- Film production pertains to the process of making a film, while film distribution is the process of taking the film to multiple theatres (exhibitors)
- The film production and distribution elements of the motion picture value chain have been analyzed together since most large film producers also have distribution facilities
- Films have been analyzed by nine segments, resulting from two types of cuts: a cut by language (Hindi, Tamil and Telugu – which together are estimated to represent in excess of 70% of all-India film revenues), and then a cut by budget (large, medium and small)
- Estimates for the remaining languages are based on extrapolation of the above three key languages
- Foreign films are typically released in India through local distribution offices of the parent company
  - For the purpose of this report, it has been assumed that the profits earned by the local distribution offices are repatriated abroad after paying local staff, and hence such profits have been excluded from the value added to the Indian economy
  - We have however, included the wage related expenses

Exhibition

- Exhibition revenues take into account ticket sales as well as concessions, advertising and others streams
- To estimate the EBITDA and Wage contribution of the theatrical exhibition sector, we have considered single screens and multiplexes separately
- Foreign films' contribution to the Indian exhibition sector has also been accounted for

Elements such as online / digital aggregators and digital distributors of films are also part of the film industry value chain, and their direct impact has also been estimated

Online / Digital aggregators

- A film earns a significant share of revenue from non-theatrical avenues such as licensing (and/or sales) of C&S rights, internet rights, home video rights etc.
- Aggregators (e.g. Rajshri, Shemaroo etc.) are conduits between filmmakers / distributors and platforms (e.g. iTunes, You Tube etc.) where people go to watch or buy films
- We have included revenues earned by the aggregators but not by the third party platforms

---

Digital distribution

- Digital distribution refers to distribution of films to theatres via satellite
- We have estimated this segment based on the industry discussions and publicly available information of key players such as UFO and Real Image

Summary of key direct impact metrics for the film industry

Segments (INR Cr.)	A	B	C	D (B+C)	E	F (D+E)	G
	Gross Output (Direct)	EBITDA	Wages	Gross Value Added (Direct)	Net Indirect Taxes	Total Value Added (Direct)	Employees (Direct) in lacs
Production & Distribution	7,580	(673)	1,549	876	142	1,018	0.46
Exhibition	13,553	1,364	941	2,305	1,267	3,572	1.35
Home Video	268	59	21	80	-	80	0.00
Online aggregators	557	279	67	345	-	345	0.00
Digital distribution	425	208	68	276	-	276	0.01
Total	**22,384**	**1,236**	**2,646**	**3,882**	**1,409**	**5,291**	**1.84**

Segments (US$ mn)	A	B	C	D (B+C)	E	F (D+E)	G
	Gross Output (Direct)	EBITDA	Wages	Gross Value Added (Direct)	Net Indirect Taxes	Total Value Added (Direct)	Employees (Direct) in '000s
Production & Distribution	1,223	(108)	250	142	23	165	46
Exhibition	2,185	219	152	371	205	576	135
Home Video	44	10	3	13	-	13	0
Online aggregators	90	45	11	56	-	56	0
Digital distribution	69	34	11	45	-	45	1
Total	**3,610**	**200**	**427**	**626**	**227**	**853**	**184**

Note: The above metrics have been discussed in greater detail in subsequent pages

The direct gross value added by the Indian film industry in FY2013 was estimated at INR 3,882 Cr. (US$ 626 mn)

The table below summarizes the Indian film industry's Gross Output (Direct) and Gross Value Added (Direct) for FY2013

Segments	A		B		C		D (B+C)	
	Gross Output (Direct)		EBITDA		Wages		Gross Value Added (Direct)	
	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn
Production & Distribution	7,580	1,223	(673)	(108)	1,549	250	876	142
Exhibition	13,553	2,185	1,364	219	941	152	2,305	371
Home Video	268	44	59	10	21	3	80	13
Online aggregators	557	90	279	45	67	11	345	56
Digital distribution	425	69	208	34	68	11	276	45
Total	**22,384**	**3,610**	**1,236**	**200**	**2,646**	**427**	**3,882**	**626**

- **Gross Output (Direct):** Gross Output reflects the combined revenue of all film industry participants. It includes an element of double counting of revenues. It is derived by adding up revenues of players across the value chain which includes revenues of intermediate services / products. (e.g. producer's share of revenue is reflected in both production & distribution revenues, and also in exhibition revenues). It includes entertainment taxes and service taxes. The Direct Gross Output of the film industry is estimated at INR 22,384 Cr. (US$ 3,610 mn) with the two key sectors of production and exhibition contributing ~ 35% and ~ 58% respectively
- **EBITDA / Gross Operating Surplus (GOS):** GOS reflects the total returns to capital. It also captures the direct taxes (i.e. income taxes and corporate taxes) paid by the industry. The film industry's GOS in FY2013 was estimated at INR 1,236 Cr.(US$ 200 mn)
  - The production sector can be broadly categorized into (a) Organized sector (comprising of large corporates/studios), and (b) Unorganized sector (comprising of smaller, independent producers). While the organized sector is largely EBITDA positive, the unorganized, independent producers are incurring losses
- **Wages:** Wages represent the returns to labor, which includes payments made to contractual workers. Wage payments in FY2013 were estimated at INR 2,646 Cr.(US$ 427 mn), with the production sector constituting ~59% of the total wages paid, largely due to the escalating fees paid to the lead cast in films
- **Gross Value Added (Direct):** GVA is the value-add created by labor and capital inputs employed directly by the industry (i.e. EBITDA+ Wages). It was estimated at INR 3,882 Cr. (US$ 626 mn) in FY2013

The Indian film industry is estimated to have directly provided employment to 1.84 lakh people in FY2013, and added INR 5,291 Cr. (US$ 853 mn) of value to the economy

The table below summarizes the Total Value Added and Number of persons employed by the Indian film industry in FY2013

Segments	D		E		F (D+E)		G
	Gross Value Added (Direct)		Net Indirect Taxes		Total Value Added (Direct)		Employees (Direct) in lacs
	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	
Production & Distribution	876	142	142	23	1,018	165	0.46
Exhibition	2,305	371	1,267	205	3,572	576	1.35
Home Video	80	13	-	-	80	13	0.00
Online aggregators	345	56	-	-	345	56	0.00
Digital distribution	276	45	-	-	276	45	0.01
Total	**3,882**	**626**	**1,409**	**227**	**5,291**	**853**	**1.83**

- **Net Indirect Taxes (NIT):** NIT includes service tax, VAT, entertainment tax, municipal tax, property tax, among others. For this study, we have considered service tax and entertainment tax, which are the key forms of indirect tax that the Film industry is subjected to
  - As per the service tax department of India, the total service tax revenue in FY2013 related to the transfer of temporary/permanent use of copy right in respect of cinematographic films and sound recording was estimated at INR 142 Cr. (US$ 23 mn). We have attributed this amount to “Production and distribution”, since a significant portion of the above work-streams would fall under this element of the value chain
  - The estimate of entertainment tax of INR 1,267 Cr. (US$ 205 mn), is based on the overall budgeted entertainment tax collection, as per Indian Public Finance Statistics Report 2012-2013. The film exhibition segment is said to contribute over 80% of the entertainment tax collection
- **Total Value Added (Direct):** This is the sum of the Gross Value Added and Net Indirect Taxes. It represents the total direct impact of the film industry in India to the economy, and is estimated at INR 5,291 Cr. (US$ 853 mn) for FY2013
- **Employees (Direct):** This reflects the number of jobs created as a direct result of film industry activity in India. It is calculated by first segmenting movies according to their budgets (small/medium/large) and then estimating the man hours needed based on industry discussions. It is estimated that the film industry in India directly employed around 1.84 lakh persons in FY2013

