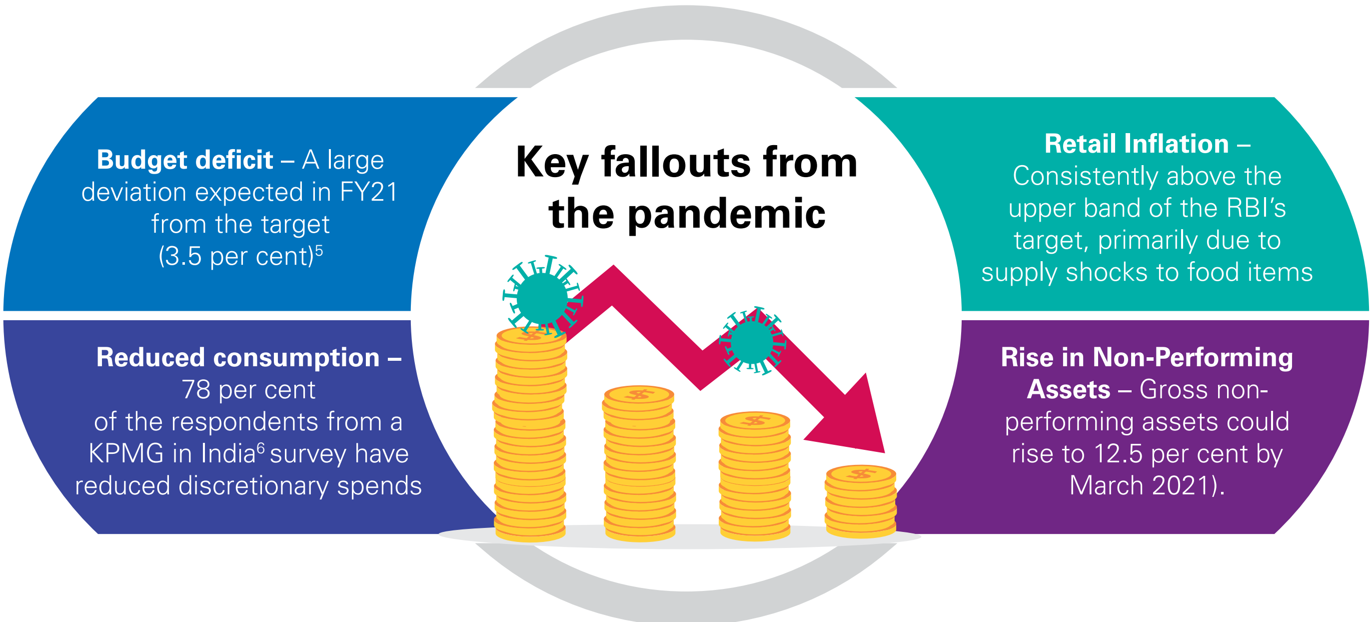
Executive summary

A year off-script – time for resilience

The global economic activity has been facing a steady downturn since the second half of 2018 with rising trade barriers and increasing geopolitical tensions denting growth. The global economy is expected to contract by 4.9 per cent in 2020 despite the easing of monetary and fiscal policies across the world.[1] In line with the global economy, India's real GDP growth rate has declined from 6.1 per cent in 2018 to 4.2 per cent in 2019.[2]

The tepid economic growth combined with slowdown in domestic consumption had a material adverse impact on the Indian media and entertainment (M&E) sector, which grew at slower rate of 7.4 per cent in FY20, to reach a size of INR1.75 trillion, at a CAGR of 10.3 per cent over FY16-20.[3] While the slowdown negatively impacted print and to an extent, TV advertising, digital and gaming segments continued to grow at a rapid pace and positively contributed to the performance of the sector.

March 2020 also saw the country start to see the impact of COVID-19 and head into a long phase of lockdown. This has had an ongoing adverse impact on the economy across sectors with supply chains, manufacturing, consumption, income levels all getting impacted. The country witnessed a steep decline of 23.9 per cent in GDP in Q1FY21 as consumer spending and investments contracted due to COVID-19.[4]



The M&E sector has also been significantly impacted, particularly with all forms of outdoor entertainment coming to a standstill, a significant slowdown in advertising spend and content supply chains breaking down. As a result, the M&E sector is expected to contract by a significant 20 percentage points in FY21 with major segments like TV, Films and Print all seeing major declines. On the other hand, extended lockdown is accelerating digital consumption and segments such as Digital and Gaming are seeing rapidly growing user penetration and engagement levels. The M&E sector is expected to bounce back in FY22 with a growth of 33.1 per cent over FY21 to reach a size of INR1.86 trillion, at a CAGR of 3.2 per cent over FY20-22,[7] with gaming and digital being the fastest growing segments.

