

# Media and Entertainment September 2019

Emerging Landscape post the  
New Tariff Order

*Some shift in subscriber base  
towards DTH observed*

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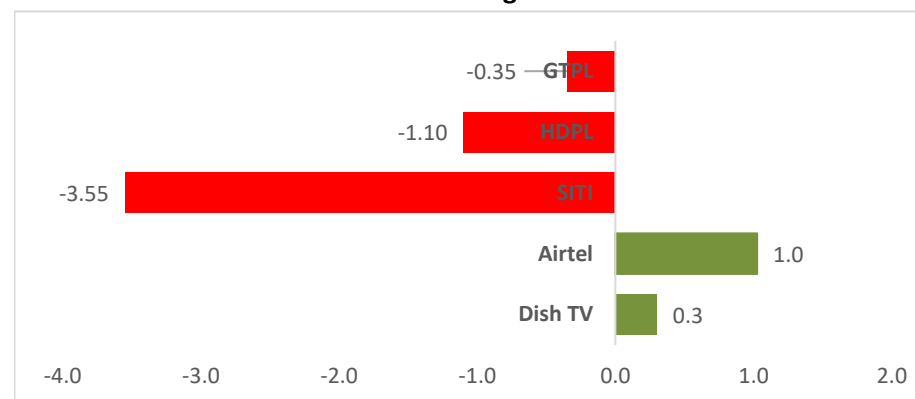
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## The New Tariff Order (NTO) and churn of subscriber base

Q4 FY2019 marked the implementation of the NTO in the media and broadcasting industry. While the Telecom Regulatory Authority of India (TRAI) had initially set a deadline of December 31, 2018 for migration to the new tariff regime, given the lack of awareness and apprehensions among the consumers as well as teething problems faced by the multi-system operators (MSOs) and direct-to-home (DTH) operators, the deadline got extended to January 31, 2019 and further to February 8, 2019 and ultimately to March 31, 2019.

During H1 CY2019, the three MSOs (SITI Networks Limited (SITI), Hathway Digital Private Limited (Hathway) and GTPL Hathway Limited (GTPL Hathway) reported a cumulative decline of 5.0 million subscribers following de-activation of subscribers amid confusion regarding implementation of the NTO due to deferment of deadlines, increase in cable bills as well as implementation of auto-dunning (prepaid billing model) by MSOs. Listed DTH players (including Dish TV (India) Limited (Dish TV) and Bharti Airtel Limited (Airtel), on the other hand, reported a muted subscriber addition of 1.3 million during the same period. As of the cut-off date of March 31, 2019, all the six listed<sup>1</sup> DTH and MSO players reported 100% migration to the NTO.

**Exhibit 1: Net subscriber additions during H1 CY2019**



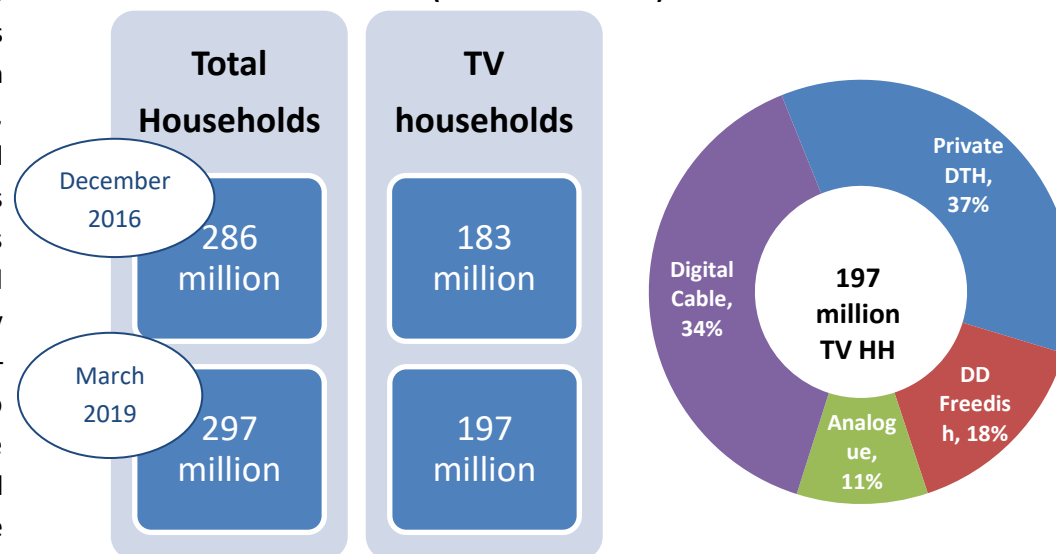
Source: Respective company's press releases