Source: Entertainment Tax Department of Delhi; Industry discussions

Including indirect impact, the Indian film industry is estimated to have contributed a total value add of INR 11,048 Cr. (US$ 1,782 mn) to the economy

The table below summarizes the multipliers / ratios for indirect impact calculations

	GVA/ Output	NIT/ Output	GVA/ Worker (in INR lacs)
Multipliers/ Ratios	0.47	0.02	1.35

The table below summarizes the total impact of the film industry in FY2013

Segments	Gross Output		Gross Value Added (GVA)		Net Indirect Taxes (NIT)		Total Value Added (GVA+NIT)		Employees in lacs
	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	
Direct impact	22,384	3,610	3,882	692	1,409	227	5,291	853	1.83
Indirect impact	11,696	1,886	5,518	890	239	39	5,757	929	4.08
Total	**34,080**	**5,497**	**9,400**	**1,516**	**1,648**	**266**	**11,048**	**1,782**	**5.92**

- **Indirect gross output:** Total operating expenses (other than wages) of the film sector have been considered as indirect gross output to other sectors of the economy. For the purpose of indirect impact calculations, double counting from revenue as well as cost calculations has been eliminated

- **Indirect impact on GVA and NIT:** The Ministry of Statistics and Programme Implementation (MOSPI) in India provides the ratio of GVA/Output and NIT/Output for various industries (Input-Output transactions table 2007-08: Matrix 1). Since the indirect impact pertains to impact across industries, the all-India ratios across industries have been applied to the indirect Gross Output estimated above. The GVA/Output ratio and NIT/Output ratio that have been used are 0.47 and 0.02 respectively

- **Indirect employment**: The National Sample Survey Organization (NSSO) conducted a survey[1] of c. 200,000 enterprises across rural and urban India, and one of the items estimated was the GVA per worker. The GVA / worker for urban India across industries has been used in our study, since the Indian film and television industry is primarily based in urban parts of the country. This average GVA / worker of INR 1.35 lacs (US$ 2,161) has been applied to the indirect GVA in order to obtain an estimate of the indirect employment'

[1]NSSO report on 'Service Sector in India (2006-07) – Economic Characteristics of Enterprises'

The Indian film industry needs to combat an underdeveloped infrastructure, tax-related challenges, and piracy in both digital and physical formats

Under-developed infrastructure

- While India certified 1,602 films in 2012, up to 90% of them were not able to find enough theatres. Most urban metros have adequate screens, however, the semi-urban and rural areas lack the required infrastructure such as good locations like malls, access to low-cost power etc.

Complicated Tax regime

- Different states levy different entertainment taxes based on the film's language. Some industry participants suggest a uniform entertainment tax across all states to create a level playing field for films across India. While regional language films have tax advantages in their home state, Hollywood and Hindi films are taxed heavily. For instance
  - In Maharashtra, Marathi films do not pay any entertainment taxes while all other language films must pay it at the rate of 45% of the ticket price
  - In Tamil Nadu, Tamil films do not pay any entertainment taxes while all other language films must pay 15% of the ticket price
- In addition to entertainment taxes, exhibitors incur other indirect taxes such as show tax, municipal tax, property tax, service on rentals etc. which makes the tax structure fairly complicated
- Service tax is levied on film distribution and sale of rights, and on technicians' pay. Industry participants suggest an exemption from service tax as these taxes ultimately impact producer's margins which are already in the red
- The lack of a credible and central source for box office data in India may create challenges for tax collection authorities

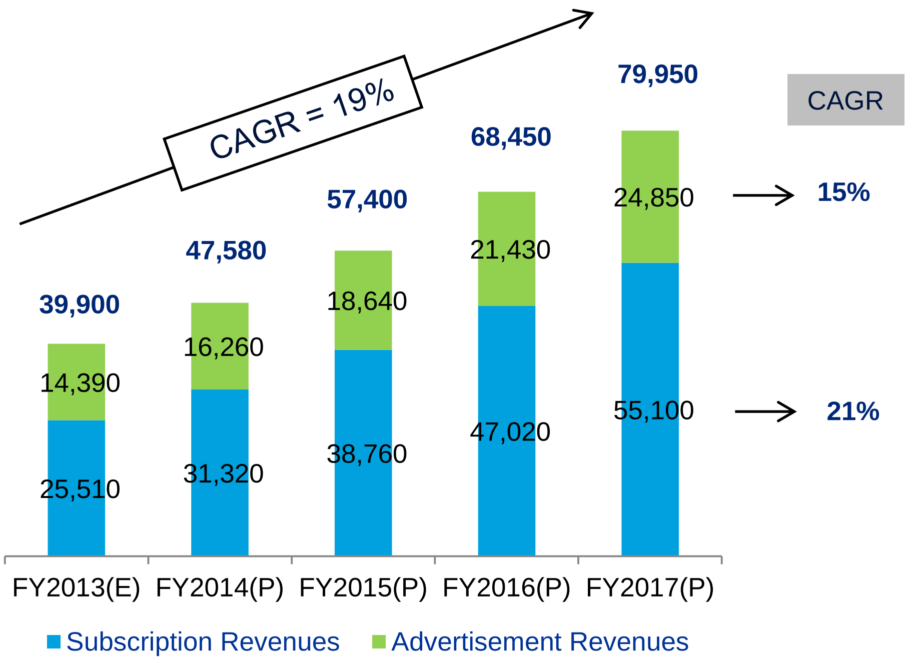
Piracy

- The reduction in theatre-to-television window of films has reduced the scope for pirated DVD sales. However, piracy still continues to pose a threat to home video and web-based revenues. The Hindi film home video market has been declining over the past several years largely due to the easy availability of pirated DVDs and VCDs at unorganized retail outlets
  - To combat online piracy, the Anti-Video Piracy Cell (AVPC) of the Andhra Pradesh Film Chamber of Commerce (APFCC) has designed a free web application that helps users report cases of piracy to the AVPC instantly. The application is multilingual and accessible on multiple platforms. This initiative is in its early stages, and its impact may be felt in the short-medium term

Television Industry

The Indian television industry was estimated at c. INR 40,000 Cr. (US$ 6,451 mn) in FY2013, and is expected to grow at a CAGR of 19% over the period FY2013 – FY2017

Estimated television industry market size[1] (INR Cr.)



Source: Media reports, Industry discussions, Deloitte analysis

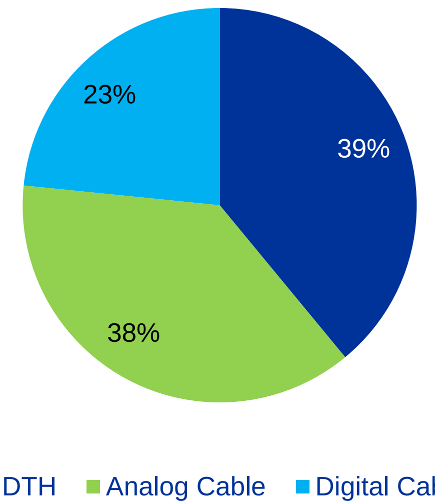
Key highlights

- The television industry derives its revenue from subscription and advertising
- Digitization of cable in India is expected to drive rapid growth in subscription revenue, as well as bring in other benefits to the industry
  - India, with regulation acting as catalyst, is on the journey to digitize its considerable analog cable subscriber base in four phases
  - Digitization is expected to bring in transparency and plough back of subscription revenue into the value chain (analog cable has been characterized by under-reporting by Local Cable Operators i.e. LCOs)
  - Digitization is expected to raise ARPUs as customers move to "digital level" ARPUs from "analog level" ARPUs (which were often subsidized through under-reporting)
- Subscription revenues are slated to grow faster (CAGR 21%) than ad revenues (CAGR 15%) over the period FY2013 to FY2017; with initial years seeing higher growth owing to digitization