1. World Economic Outlook, International Monetary Fund, June 2020, accessed on September 14, 2020
2. World Economic Outlook, International Monetary Fund, June 2020, accessed on September 14, 2020
3. KPMG in India analysis, 2020, based on primary and secondary research
4. National Statistical Office, accessed on September 14, 2020
5. India's fiscal deficit breaches full year target, Bloombergquint, August 2020, accessed on September 14, 2020
6. Time to open my wallet or not? KPMG in India, July 2020
7. KPMG in India analysis, 2020, based on primary and secondary research

Media and Entertainment sector – historical performance

Segment Size – Overall Revenues (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 Growth	CAGR (FY16-FY20)
Digital and OTT	65	86	121	173	218	26%	**35%**
TV	552	595	652	714	778	9%	**9%**
Print	288	308	319	333	306	-8%	**2%**
Films	137	145	159	183	183	0%	**8%**
Animation, VFX and post- production	53	62	74	88	101	15%	**18%**
Gaming	28	32	44	62	90	45%	**34%**
Out of home	26	29	32	34	31	-9%	**5%**
Radio	23	24	26	28	25	-13%	**2%**
Music	11	13	14	17	19	15%	**14%**
Total	1,183	1,295	1,440	1,631	1,751	7%	**10%**

Source: KPMG in India analysis, 2020, based on primary and secondary research

Segment size – Advertising revenues (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 Growth	CAGR (FY16-FY20)
Digital and OTT	65	86	116	160	199	24%	**32%**
TV	184	203	224	251	262	4%	**9%**
Print	192	204	211	221	198	-10%	**1%**
Films (In-Cinema Ad)	7	8	10	11	11	-7%	**12%**
Out of Home	26	29	32	34	31	-9%	**5%**
Radio	23	24	26	28	25	-13%	**2%**
Total	497	554	619	705	726	3%	**10%**

Source: KPMG in India analysis, 2020, based on primary and secondary research

- The Indian M&E sector grew at a rate of 7 per cent in FY20 to reach a size of INR1.75 trillion, a CAGR of 10 per cent over FY16-20. At the same time, owing to the slowing economy and the impact of COVID-19 at the fag end of the year, the advertising revenue growth was estimated at 3 per cent in FY20, with the advertising revenues reaching a size of INR 726 billion by FY20
- The growth in overall revenues was driven by Digital and OTT video, which registered a growth of 26 per cent in FY20, albeit lower than our earlier estimates. Gaming was the fastest growing segment with a rapid increase in consumption translating partially into monetisation, although from a lower revenue base
- Television continued to be the largest segment both in terms of overall and advertisement revenues and had a reasonable year with a 9 per cent growth in overall revenues in FY20. This was majorly driven by the growth in subscription revenues post implementation of NTO 1.0 and Q1 FY20 seeing strong traction in advertisement revenues
- The films segment was flat, while Print, OOH and Radio saw a decline in overall revenue in FY20.

Underlying drivers for FY20 performance

Digital and OTT video

Robust growth in digital infrastructure and content supply allowed the digital segment to post a 26 per cent growth in FY20 despite a slowing economy, with digital and OTT advertising growing by 24 per cent. Digital subscription continued to grow strongly at 47 per cent in FY20 on the back of growing user acceptance though there was some resistance due to the combined factors of OTT video players increasing their package prices and the income effects of a slowing economy.

Television

The television segment witnessed a growth of 9 per cent in FY20 on the back of higher subscription revenues triggered by the implementation of NTO 1.0, which resulted in transparency across the value chain and higher ARPUs due to implementation of a minimum NCF. However, advertising growth in FY20 was tepid, with a sluggish economy and impact of COVID-19 at the fag end of the year, apart from Q1 FY20 (boosted by cricket and the elections).