The NTO has brought a level playing field between the DTH operators and the digital cable operators; and thus, quality of service has become an important differentiator for customer acquisition. Most of the digital cable operators consider the churn reported in subscriber base as transient and expect it to normalise, once the systems and processes are established. Nonetheless, some shift in subscribers from digital cable to DTH cannot be ruled out, especially with the rise in cable bills and move towards prepaid billing, as against relationship-driven postpaid model of MSOs earlier. Many subscribers have also been facing issues with the local cable operators (LCOs) and MSOs compelling them to take pre-defined packs

The tables could, however turn, in MSOs favour over the next one year as the new entrant, Reliance Jio (which was commercially launched in September 2019) gains ground. Reliance Jio offers bundled broadband (fibre-to-the-home or FTTH) and set-top box (STB) services, which is compatible with the cable TV signals received from the LCOs. In addition, it also offers an array of other services, including gaming, home network sharing, device security, TV video-calling and conferencing. While its prices of broadband are largely in line with peers (of wired broadband), Reliance Jio has an edge over its competitors (especially Bharat Sanchar Nigam Limited) by virtue of its bundled offerings, high data speed, as well as the advantage of having ready customer support through the respective teams of the acquired MSOs – Den Network, Hathway and GTPL Hathway (in which Reliance Jio acquired controlling stakes in CY2018). While this may lead to some churn in those cable / DTH subscribers who are also availing wired broadband services from third parties as they shift towards a single operator, acquisition of pure cable / DTH subscribers may be challenging for Reliance Jio given the former's low average revenue per user (Rs. 200-250 per month) vis-a-vis a minimum tariff of Rs. 700 of the latter.

## Landscape post digitisation - Who leads the pack?

**Exhibit 2: TV universe in India (as on March 2019)**



Source: BARC India Universe Update, July 2018, Ministry of Information and broadcasting (MIB), TRAI, ICRA research; Subscriber base for DTH players includes temporarily inactive subscribers upto 120 days, as reported to TRAI

DTH has remained the preferred mode of distribution of digital services, having digitised ~55% of the total TV Households (HH) as of March 2019. Within this, private players have accounted for 36% and DD Free Dish, a subscription-free DTH service owned by the public service broadcaster, has accounted for the balance 15%. Digital cable, on the other hand, digitised around 34% of the total TV HH as of March 2019. The balance 11% are still on analogue mode. Digitisation of cable TV services has required significant capital investments by the industry.

Till March 31, 2019, the DTH players<sup>2</sup> have invested ~Rs. 29,500 crore, while the major (top-four) digital cable players<sup>3</sup> have invested ~Rs. 8,400 crore.

**Private DTH operators** – At present, there are five private DTH players, which include Dish TV, Tata Sky Limited (Tata Sky), Airtel, Sun Direct TV Private Limited (Sun Direct) and Independent TV Limited (formerly known as Reliance Big TV) catering to a subscriber base of 72.44 million as of March 2019. Dish TV is the market leader, with a 40% market share as of March 2019, following its merger with Videocon d2h Limited (Vd2h) w.e.f. October 1, 2017. Tata Sky accounts for 25% of the DTH subscriber base and ranks second among the private DTH players, followed by Airtel at 22% and Sun Direct at 12%. Independent TV accounts for a meagre 1% of the subscriber base.