Note: Advertisement and subscription revenues are net of indirect taxes such as service tax and entertainment tax

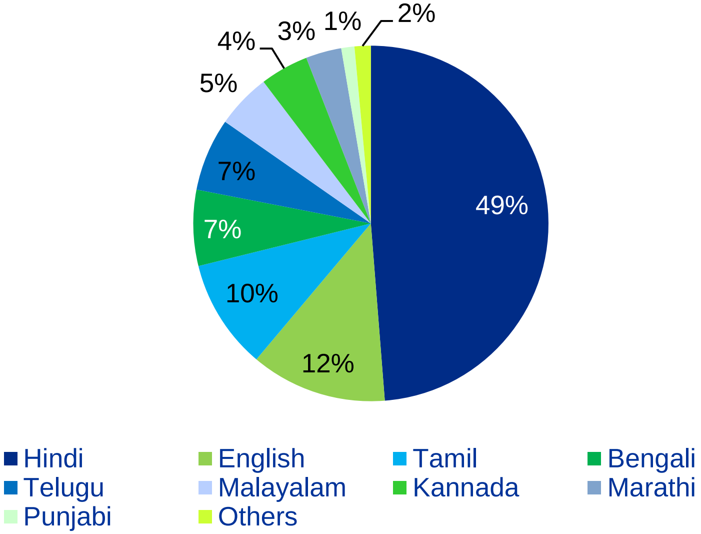
While Hindi remains the dominant language in television, India has a fairly large and active regional television market

Subscription base by technology (FY2013)



TV Subscription base FY2013: 141 Million

Advertisement revenues by language[1] (FY2013)



TV Ad revenue FY2013: INR 12,069 Cr.

[1] Ad revenue pie does not include ad revenues from Sports channels. Others include Gujarati, Odiya and Bhojpuri ad revenues

Key highlights

- **Subscription technology:** The above chart provides an estimate of India's C&S subscriber base by technology. As discussed on the preceding page, India's analog cable subscribers are in the process of converting to digital technology
- **Ad revenues:** Hindi language channels (GECs, movies, news and other niche genres) contributed c. 50% to the TV ad market in FY2013. However, industry discussions suggest that regional channels are expected to grow at a faster pace than Hindi channels. Some industry participants also believe that regional channels may be more insulated in economic downturns than national channels, as they usually have a "local" advertiser base which is less impacted by global trends / slowdown

Source: Media reports, industry discussions, Deloitte analysis

Digitization of cable, along with changing consumer preferences for 'type of content' and 'medium of content consumption', will drive growth going forward

Digitization of cable	• The Government's mandate of digitizing the entire country in four phases is expected to benefit consumers, distributors as well as broadcasters − Consumers may watch a greater variety of channels in digital quality and have the option of paying only for their favourite channels − With higher number of reported subscribers and rising ARPU levels, Multi System Operators (MSOs) are expected to register better revenue shares going forward − Broadcasters stand to gain a higher share of subscription revenues along with carriage fees being reduced over time (limited bandwidth of analog cable led to a high carriage fee)
Changing content preferences	• Content preferences are fast changing, thus requiring industry players to modify strategies accordingly: − **Regional content**: Advertising by local as well as national players is on the rise on regional channels, thus enabling players to connect with their target audience at reduced costs. Consumer demand for content in local languages has also been increasing over the past few years − **HD content**: Increased penetration of LCD and LED TVs, growth of digitization and the need to differentiate has led broadcasters to launch HD channels. These will result in higher ARPUs thus increasing revenues for operators and broadcasters alike − **Innovative content**: Non fiction shows with novel concepts have found traction with consumers who until a few years ago were hooked to family dramas. Although fiction will always be the mainstay of Indian television, non-fictions shows are seeing greater acceptance by consumers
New Media	• With increasing number of users wanting to consume content 'on the go', national as well as regional broadcasters are creating a digital universe parallel to the traditional TV watching experience. They are increasingly investing on various digital platforms i.e. online and mobile portals/ applications • Digital media consumption is expected to be higher with increasing broadband penetration and faster access through 3G and 4G technologies

Source: Media reports, News articles, industry discussions; Deloitte-FICCI report on 'The Digital March – Media & Entertainment in South India', October 2013; 'In focus: The GEC segment in Indian TV – Getting the equation correct', March 2012, Box Office India; 'Colors' gung ho digital strategy', June 2013, Indiantelevision.com

The TV industry value chain consists of three key elements, and the direct economic impact of each element has been estimated

Production	Broadcasting	Distribution
• Content revenues for producers have been estimated on the basis of content costs as % of ad revenues for GECs • TV content revenues have been segmented across Hindi and other regional languages • Wages in TV production include salaries of crew as well as cast (these include permanent as well as contractual employees) • Employment generated by producers has been estimated based on industry estimates of number of employees required per hour of original content produced	• Broadcasting revenues are a summation of subscription revenues flowing in from DTH and cable operators, as well as ad revenues for TV channels • Export earnings have been established by extrapolating earnings of the largest player i.e. Zee • Wages in TV broadcasting include salaries of permanent employees only • Employment generated by broadcasters has been estimated based on average revenue per employee ratio for key industry players	• Distribution revenues are segmented by technology i.e. DTH , Cable (cable has further been split into MSOs and LCOs) • Wages in TV distribution include salaries of permanent (on-roll) employees of DTH players and MSOs, as well as that of all people employed by LCOs • Employment generated by DTH operators has been estimated based on average employees per million subscribers for the DTH players • Employment generated by MSOs has been estimated based on average employees per million subscribers for the key MSOs • Employment generated by LCOs has been estimated based on an average number of employees per LCO

Summary of key direct impact metrics for the TV industry

The table below provides a snapshot of the Indian TV industry's total output, EBITDA, Wages and Net Indirect Taxes for FY2013

Segments *(INR Cr.)*	**A** Gross Output (Direct)	**B** EBITDA	**C** Wages	**D (B+C)** Gross Value Added (Direct)	**E** Net Indirect Taxes	**F (D+E)** Total Value Added (Direct)	**G** Employees (Direct) in lacs
Production	3,875	340	1,948	2,288	200	2,488	1.46
Broadcasting	22,316	3,718	2,568	6,286	1,200	7,486	0.22
Distribution	31,393	10,056	3,561	13,617	4,187	17,804	3.13
Total	**57,584**	**14,114**	**8,077**	**22,191**	**5,587**	**27,777**	**4.83**

Segments *(US$ mn)*	**A** Gross Output (Direct)	**B** EBITDA	**C** Wages	**D (B+C)** Gross Value Added (Direct)	**E** Net Indirect Taxes	**F (D+E)** Total Value Added (Direct)	**G** Employees (Direct) in lacs
Production	625	55	314	369	32	401	146
Broadcasting	3,599	600	414	1,014	194	1,207	22
Distribution	5,063	1,622	574	2,196	675	2,872	313
Total	**9,288**	**2,276**	**1,303**	**3,579**	**901**	**4,480**	**483**

Note: The above metrics have been discussed in greater detail in subsequent pages.