Print

FY20 remained an unfavourable year for Print with a decline of 8%, primarily due to advertisement spend slowdown particularly impacting the English segment, which also noted a decline in circulation due to stagnation in key metro markets. Hindi and regional segments noted a lower decline due to diversified local and national customers and greater reach in Tier II and smaller towns.

Films and Outdoor entertainment

In FY20, the Indian box office saw a marginal decline in performance, with the box office collection of Hindi films remaining stable while regional cinema underperformed as compared to previous years. The digital revenues grew as OTT platforms are paying premium prices for digital rights of movies, to build their content library

The OOH segment in FY20 witnessed a decline, due to realignment of spends by advertisers during elections and cricket world cup, away from OOH and compounded by a slowing economy.

Animation and VFX

The rapid growth of OTT platforms, increased focus on animated Intellectual Property (IP) content and larger investments in VFX by studios has provided animation and VFX studios greater opportunities in both the domestic and international markets. The changes in YouTube advertising policies around kids' content during FY20, though, has had an adverse impact on the animation IP production segment.

Gaming

The online gaming segment registered an impressive 45 per cent growth in revenues in FY20 with the user base surpassing 365 million by March 2020, with Real Money Games (RMG) – both card -based and fantasy seeing strong traction. Casual gaming also saw strong consumption uptake in FY20 with in-app monetisation also starting to see momentum.

Radio

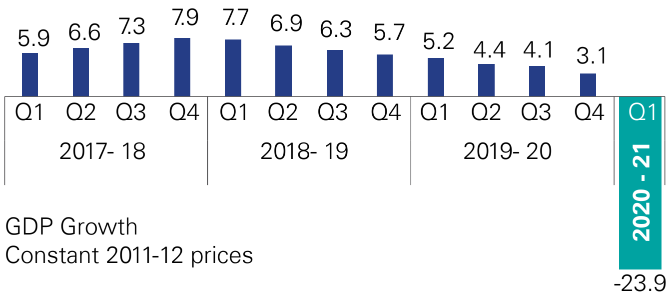
Overall slowdown and lower central government advertisement spends led to a decline in FY20 revenues, while absence of a robust listenership measurement system continued to challenge players' ability to grow their advertiser base.

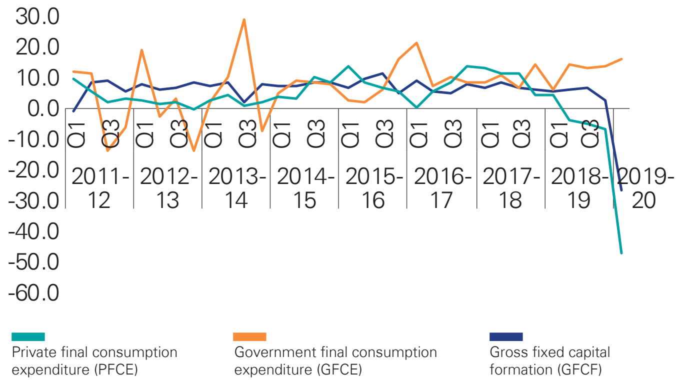
Music

Digital platforms have continued to contribute the largest share to the music ecosystem in FY20, with public performance being the second largest contributor to the segment revenues.