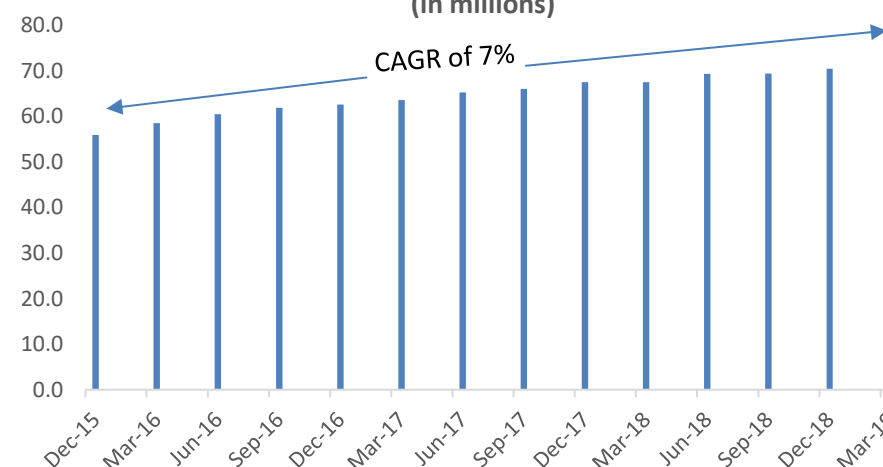
The DTH subscriber base has grown at a modest compounded annual growth rate (CAGR) of 7% over December 2015 (55.98 million subscribers) to March 2019 (72.44 million), reflecting the challenges associated with digitisation of Phase-III and IV markets<sup>4</sup>.

<sup>2</sup>-Dish TV, Tata Sky Limited, Bharti Airtel Limited

<sup>3</sup>-SITI Networks Limited, Den Networks Limited, Hathway Digital Private Limited and GTPL Hathway Limited

<sup>4</sup>-The digitisation process was to be implemented in four phases, with Phase-I including metro cities of Delhi, Mumbai, Kolkata and Chennai (estimated subscriber base of ~12 million), Phase-II including 38 cities (with population of more than one million) with an estimated subscriber base of 22 million, Phase-3 including all other urban areas (municipal corporations / municipalities), with an estimated subscriber base of 50 million, and Phase-IV including the rest of India.

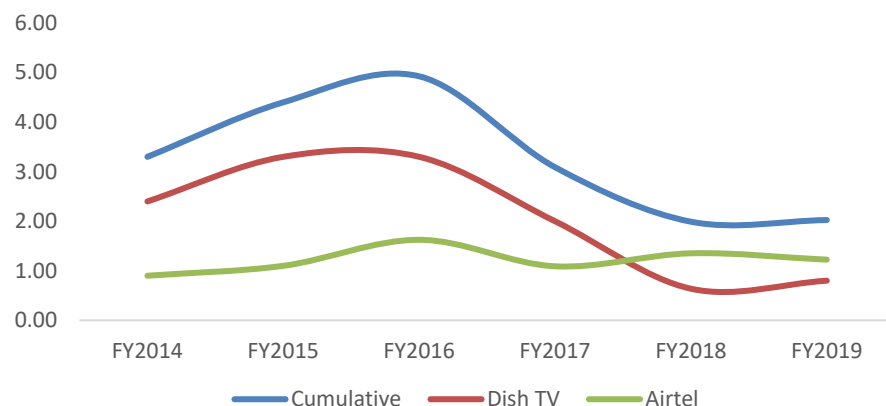
**Exhibit 3: Quarterly trend in private DTH subscriber base (in millions)**



Source: Performance Indicator Reports, TRAI

Being low per capita regions, subscribers in Phase-III and IV markets have been reluctant to shift to DTH, which not only entailed an upfront cost towards STB (~Rs. 1,000-1,200 per STB), but also a higher monthly subscription charge than the analogue cable. While DTH players introduced low value packs, including entry-level packs at Rs. 99, subscriber additions remained impacted by increasing popularity of DD Freedish. The annual net subscriber additions for Dish TV and Airtel, which had steadily increased during FY2014 to FY2016, averaging around 4.2 million subscribers per annum, declined to an average of 2.4 million subscribers per annum during FY2017-FY2019.