Source: Annual reports of listed players, Media reports, News articles, industry discussions, Deloitte analysis

The direct gross value added by the Indian TV industry in FY2013 was estimated at INR 22,191 Cr. (US$ 3,579 mn)

The table below summarizes the Indian TV industry's Gross Output (Direct) and Gross Value Added (Direct) for FY2013

Segments	A		B		C		D (B+C)	
	Gross Output (Direct)		EBITDA		Wages		Gross Value Added (Direct)	
	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn
Production	3,875	625	340	55	1,948	314	2,288	369
Broadcasting	22,316	3,599	3,718	600	2,568	414	6,286	1,014
Distribution	31,393	5,063	10,056	1,622	3,561	574	13,617	2,196
Total	**57,584**	**9,288**	**14,114**	**2,276**	**8,077**	**1,303**	**22,191**	**3,579**

- **Gross Output:** Gross Output reflects the combined revenue of all TV industry participants. It has been derived by estimating and adding up revenues of players across the value chain which includes revenues of intermediate services / products. (e.g. Broadcaster's share of subscription revenues is reflected in both Broadcasting and Distribution revenues). It therefore includes an element of double counting of revenues. The Gross Output of INR 57,584 Cr. (US$ 9,288 mn) estimated above also includes service and entertainment taxes (total of INR 5,587 Cr. / US$ 901 mn) paid by industry participants across the value chain
- **EBITDA / Gross operating surplus (GOS):** EBITDA reflects the total returns to capital employed. This metric also captures the direct taxes (i.e. income taxes and corporate taxes) paid by the industry. EBITDA was estimated at INR 14,114 Cr. (US$ 2,276 mn), with the distribution segment accounting for over 70% of the industry's profits, primarily because of LCOs' high margins
- **Wages:** Wages measure the returns to labor, which include payments made to contractual workers. Wage payments in FY2013 were estimated at INR 8,077 Cr. (US$ 1,302 mn)
- **Gross Value Added:** GVA is the value-add created by labor and capital inputs employed directly by the industry (i.e. EBITDA+ Wages). In FY2013, this was estimated at INR 22,191 Cr. (US$ 3,579 mn)

The Indian TV industry is estimated to have directly provided employment to 4.82 lakh people in FY2013, and added INR 27,777 Cr. (US$ 4,480 mn) of value to the economy

The table below summarizes the Total Value Added and number of persons employed by the Indian TV industry in FY2013

Segments	D		E		F (D+E)		G
	Gross Value Added (Direct)		Net Indirect Taxes		Total Value Added (Direct)		Employees (Direct) in lacs
	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	
Production	2,288	369	200	32	2,488	401	1.46
Broadcasting	6,286	1,014	1,200	194	7,486	1,207	0.22
Distribution	13,617	2,196	4,187	675	17,804	2,872	3.13
Total	**22,191**	**3,579**	**5,587**	**901**	**27,777**	**4,480**	**4.82**

- **Net Indirect Taxes (NIT):** NIT in the television industry include service tax, VAT, and entertainment tax, among others. For the purpose of this study, we have considered service tax relating to TV production, broadcasting and distribution, and entertainment tax paid by DTH and cable operators, which are the key taxes paid by the industry[1]
- **Total Value Added:** This is the sum of the Gross Value Added and Net Indirect Taxes. It represents the total direct impact of the TV industry in India to the economy, and is estimated at INR 27,777 Cr. (US$ 4,480 mn) for FY2013
- **Employees (Direct):** Direct employment figures include on-roll as well as contractual employees of independent production houses. Employees in TV broadcasting include in-house production staff as well as non-production roles such as Sales, Finance, HR etc. for TV networks. Distribution segment contributes the majority share of employment generated in the TV industry.
- Although on-roll employees for DTH operators and MSOs were much lesser compared to LCOs, industry participants peg exclusive employment[2] generated by these players at about 2 lac in FY2013

Note:
[1] Indirect taxes (service tax) for production and broadcasting have been taken from Government of India sources while indirect taxes (service as well as entertainment tax) for distributors have been estimated based on secondary research and industry discussions
[2] Exclusive employment implies employment generated through call centers, services, factory lines and distribution counters

Including indirect impact, the Indian TV industry is estimated to have contributed a total value add of INR 39,139 Cr. (US$ 6,313 mn) to the economy

The table below summarizes the multipliers / ratios for indirect impact calculations

	GVA/Output	NIT/Output	GVA/ Worker (in INR lacs)
Multipliers/ Ratios	0.47	0.02	1.35

The table below summarizes the total impact of the television industry in FY2013

Segments	Gross Output		Gross Value Added (GVA)		Net Indirect Taxes (NIT)		Total Value Added (GVA+NIT)		Employees in lacs
	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	INR Cr.	US$ mn	
Direct impact	57,584	9,288	22,191	3,579	5,587	901	27,777	4,480	4.82
Indirect impact	23,084	3,723	10,890	1,756	471	76	11,362	1,833	8.06
Total	**80,668**	**13,011**	**33,081**	**5,336**	**6,058**	**977**	**39,139**	**6,313**	**12.89**

- **Indirect gross output:** Total operating expenses (other than wages) of the TV sector have been considered as indirect gross output to other sectors of the economy. For the purpose of indirect impact calculations, double counting from revenue as well as cost calculations has been eliminated
- **Indirect impact on GVA and NIT:** The Ministry of Statistics and Programme Implementation (MOSPI) in India provides the ratio of GVA/Output and NIT/Output for various industries (Input-Output transactions table 2007-08: Matrix 1). Since the indirect impact pertains to impact across industries, the all-India ratios across industries have been applied to the indirect Gross Output estimated above. The GVA/ Output ratio and NIT/Output ratio that have been used are 0.47 and 0.02 respectively
- **Indirect employment**: The National Sample Survey Organization (NSSO) conducted a survey[1] of c. 200,000 enterprises across rural and urban India, and one of the items estimated was the GVA per worker. The GVA /worker for urban India across industries has been used in our study, since the Indian film and television industry is primarily based in urban parts of the country. This average GVA / worker of INR 1.35 lacs (US$ 2,161) has been applied to the indirect GVA in order to obtain an estimate of the indirect employment

[1]NSSO report on 'Service Sector in India (2006-07) – Economic Characteristics of Enterprises'

The Television industry in India faces various challenges

Excessive regulations/ taxation in TV distribution

- The TV distribution segment is excessively regulated, as well as very highly taxed. Three key issues identified by industry participants are:
  - **License fee**: Currently, DTH operators are required to pay 10% of their gross revenue as license fee for a period of 10 years. Although TRAI recommended reduction of license fee taken from DTH players from 10% to 6% in 2008, issues regarding license fee are sub-judice and still pending in the Supreme Court
  - **Multiple taxation**: Multiple taxes such as service tax, annual license fee (central levies), entertainment tax (state levy) are paid by DTH as well as cable operators. The rates of levies such as entertainment tax are not uniform and vary from state to state. The industry has been requesting for a more unified tax regime
  - **Import duty on STBs**: With manufacturing capability of quality STBs in India being low, operators are required to import STBs. These imported STBs are subsidized in order to compete with analog cable. In addition, import duties rose from 5% to 10% in the Union Budget FY2014
- DTH operators are paying around 33% of their topline as taxes. High taxation levels, along with increasing transponder costs, are affecting the industry

Digitization with addressability

- Industry discussions suggest that while STBs have been seeded in cable homes that have been converted to digital, KYC forms are still in the process of being collected. Thus MSOs are still in the process of collecting and updating the details of end customers in their systems
- This has resulted in the benefits of digitization (except carriage fee reduction) not yet reaching the value chain