The COVID-19 disruption

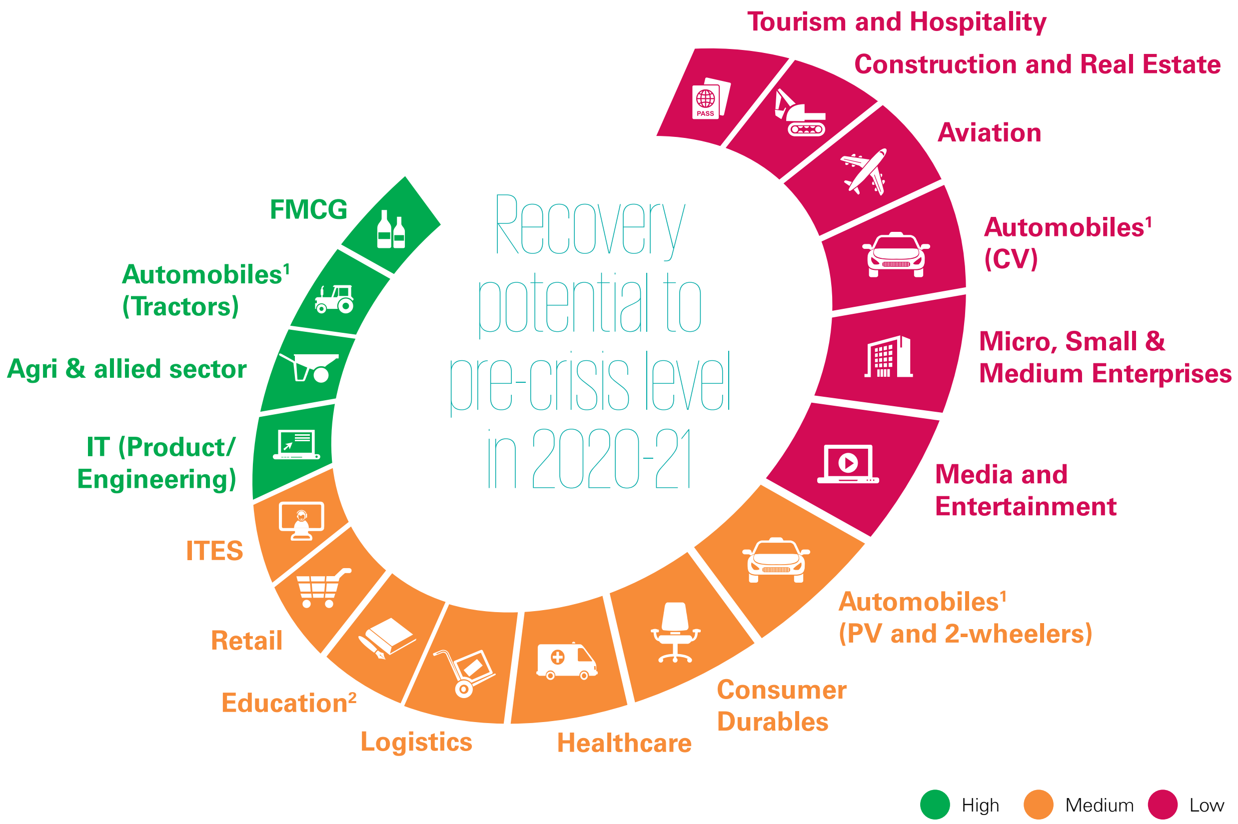
The process of the gradual reopening of the Indian economy has begun, but the shock of COVID-19 on businesses has been severe. Internal supply chain disruptions, labour shortage and weak demand are all posing major challenges to attempts at recovery. On an annual basis, GDP growth is expected to contract by 5-10 per cent in FY21 as consumption expenditure and investment nosedive.





Source: Database on Indian Economy, Reserve Bank of India, accessed on 01 September 2020

All sectors have been affected by the coronavirus outbreak and its associated lockdowns to varying degrees. In fact, even within a sector, there are differences in the scale and extent of challenges faced. The M&E sector for example is a case in point where its individual segments have fared very differently to one another.



1. Low for commercial vehicle, medium for passenger vehicle and two-wheeler, high for tractors

2. Medium in next 3-6 months and then it should grow from there to strength. K-12: Secondary schools are back, but with limitations; Colleges: Should be back in the second-half/ early next year; Skills development: Parts of ecosystem functioning and rest of campus expected to pick-up early H1 next year

The process of gradual reopening of the Indian economy has begun, but the shock of COVID-19 on businesses has been severe. Internal supply chain disruptions, labour shortage and weak demand are all posing major challenges to attempts at recovery during this financial year.

M&E in the COVID-19 era

The M&E sector faced significant disruption with the ongoing lockdown forcing all forms of outdoor entertainment, particularly cinemas and events to shut down and content supply chains to dry up. Additionally, advertising spends also declined as all major advertisement spend sectors were witnessing their own business continuity challenges.

With lockdowns easing, the content supply appears to be restarting, albeit with baby steps. Cinemas and events, however, continue to be shut and face significant uncertainty regarding return to normalcy in the near term. Advertisement spends appear to be recovering and with a strong festive quarter expected in Q3FY21, there is likely to be a quicker recovery in marketing budgets once we start moving towards normalcy. The overall reduction in advertising expenditure therefore may turn out to be lower than the contraction in economic activity.