**Exhibit 4: Trend in net subscriber addition (in millions) for private DTH players**

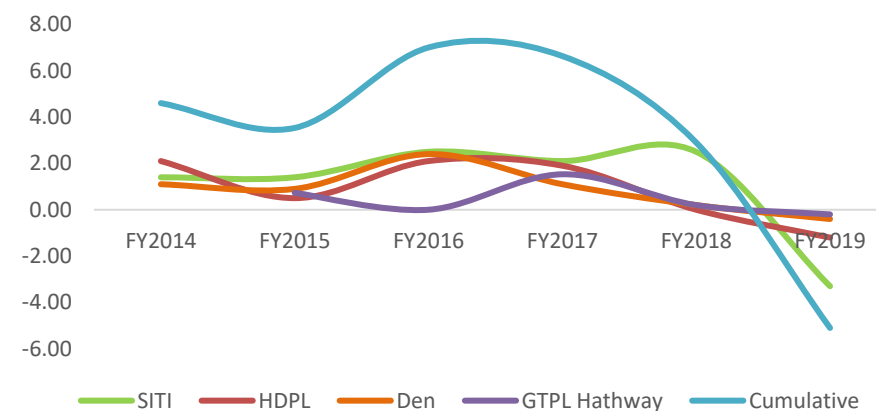


**Digital cable operators** – The total number of MSOs registered with the Ministry of Information and Broadcasting (MIB) currently stands at 1,471 (including two provisional registrations), together accounting for ~34% of the digitised TV HH as on March 31, 2019 i.e. ~67.1 million HH. Despite the large number of MSOs, there are only four key national MSOs, which include, SITI, Den Networks, Hathway and GTPL Hathway, with a total subscriber base of ~28.0 million as of March 2019, accounting for ~42% of the TV HH serviced by MSOs as of March 2019.

The annual subscriber additions by the top-four MSOs remained healthy during FY2015-FY2017, averaging around 5.72 million subscribers per annum. Besides retaining nearly 70% market share in Phase-I and II markets, MSOs also gained favourably in those areas of Phase-III markets which were

contiguous to Phase-I and II markets (such as Gurgaon and Noida in the National Capital Region (NCR) and certain parts of Mumbai) as these required limited incremental investments in the back-end infrastructure. The subscriber additions, however, tapered drastically to 2.9 million in FY2018 as the digitisation of Phase-III markets neared its completion and remained almost negligible till 9M FY2019, reflecting limited penetration in Phase-IV markets. These operators reported a cumulative decline of 5.1 million subscribers in Q4 FY2019, amid the then on-going implementation of the NTO.

**Exhibit 5: Trend in net subscriber additions (in millions) for digital cable operators**



Source: Respective company's press releases, Note: For Den Network, data is till 9M FY2019 as the company has not disclosed its subscriber base in Q4 FY2019



## Impact of DD Freedish

Despite being launched in December 2004, it was largely in CY2015 and CY2016 that DD Freedish gained prominence, led by the rollout of the digital addressable system (DAS) in Phase-III and IV markets, which have high proportion of cable dark areas and low affordability for private DTH packs. Furthermore, from April 2015 onwards, the Broadcast Audience Research Council (BARC) started including rural market data in its TV viewership measurement, which, in turn, brought to light the huge free-to-air (FTA) market being catered to by DD Freedish, making it an attractive proposition for broadcasters and advertisers. Consequently, during CY2015 and CY2016, many broadcasters converted their pay channels to FTA in genres including Hindi general entertainment (Hindi GEC), Hindi movies and Hindi news. The popularity of DD Freedish during this period can also be gauged from the steady rise in the reserve price for auctions of its channels (non-news and general affairs) from Rs. 3.7 crore till CY2015 to Rs. 4.3 crore in CY2016 to Rs. 4.8 crore in February 2017 and further to Rs. 8 crore in May 2017 during its 34<sup>th</sup> e-auction. Notwithstanding the steady increase in reserve price, popular channels including Sony Pal, Zee Anmol, Zee Rishtey, Sony Wah, Zee News, among others, joined the DD Freedish platform given the high reach that could be obtained. At this point (May 2017), DD Freedish carried 80 TV channels to an estimated 24 million subscribers, which was estimated to be ramped up to 250 channels by March 2018.