Shifting focus of production houses

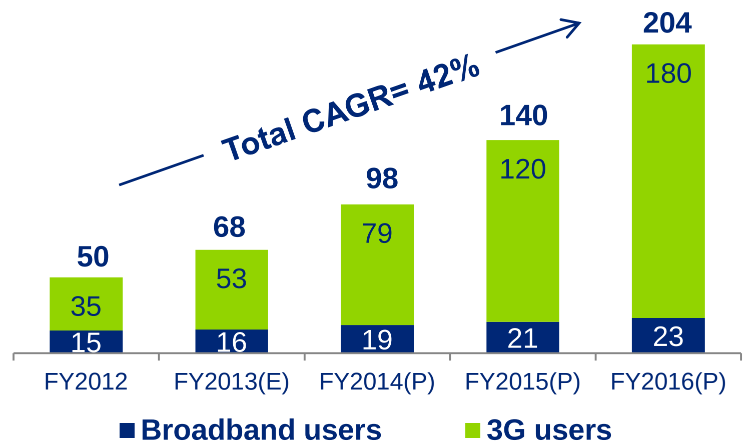
- Independent production houses are increasingly focusing on maintaining margins as opposed to creating quality content
- This appears to be a result primarily of fixed fee arrangements between producers and broadcasters for commissioned shows

Source: Media reports, News articles, industry discussions; DTH Operators Association of India’s response on the consultation paper – 9/2013 – on issue/ extension of DTH license

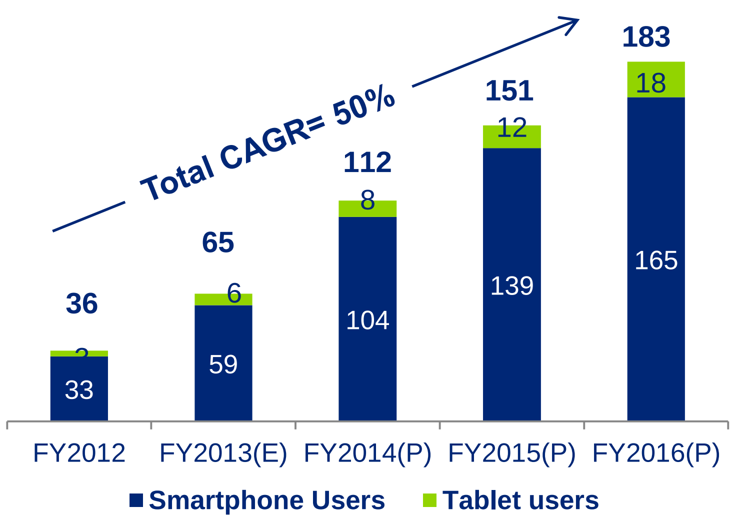
New Media

Greater device (smartphone, tablet) and pipe (broadband, 3G, 4G) availability is expected to enable rapid adoption of digital consumption of content

Broadband & 3G user base in India (MN)



Smart devices growth trend in India



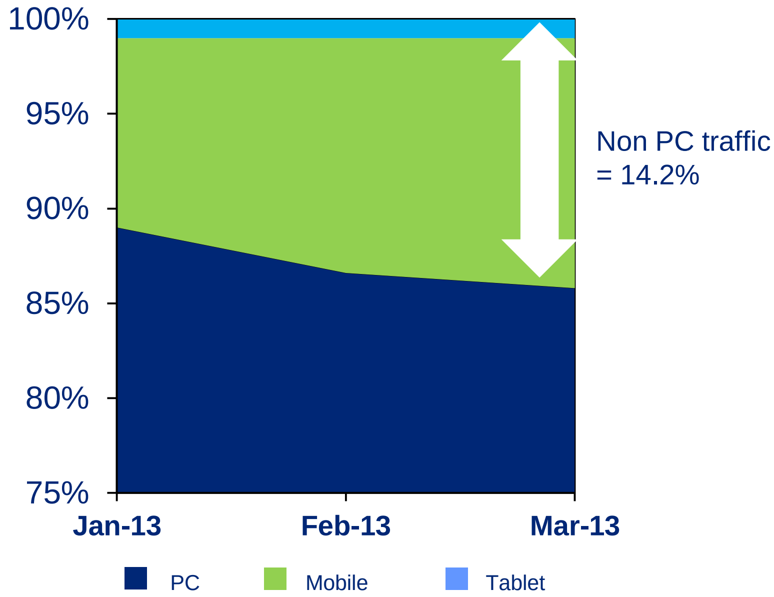
Key highlights

- India's internet user base (~165 MN, as of March 2013) is the third largest in the world after China and U.S.A
- A large majority (~87%) of these users access internet through their mobile devices
- 3G services are being aggressively pushed by bundling smartphones / dongles with low cost data plans
  - Operators slashed 3G tariffs by ~70% over 2012-13
- By the end of 2014, 4G (LTE – Long Term Evolution) is expected to be rolled out across India, which could accelerate broadband penetration in the country
- Sale of smart devices (smartphones and tablets) is expected to increase significantly in the near future, driven by factors such as:
  - Upgrade by existing users
  - Declining device and mobile data costs
  - Availability of smart devices at lower price points
  - Availability of wide range of applications and features

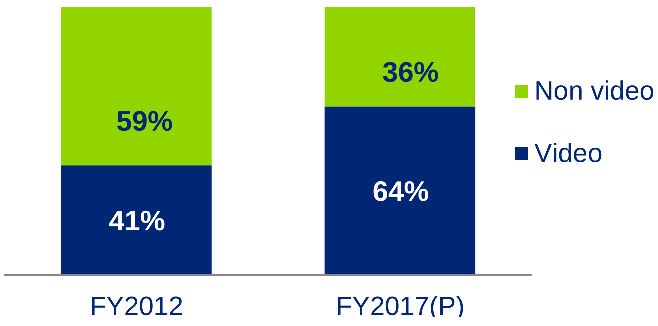
Source: Analysys Mason, Buddecomm, Gartner, IAMAI, TRAI, Deloitte analysis

With consumers increasingly wanting to watch content 'on the go', share of videos as well as non-PC devices in internet traffic is on the rise

Non-PC share of internet traffic in India



Share of Video in internet data traffic, India FY2012-17



Key highlights

- An increasing number of users appear to be accessing content via mobile handsets and tablets, as against PCs
- The number of app downloads in India is expected to grow from 1.56 billion p.a. in 2012, to 9 billion by 2015, which translates to a CAGR of 75%
- Video apps feature in the list of both top paid as well as top free apps downloaded in the country

- Share of video in internet data traffic is expected to rise from about 41% in FY2012, to 64% in FY2017
  – In India, consumer internet video traffic is expected to reach 1.4 exabytes[1] per month in 2017, up from 121 petabytes[1] per month in 2012
  – Each month ,1.7 billion videos are viewed online in India, with an average viewer watching 5.6 hours

Note: [1]1 exabyte = 10^{18} bytes; 1 petabyte = 10^{15} bytes
Source: Comscore, CISCO VNI, News articles

Online video consumption in India is dominated by film and TV based content

8 out of top 10 viewed Youtube channels show film and film based content including popular regional content channels

Top ranking Hindi GECs now feature in the list of top 10 most subscribed channels

Most viewed YouTube video channels in India ranked by number of views

Video Producer	Report Rank	Video Views (MN)	Videos ('000)
T-Series	1	1,471.4	6.7
Eros Now	2	1,416.4	9.2
Rajshri	3	1,126.8	18.8
SET India	4	938.2	23.5
ZoomDekho	5	849.0	30
YRF	6	810.8	2.7
Zee TV	7	737.3	38.3
Teluguone	8	523.1	20.6
Tips Music	9	475.4	1.9
Bollywoodbackstage	10	438.1	5.9