Segment Impact	Near Term	Long Term
Digital and OTT video	• Reallocation of advertising spends away from outdoor M&E and traditional media (print, radio) towards digital • Increasing propensity to consume OTT video content, especially from Tier 3 and below cities likely to emerge.	• Low-touch economy will necessitate digital fulfilment for almost every business, with a greater propensity to transact online • Rural India and smaller towns show an increasing propensity and affinity for the internet.
Television	• Significant spike in viewership • Significant decline in ad revenues and a lower decline in subscription revenues seen in FY21 • Content cost renegotiations between broadcasters and producers.	• TV Viewership likely to come back to pre-COVID levels • Long term fundamentals of TV remain robust, with ad and subscription revenues expected to recover in FY22 • Content cost rationalisation could be undone partially in the long run.
Print	• Lockdown resulted in an extreme slowdown in ad spends and curtailed circulation in Q1FY20 • Decline in revenue led to cost cutting measures, some of which are likely to be sustainable.	• Reduction in dependency on ad spends and monetising quality content • Long term savings through changes in legacy cost structures and streamlining editorial processes.
Films and OOH	• No theatrical distribution due to continued closure of cinema halls, however there was a spurt in direct to OTT releases • Filming to see a short-term change, with challenges around higher production costs.	• Cinema 2.0 – Conceptualisation of new projects for the long term • Realignment of theatrical windows with emphasis on mid to large projects • OTT releases to be economics driven – primarily smaller budget projects
Animation and VFX	• Disruption of animation and VFX operations due to transition to work from home • Shutdown of small animation and VFX studios likely in the short term • Reduced pipeline of VFX work on account of films, due to stalled shoots and projects.	• Leaner cost structures in animation and VFX studios to emerge • Animation studios likely to focus on own IP for segments like Gaming, Edtech etc. • Increased volume of VFX on account of completion of pending projects and shift in outsourcing from China.
Gaming	• A major silver lining, with a spurt in consumption (except fantasy sports), and partly subscription led monetisation • Gaming value chain relatively less disrupted, with companies transitioning to work from home	• Increase in monetisation through in-app purchases could play out over the long run • Evolution of gaming as a means of virtual social interaction.

Negative Positive

Media and Entertainment sector – projected performance

Segment Size – Overall Revenues (INR billion)	FY20	FY21	FY22	FY21 Growth/ Decline	FY22 growth over FY21
Digital and OTT	218	254	338	17%	**33%**
TV	778	708	769	-9%	**9%**
Print	306	188	296	-38%	**57%**
Films	183	61	181	-67%	**196%**
Animation, VFX and post-production	101	49	77	-51%	**56%**
Gaming	90	99	143	10%	**45%**
Out of home	31	16	28	-49%	**77%**
Radio	25	12	17	-50%	**40%**
Music	19	14	17	-25%	**16%**
Total	1,751	1,402	1,866	-20%	**33%**

Source: KPMG in India analysis, 2020, based on primary and secondary research

Segment size – Advertising revenues (INR billion)	FY20	FY21	FY22	FY21 Growth/ Decline	FY22 growth over FY21
Digital and OTT	199	223	292	12%	**31%**
TV	262	217	258	-17%	**19%**
Print	198	107	186	-46%	**73%**
Films	11	4	7	-65%	**100%**
Out of Home	31	16	28	-49%	**77%**
Radio	25	12	17	-50%	**40%**
Total	726	579	789	-20%	**36%**

Source: KPMG in India analysis, 2020, based on primary and secondary research

Underlying drivers for sector projections

- The M&E sector in India is projected to see a significant decline of 20 per cent in total revenues in FY21, with deep cuts in Print and Films, followed by Television, on account of COVID-19 disruption
- The digital consumption segments i.e. Digital (including OTT video) and Online gaming are expected to be silver linings, with digital consumption across the board having seen a significant upswing owing to people working from home. While advertising revenues on digital have been impacted from last year's hypercharged growth, the subscription revenues have seen an upswing and could end up at an accelerated new normal once the pandemic subsides.
- Digital media advertising revenues are projected to overtake TV advertising revenues for the first time in FY21 and will establish new leaderboard rankings.
- Assuming the pandemic is under some form of control by the end of FY21 and businesses learn to operate in the new normal, FY22 will likely be a bounce-back year for the sector, with a 33 per cent growth projected over FY21.
- Digital and gaming are projected to continue their strong growth in FY22 as well, with the habit formation around consumption translating into greater monetisation
- Underlying core themes will continue to play their part with Television subscription revenues being constrained due to implementation of NTO 2.0, while Print (particularly English) facing readership and advertisement spend pressures