Most subscribed YouTube video channels in India ranked by number of subscribers

Video Producer	Report Rank	Subscribers (MN)	Videos ('000)
T-Series	1	3.97	6.7
SET India	2	2.99	23.5
Eros Now	3	1.91	9.2
YRF	4	1.79	2.7
Colors TV	5	1.67	20.3
Telugu Film Nagar	6	1.31	15.1
Rajshri	7	1.13	18.8
Zee TV	8	1.05	38.3
Teluguone	9	1.01	20.6
Star Plus	10	0.95	11.1

Source: vidstatsx.com (January 2014)

Although new media does not currently contribute significantly to industry revenue, there is substantial interest in this space, suggesting growth potential

Player	Year of launch	Number of Subscribers/ Visitors	Indicative library size	
			Mobile TV	VoD
Box TV	2012	62,500 subscribers and 100,000 daily unique visitors (as on July 2013)	----	◑
DigiVive	2012	13 million subscribers (as on Sept. 2013)	◕	◔
Ditto TV	2012	292,000 subscribers (as on March 2013)	◑	◑
Mundu TV	2011	Added more than 300,000 users in Q2FY2013	◔	◔
Sony Liv	2013	Over 19,500 followers (2013)	◔	◔
Zenga TV	2009	22-23 million active users per month (2013)	◑	◑

- In addition to the above, DTH players in India have recently launched mobile TV / live TV streaming apps

V. High ● ◕ ◑ ◔ ○ V. Low

Source: Media reports, News articles and Deloitte analysis

Additional sectors

Four key additional sectors that are related to the film and TV sectors, but have not been considered in the economic impact analysis, have been profiled in this section

Overview

This section of the report examines additional sectors which are closely related to the activities of the film and TV industry, but have not been considered in the preceding economic impact analysis

Impact of Foreign films shooting in India	• Foreign films shooting in India bring in three broad types of benefits to the economy: Direct (revenue to the economy, from various services utilized while shooting in India); Indirect (helps create local expertise and creativity, not necessarily limited to the audio-visual field) and Induced (acts as a catalyst for tourism in the region) • The Indian government is evaluating the establishment of a single window clearance service for attracting foreign film producers to shoot in India
VFX, Animation & Post production	• Business opportunities for VFX, animation & post production work exist in TV broadcast, advertising, movies and corporate pre-visualization trends* • Key drivers for the sector are growth in the global animation industry and increase in work being outsourced to Indian firms • Mumbai, Chennai, Bangalore and Hyderabad are gradually emerging as alternative destinations for doing post production work on animation and visual effects for Hollywood
Licensing and Merchandising (L&M)	• The L&M industry in India is still in its infancy with strong growth potential going forward • Its key focus areas are: TV and film-based licensed merchandise, sports – based licensed merchandise; and comic books- based licensed merchandise
Music	• The Indian music industry was estimated at INR 920 Cr. (US$ 150 mn) in FY2013, and projected to grow at a CAGR of 16% to reach INR 1,670 Cr. (US$ 269 mn) in FY2017 • Currently, digital revenues account for over half of the total music revenues. Going forward, the digital and licensing categories are expected to drive growth

Note: * Pre-visualization (also known as pre-rendering, preview or wireframe windows) is a function to visualize complex scenes in a movie before filming.

A foreign production house shooting in India could provide several types of benefits to the economy

Impact of Foreign films shooting in India – 1/2

The benefits of foreign films shooting in India can be broadly divided across three categories: Direct, Indirect and Induced.

Direct

- A foreign production house shooting in a country spends on various services such as permits, local coordinators, production assists including below the line crew members, post-production support and various allied services such as transport, courier, travel, hotels etc.
- As per the British Film Institute, investment by foreign productions in UK amounted to GBP 630 mn in 2012

Indirect

- It can help create local expertise and creativity, not necessarily limited to the audio-visual field

Induced

- Exposing locations in audio-visual productions can act as a catalyst for tourism in the region, thereby driving tourism and related revenues
- As per a report by Oxford Economics, New Zealand experienced a 17% rise in visitor spends the year after 'Lord of the rings: Fellowship of the ring' was released

The following table presents the impact on tourism of specific locations post shooting of movies at that location

Movie	Impact on tourism	Region / Place
Zindagi Na Milegi Dobara	35% increase in first half of 2011	Spain
Don 2	42.8% increase in Indian visitors [2]	Berlin, Germany
Twilight Saga	Tenfold increase in visitors	Forks, Washington, USA
Braveheart	300% increase in visitors	Wallace monument, Scotland
Saving Private Ryan	40% increase in American tourists	Normandy, France

Source: Deloitte FICCI Report "Single window clearance: Making India easier for filmmakers", June 2013, "Berlin gets Don 2 trail, thanks to 'sexy ambassador'", Hindustan Times, February 2, 2012

The Indian government is trying to establish a single window clearance service to encourage film production

Impact of Foreign films shooting in India – 2/2

In October 2013, Information and Broadcasting Minister, Mr. Manish Tewari observed that the current system of multiple clearances required at various levels has made India an unattractive destination for film production and resulted in a lost opportunity.

In order to establish a single window clearance service, the government has undertaken the following initiatives:

Promotion and Facilitation of Film Production	• Set up a committee on `Promotion and Facilitation of Film Production in India‘, and asked the state governments to nominate the nodal officers for film clearance
Standard Operating Procedures	• Standard operating procedures are being developed to accord clearances to domestic and foreign producers
Legal architecture	• Recognized the need for a sound legal architecture for promoting cinema as a form of creative expression • Committee headed by Justice Mukul Mudgal has submitted its recommendation along with a model bill to replace the existing ‘Cinematograph Act 1952,’ in order to update the laws relating to film certification and exhibition

Source:: “Single Window clearance for film shoots in India soon: Manish Tewari”, Economic Times, October 19, 2013;
Deloitte FICCI Report “Single window clearance: Making India easier for filmmakers”, June 2013

VFX usage in India is expected to rise, driven by FX-heavy shots in both films and television

VFX, Animation & Post production

Market Overview:

- Business opportunities for VFX, animation & post production work are in TV broadcast (mainly Children's television genre), advertising, movies (visual effects) and corporate pre-visualization trends
- Within TV broadcast, there are increasing instances of VFX usage in shows (e.g. '24')
- Currently ~10-15% of an Indian film's budget is being allocated for visual effects, which is likely to rise to 30-35% in the short-medium term. The number of VFX shots in Indian films has also risen from low hundreds to ~1,700 in big budget films
- There are 10-12 large players and ~400 small players in the animation & VFX industry in India
- The Indian market offers smaller revenues and margins for VFX players in comparison with developed overseas markets. For large players, the share of overseas markets in total revenue may be as high as 80-90%

Industry drivers:

- India is now gradually emerging as a global hub for animation and visual effects, with foreign experts working in Indian post production companies in cities such as Mumbai, Chennai, Bangalore and Hyderabad
- The key drivers for VFX and animation are growth in the global animation industry, and increase in work being outsourced to Indian firms

Sample Hollywood Films with Involvement of Indian VFX players

- Life Of Pi
- Skyfall
- Madagascar 3: Europe's Most Wanted
- Avatar
- Twilight: New Moon
- The Lord Of The Rings: The Return Of The King

Source: Industry discussions, '"Is Indian VFX on par with Hollywood?", The Times of India, November 26,2012; Industry discussions; "Hollywood comes a calling for animation, visual effects", The Hindu Business Line, January 11, 2012

The L&M industry in India is still in its infancy, but offers strong growth potential. Film and TV content form the raw material for a large portion of merchandise

Licensing and Merchandising

Market Overview:

- The top 125 global licensors account for sales of more than US$ 184 bn. Some key global licensors are Disney, Major Baseball League, and film franchises such as Star Wars and Harry Potter and Cars
- While the industry is still in its infancy in India, industry participants believe that it offers strong growth potential in the short-medium term. Merchandise could be based on several sources of “raw material”, of which film and TV content is a key source

TV and film-based licensed merchandise	• This category was estimated to be worth around US$ 125 mn in 2011, and the segment is expected to grow significantly in the short-medium term • Growth in the children’s TV genre has also contributed to that of the L&M segment in India • Major players offering character licensing include Disney, Nickelodeon, Cartoon Network
Sports – based licensed merchandise	• This category witnessed strong sales due to a loyal fan following for the popular sports leagues such as the IPL and the World Series Hockey (WSH). Formula One and The Manchester United football club also have a fan following in India • Leading sports players are licensing the use of their name. For instance, Harbhajan Singh sold licensing rights to his name to Delhi-based License India
Comic books-based licensed merchandise	• Indian comic book publishers have not aggressively marketed themselves and hence revenue earned from merchandise is not material, though there may be an opportunity to sell merchandise featuring popular characters such as Chacha Chaudhary

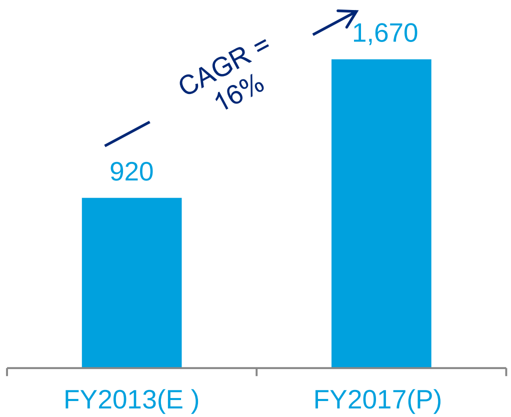
Industry drivers:

- There is a rise in product loyalty and awareness of merchandised products
- The growth of the L&M industry in India is closely linked with that of organized retail in the country. Licensors prefer to deal with large organized players. Today, large retail chains such as Shoppers Stop, Pantaloons, Westside, Lilliput, Lifestyle and Spencer’s sell branded and licensed merchandise
- India has witnessed a significant rise in discretionary income, and associated spend
- There is greater availability on the supply side, with the arrival of various international brands may drive the sector

Source: “In Focus: Licensing & Merchandising”, Box Office India Magazine, June 9, 2012

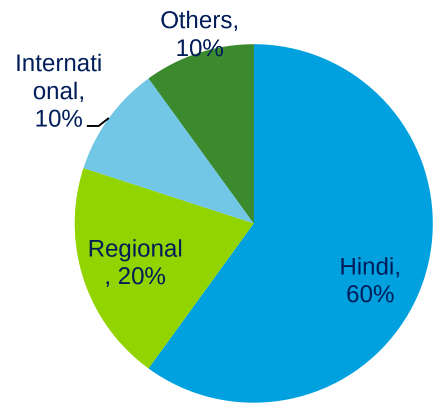
The music industry in India is dependent primarily on the film industry, with around 80% of music sales in India attributable to "film music"

Music Industry Revenues in India (INR Cr.)



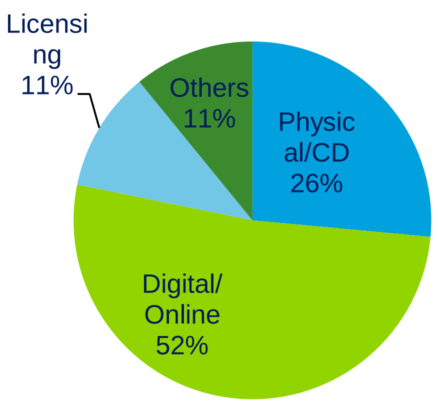
Source: IMI estimates, industry discussions and analysis

Revenues by genre in FY2013



Source: Industry discussions
Others includes classical , devotional, indi-pop, sufi music etc.

Revenues by segment in FY2013



Source: Industry discussions
Licensing includes TV & Radio licensing
Others includes public performance rights etc.

About the Indian music industry

Market Overview:

- The Indian music industry was estimated at INR 920 Cr in FY2013, and projected to grow at a CAGR of 16% until FY2017
- Music revenues can account for upto 10% of a producer's revenues for some films
- Currently, digital revenues account for over half of the total music revenues
- Going forward, the digital and licensing categories are expected to drive growth

Challenges:

- While piracy was a problem even in the days of audio cassettes, the challenge is greater with digital music, which is easily transferred
- TRAI's directive to service providers for obtaining multiple confirmations from consumers for each activation and/or renewal of value-added services has negatively impacted the industry's digital revenues from Caller Ring Back Tunes (CRBTs).
  - Previously, the service provider had to obtain the confirmation only once. Consumers do not appear to appreciate having to confirm their decision multiple times

Source: Industry discussions

Appendix

Appendix A

Economic contribution studies

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in a historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

Total Value Added

Total value added is the most appropriate measure of an industry's/company's economic contribution to gross domestic product (GDP) at the national level, or gross state product (GSP) at the state level.
The value added of each industry in the value chain can be added without the risk of double counting across industries caused by including the value added by other industries earlier in the production chain.
Other measures, such as total revenue or total exports, may be easier to estimate than value added but they 'double count'. That is, they overstate the contribution of a company to economic activity because they include, for example, the value added by external firms supplying inputs or the value added by other industries.

Measuring the economic contribution

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution:

- **Total value added** measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labor and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals gross domestic product. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.

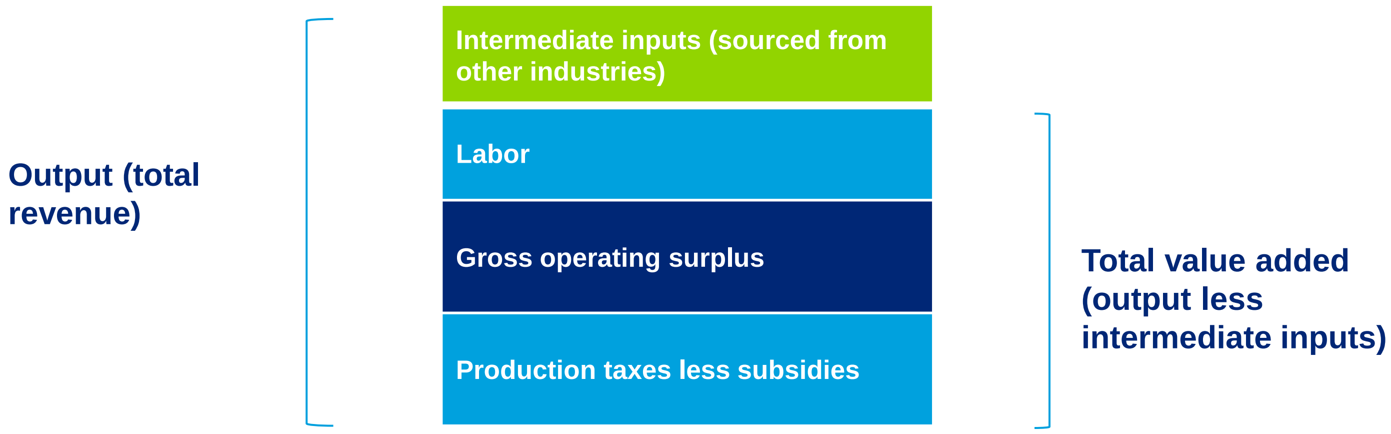
  Total value added is the sum of:
  - Gross operating surplus (GOS). GOS represents the value of income generated by the entity's direct capital inputs, generally measured as the earnings before interest, tax, depreciation and amortization (EBITDA)
  - Tax on production less subsidy provided for production. This generally includes company taxes and taxes on employment. Note: given the returns to capital before tax (EBITDA) are calculated, company tax is not included or this would double count that tax
  - Labor income is a subcomponent of value added. It represents the value of output generated by the entity's direct labor inputs, as measured by the income to labor.