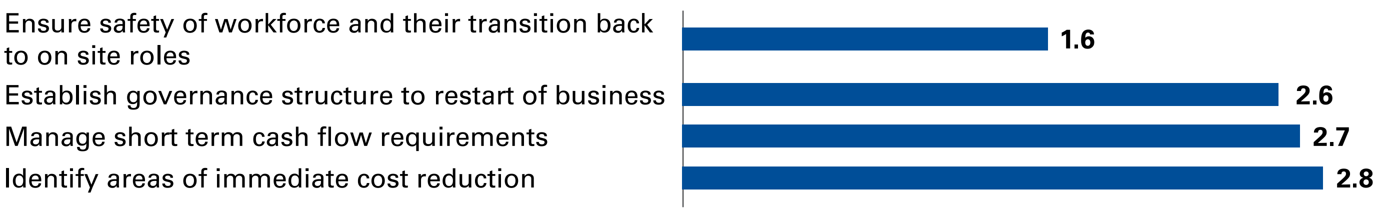
Priorities post COVID-19 – organisational survey

KPMG in India carried out a CXO level survey with an aim to understand near and medium-term priorities of organisations on account of COVID-19, and how they believe technology can help them achieve their objectives.

Functions impacted - While nearly 80 per cent of CXOs felt that finance, IT and HR functions in organisations had a marginal impact, nearly 32 per cent of CXOs felt that the operations function faced several challenges, primarily on account of the shift in the mode of operations to work from home.

Immediate priorities for businesses - Ensuring the safety of workforce and transition back to on-site roles was the number one priority across the respondents surveyed, followed by the establishment of governance structures to restart businesses.

Immediate Priority of businesses to commence operations



Note: Lower score equates to higher priority

Priorities over next one year - Most the CXOs expected to prioritize improving business continuity planning and other internal controls within their organisations, followed by enhancing digital integration.

Business priorities over the next 1 year

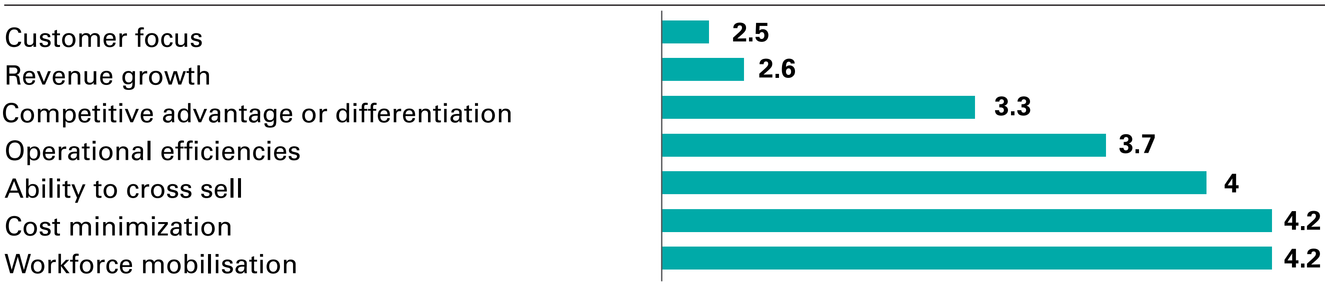
Note: Lower score equates to higher priority

Increased focus on digital - Nearly 95 per cent of the respondents anticipated a much greater focus on digital initiatives in their organisation in the near future, with the rest already being present in a digital first environment.

Benefits of tech across functions - Nearly 70 per cent of the respondents felt that the greatest benefit of technology could be felt in the content creation and post-production functions in their respective organisations

Priorities driving digital initiatives - ‘Customer focus’ and ‘Revenue growth’ were the top priorities which the CXOs’ digital initiatives are likely to drive, with cost minimisation and workforce mobilisation having the lowest priority.

Organisational priorities driving digital first initiatives



Note: Lower score equates to higher priority

Recovery timelines - Nearly 34 per cent of respondents felt that their respective sector would recover in 9-12 months and 24 per cent respondents were confident of new opportunities arising during the recovery phase

India's digital demography – on an accelerated path

The spread of the COVID-19 pandemic and the ensuing lockdowns imposed to contain the spread of the virus have accelerated the adoption of digital services among a wider base of users in the country. We have accordingly revised our hypothesis of the digital demography to account for this behavioral shift.

India is likely to be home to a billion digital users by 2028 compared to our earlier projection of 2030, with a faster upward progression of users in each of the cohorts

Consumer Archetype	2028 Projections	Key Characteristics
Digital Sophisticates	52 mn	• Wealthy, urban and tech-savvy • Mimics the preferences and behaviour of a global digital user base
Digital Enthusiasts	526 mn	• Includes both the early adopters who have the propensity to pay as well as young users • Group with the greatest diversity display more linguistic preferences
Digital Mainstream	458 mn	• Price conscious digital user who came online post 2016 • Almost entirely mobile-led digital access and consumption
Fringe	35 mn	• Both low income and poor connectivity hamper their transition online

While the trajectory, composition and overarching themes of India's digital demography are consistent even in a post-pandemic reality, we outline a few of the structural shifts that have occurred in digital consumer behaviour over the last few months:

- **Indoor over outdoor in the near to medium term:** Digital technology likely to remain deeply embedded in our everyday lives, at least until a safe, reliable and affordable vaccine for COVID-19 is found as social distancing norms are likely to remain in force till then
- **Bharat could lead in defining digital behaviour:** Rural demand has shown unexpected resilience within weeks of the lifting COVID-19 lockdown alongside an already deepening engagement with the internet for the rural digital consumer. We foresee a 'new homogeneity' between the various segments and the emergence of a vibrant digital consuming and transacting class from smaller town India
- **Less friction in digital payments adoption:** The higher level of trust and confidence in going online post the experience of the pandemic is already apparent as more Indians choose cash-less methods of payment. Digital payments are likely to benefit from a whole new range of businesses that will now offer digital fulfilment options.

As a result, age, income and location will become even less of a barrier to digital adoption and India as a nation is likely see an accelerated transition from passive, video viewers to legitimate digital mainstream consumers.

Organisations need to take cognizance of this increased demand from a potentially larger demographic and ensure that their content offerings and supply chains are agile enough to meet the same. Companies would also need to imbibe a digital first thinking across the way they work; whether it be their internal processes or the way they interact with and analyse customer behavior. Finally, to acquire and retain the value conscious Indian consumer, it is likely that digital ecosystems, which offer multiple use cases under one umbrella, and seek to provide a seamless experience, would emerge as the frontrunners to capitalise on our digital billion.

M&E sector in India - key overarching themes

Gaming – a vital cog in the digital ecosystem play

- The rapid growth of gaming has meant that 'Direct to Consumer' platforms across the digital value chain are starting to look at gaming as a critical use case which would drive greater consumption, optimize customer acquisition costs (CAC) and help user retention in the long term
- From OTT video platforms such as Zee5, MX Player, Sony Liv; to e-commerce platforms like Flipkart, Amazon; to digital payments players such as Paytm; digital businesses across the board are looking to harness the engagement opportunities that gaming provides for their ecosystems
- Apart from user acquisition and retention, cross product monetisation on the platform, a better understanding of consumer behavior, targeted advertising and rich data for customer analytics are some of the benefits that gaming as a use-case provides digital platforms.

NTO 2.0 – a fine-tuned version of NTO 1.0

- NTO 1.0 was aimed at creating transparency, encouraging consumer choice and facilitating systematic growth within the broadcasting and cable services sector. However, following consumer push back due to increased complexity in channel selection and increased prices, TRAI issued a set of amendments in the form of NTO 2.0. These changes focused on increasing consumer choice, promoting a la carte selection, but also capped prices of channels and restricted the number of bouquets available. Given the potential adverse impact on economics of broadcasters and distributors, there has been resistance from the TV segment stakeholders
- Expected impact of NTO 2.0 on key stakeholders:
  – ***Broadcasters:*** Subscription revenue slow down due to channel price caps for inclusion in bouquets and capping of bouquet discounts to 33%
  – **Distributors:** Negative impact due to cap on NCF to INR 160 per month for more than 200 channels and lower NCF for subscribers with more than one TV connection at home
  – **End consumers:** Upside due to lower subscription prices driven by bouquet price capping, lower NCF and greater flexibility in selection of a la carte channels
- Has been legally challenged by the broadcasters and distributors; we have assumed that NTO 2.0 will likely be implemented during FY21 and is accordingly reflected in the TV segment projections.