Appendix A

- **Gross output** measures the total value of the goods and services supplied by the entity. This is a broader measure than value added because it is an addition to the value added generated by the entity. It also includes the value of intermediate inputs used by the entity that flow from value added generated by other entities.

- **Employment** is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

The figure below shows the accounting framework used to evaluate economic activity, along with the components that make up gross output. Gross output is the sum of value added and the value of intermediate inputs. Value added can be calculated directly by summing the payments to the primary factors of production, labor (i.e. salaries) and capital (i.e. gross operating surplus, 'GOS', or profit), as well as production taxes less subsidies. The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.



Appendix A

Direct and indirect contributions

The direct economic contribution is a representation of the flow from labor and capital in the Indian film and television industry.

The indirect contribution is a measure of the demand for goods and services produced in other sectors as a result of demand generated by the Indian film and television industry. Estimation of the indirect economic contribution is undertaken using Ministry of Statistics and Programme Implementation (MOSPI's) 'Input Output Transactions Table (2007-08): Matrix 1' for gross value added and net indirect taxes as ratios of output, and 'National Sample Survey Organization' report on 'Service Sector in India (2006-07) – Economic Characteristics of Enterprises' for average GVA per worker estimates.

The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

Limitations of economic contribution studies

- The estimation of indirect impact based on the above approach is only a broad approximation, as industry specific multipliers are not available. Multipliers from other countries have not been considered, as the structure and functioning of the Indian film and television industry is quite unique, as compared to other developed nations and hence not comparable
- The effect of piracy has not been considered in the scope of this study
- There may be an additional impact of indirect taxes other than service and entertainment tax. However, due to the absence of relevant industry-wise information, this has not been considered in the analysis for this segment
- The impact of revenue generated from the film music industry has been considered as a part of the ancillary revenues earned by the film producer. The remaining part of the value chain of the Indian music industry has not been covered in this analysis
- In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences – such as 'what would happen to living standards if the firm disappeared?' – should be drawn from them

Industry size and growth

- Growth is measured by CAGR; estimates for CAGR are based on a combination of sources, including analyst and industry reports, annual reports and company reports / filings, media articles, discussions with around 50 industry participants, and our analysis / sense checks
- CAGR measures the geometric progression ratio that provides a constant rate of return over the time period

Acknowledgements

DTTIPL and MPA are thankful to several individuals representing major industry verticals in the Motion Picture and Television sectors who gave us their perspectives on economic contribution of the industry as well as challenges/ trends being observed by them.

Organizations		
APFCC-(including Anti Video Piracy Cell)	Fox Star Studios	Reliance Entertainment
ASSOCHAM	Hansa Pictures	Sa Re Ga Ma
Big Synergy	Hathway	Shemaroo
Box TV	IMCL	Shringar Films
DEN networks	IndiaCast	Sony DADC
Disney UTV	Indian Broadcasters Federation	South Indian Films Chamber of Commerce
Distributor - CP Berar, CI	Indian Motion Pictures Producers Association	Tamil Film Industry
Distributor - West Bengal, Bihar	Indus Home Video	Tata Sky
Distributor, Exhibitor & Ex-President of Film Federation of India	INOX	Telugu Film Industry
DQ Entertainment	Marathi Film Producer's Association (Marathi Chitrapat Mahamandal)	UFO Moviez
Dreamboat Entertainment	Movietime Cinemas	Viacom 18
Eastern India Film Association	Mukta Arts	Viacom 18 Motion Pictures
Endemol	Multimedia Combines, Distributor – Mumbai	Videocon D2h
ETV Kannada	NBC Universal	Warner Brothers
FICCI	Playtime Creations	Yash Raj Films
Film & TV Producer's Guild	Prime Focus	Youtube
Film Exporters Association	PVR Cinemas	Zee Entertainment/ MediaPro
Film Federation of India	Rentrak	Zenga TV

Bibliography

Organizations
Central Board for Film Certification
Central Statistics Office
Directorate General of Service Tax
DTH Operators Association of India
Indian Music Industry
Internet and Mobile Association of India
Media and Entertainment Skills Council
Ministry of Finance
Ministry of Information and Broadcasting
National Sample Survey Office
Telecom Regulatory Authority of India
Television Audience Measurement

Others
Annual reports of listed players
Media reports
News articles

About the MPDA, MPA and Deloitte

MPDA: The Motion Picture Dist. Association (India) Pvt. Ltd. (MPDA) is a wholly owned local office of the Motion Picture Association, and represents the interests of the American motion picture industry in India. MPDA works closely with local industry, government, law enforcement authorities and educational institutions to promote and protect the Indian film and television industry. For more information, please visit: www.mpaa-india.org

MPA: PROMOTING & PROTECTING SCREEN COMMUNITIES IN ASIA PACIFIC

The Motion Picture Association (MPA) and the Motion Picture Association International (MPA-I) represent the interests of the six international producers and distributors of filmed entertainment. To do so, they promote and protect the intellectual property rights of these companies and conduct public awareness programs to highlight to movie fans around the world the importance of content protection. These activities have helped to transform entry markets benefiting film and television industries in each country including foreign and local filmmakers alike. The organizations act on behalf of the members of the Motion Picture Association of America, Inc. (MPAA) which include; Paramount Pictures Corporation; Sony Pictures Entertainment Inc.; Twentieth Century Fox Film Corporation; Universal City Studios LLC; Walt Disney Studios Motion Pictures; and Warner Bros. Entertainment Inc. The MPA and the MPA-I have worldwide operations, which are directed from their head offices in Los Angeles and Washington, D.C. and overseen in the Asia Pacific by a team based in Singapore.

Deloitte

"Deloitte" is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, tax and related services to select clients.

These firms are members of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). Each DTTL member firm provides services in particular geographic areas and is subject to the laws and professional regulations of the particular country or countries in which it operates. Each DTTL member firm is structured in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its territory through subsidiaries, affiliates, and other related entities. Not every DTTL member firm provides all services, and certain services may not be available to attest clients under the rules and regulations of public accounting. DTTL and each DTTL member firm are legally separate and independent entities, which cannot obligate each other. DTTL and each DTTL member firm are liable only for their own acts and omissions, and not those of each other. DTTL (also referred to as "Deloitte Global") does not provide services to clients.

Key contacts

Deloitte Touche Tohmatsu India Pvt. Ltd.
Indiabulls Finance Centre, Tower 3, 30th Floor
Senapati Bapat Marg, Elphinstone Road (West)
Mumbai - 400 013, Maharashtra, India

: +91 22 6185 4000 **: www.deloitte.com/in**

Key contacts:
(i) Vijay Mani, Director, Strategy & Operations
: +91 22 6185 4399 **: vijaymani@deloitte.com**

(i) Vivek Ramakrishnan, Manager, Strategy & Operations
: +91 22 6185 4399 **: vivekrama@deloitte.com**

Motion Picture Dist. Association (India) Pvt. Ltd.
215 Atrium, A Wing, 206, Chakala
Andheri-Kurla Road, Andheri (East)
Mumbai - 400 059, India

: +91 22 6139 7000 / 02 **: mail@mpaa-india.org**

Key contacts:
(i) Uday Singh, Managing Director
(ii) Lohita Sujith, Director, Corporate Communications