Standout genres – news, kids and edutainment

- **News:** With deeper penetration beyond Tier I and Tier II cities, rise in literacy levels and favourable demographics, news consumption has witnessed a healthy growth in the past few years. A rapid expansion of mobile web access has paved the way for digital media growth in the recent years. The COVID-19 pandemic gave a further impetus to news consumption albeit with a paradigm shift in the news consumption pattern. Constraints around the distribution of physical newspapers during the lockdown led to an immediate sway of eyeballs towards TV and digital
- **Kids:** The Kids genre witnessed a spike in viewership during the COVID-19-induced lockdown combined with the onset of summer vacations. With kids spending more time at home, viewing periods have extended through the day attracting increased attention from advertisers. OTT platforms have also recognized the power of Kids content to drive viewership and stickiness and is seeing increased investments. Gamification and Education are the new frontiers with the amalgamation of entertainment and learning within the larger kids content segment is also gaining attention.
- **Edutainment:** The emergence of ed-tech and a growing focus on engagement in learning across all learner groups combined with the ongoing lockdown, has unlocked the potential for technological interventions from traditional M&E players. The edutainment market targets both child and adult learners, with an emphasis on improving quality of education and learning outcomes for students. By providing edutainment options, media companies can widen their customer base, increase consumer lifetime value and increase user engagement.

The video content supply chain – disruption necessitates innovation

- Multiple aspects of the current content supply chain processes are manual and require in-person involvement, which leads to inefficiencies in terms of costs and lead times
- COVID-19 and the resultant nation-wide lockdown has disrupted the entire process of content creation, necessitating the intervention of technology to get the content to users' screens. This use of technology is being seen across the value chain, right from the adoption of remote collaboration tools and software for pre and post-production, to extensive use of cloud infrastructure, and the use of gaming engines to produce content virtually
- While technology adoption is going to present some challenges in terms of investments during the time of a pandemic like skill development and the shift to a digital-first mindset; change in terms of incorporating technology is inevitable. The same, when mature, may also lead to efficiencies across the supply chain in terms of costs savings on physical locations and offices, as well as potentially lower lead times.

Leveraging technology across M&E

Technology innovations are seeing greater integration across media businesses. The following emerging technologies are beginning to see greater traction and use cases across segments and have the potential to disrupt the status quo.

AR/VR	Virtual production	Artificial Intelligence	Blockchain
AR helps integrate digital experiences with real world experiences. VR is driving cloud gaming experience to newer levels and helps provide immersive live event experience	Virtual production improves storytelling, gives creativity fillip to the filmmakers and reduces post-production costs. The technology knowhow and availability of skilled personnel is currently low and is expected to increase with the increase in technology maturity	AI is helping in many segments of the sector – from personalised recommendations to creating content. With established standard control over data governance and privacy, AI could be the driving technology for user engagement in the media and entertainment sector	Blockchain can provide transparency and security in media and entertainment sector which could unlock new revenue streams like pay per use content consumption and strengthen the fight of the sector against piracy and illegal file sharing.

Conclusion

The impact of a slowing economy was already being felt in the Indian M&E sector in FY20, but the COVID-19 pandemic has had a severe negative impact on the economy, with most of the sectors contributing to revenues of the M&E sector witnessing a downturn. As a result, deep cuts in revenues are expected at an overall basis in the M&E sector in FY21.

However, the proverbial silver lining has been the acceleration of the Indian digital consumer base and the resultant consumption, which has hit new highs during the lockdown. This is likely to have long term implications on the balance of power between traditional and emerging/digital segments, as well as the emergence of a transaction led digital economy encompassing the masses in India.

While the numbers definitely show that the Indian M&E sector has gone off-script in terms of its growth trajectory, the time is ripe for reflection, recalibration and a subsequent revival.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