The growth trajectory of DD Freedish, however, got impacted in H2 CY2017 when Prasar Bharti faced a lot of criticism from the MIB which alleged that the carriage fee (reserve price) charged by DD Freedish was still low,

especially when compared to the huge advertising revenues being earned by the private broadcasters led by the massive reach of DD Freedish. In addition, with popular channels coming on DD Freedish, Doordarshan's own channels were being relegated to unwatched channels, resulting in loss of advertising revenues for Prasar Bharti. Subsequently, MIB directed Prasar Bharti to review its auction policy and to suspend its e-auctions till the finalisation of its policy.

Prasar Bharti came out with its revised auction policy in January 2019 and resumed the auction process from February 2019. The revised policy introduced differential reserve prices for various genres, which are now grouped under five buckets, with reserve price ranging from Rs. 6 crore to Rs. 15 crore, as opposed to two buckets earlier, with reserve price of Rs. 6.50 crore for news and current affairs channels and Rs. 8 crore for non-news channels.

The hike in the reserve prices was, however, not well received by some of the broadcasters, including 9X Media Private Limited, B4U Broadband Private Limited, TV Vision Limited, which challenged the same in the High Court. Large broadcasters including Zee Entertainment Enterprises Limited, Star India Network, Sony Pictures Networks India and Viacom18 Private Limited, also pulled out their popular channels from DD Freedish during Q4 FY2019, amid the then ongoing implementation of the NTO, which prohibits inclusion of FTA and pay channels in the same bouquet. Consequently, around 19 channels pulled out of DD Freedish in February 2019, of which nine were converted to pay channels. Popular channels being discontinued at DD Freedish include

among others, Sony Wah, Star Utsav Movies, Zee Anmol Cinema, Sony Pal and Zee Anmol.

Of the 54 channels offered for auctions during February 2019, DD Freedish was able to sell slots to only 40 channels, which later increased to 43, as the platform added three devotional channels at a reduced reserve price of Rs. 2.25 crore.

### **Mission Digitisation: Are we there yet? Well, almost!**

After a period of almost nine years since the approval of the Union Cabinet, as of March 2019, around 90% of the 197 million TV HH in the country i.e. ~177 million TV HH have been digitised. Digitisation of Phase-I and Phase-II markets is complete, with the exception of Chennai (Tamil Nadu, in Phase-I) and Coimbatore (Tamil Nadu, in Phase-II). The digitisation process in Tamil Nadu was held up, following the ruling by the Honb'le High Court of Madras in 2013, which restrained switching off of analogue signals in Tamil Nadu, pending MIB's decision on Tamil Nadu Arasu Cable TV Corporation Limited (Arasu Cable) DAS license, which was applied in 2012. The TRAI had earlier recommended that Government-owned entities should not be allowed in the broadcasting and distribution sector so as to allow a level-playing field to private sector players. MIB was, however, unable to arrive upon a final decision, as Arasu Cable was already granted a provisional MSO registration in 2008. Finally, on April 18, 2017, MIB granted the DAS license to Arasu Cable, with time period till August 2017 (extended from July 2017), to complete the switchover to DAS. Despite the deadline, the present level of digitisation in Tamil Nadu stands at only ~65% (improved from 33% as of December 2017) with almost 6.5 million of the estimated 21 million cable and satellite (C&S) households in Tamil Nadu, continuing to remain on the analogue mode. The pace of digitisation has been impacted due to complaints by LCOs regarding alleged monopoly practices of Arasu Cable. Some of the LCOs have even moved the Madras High Court against Arasu Cable.

The progress on Phase-III and Phase-IV digitisation has remained slow and was affected due to the stays granted by various High Courts in nine cases, following complaints of shortage of STBs and other related components during CY2015 and CY2016. Subsequently in CY2016, all these cases were transferred to the Delhi High Court, which in December 2016, dismissed these cases and set a deadline of December 31, 2016 for switching off of analogue signals in Phase-III and IV markets. The deadline was later extended to January 31, 2017 for Phase-III markets and March 31, 2017 for Phase-IV markets. On the cut-off date of March 31, 2017, digitisation stood at ~70% (excluding Tamil Nadu) across Phase-III and IV markets. Currently, while the digitisation in Phase-III markets is estimated to be complete, ~90% of digitisation has been achieved in Phase-IV markets. The MIB has now set a target of March 31, 2020 to ensure full digitisation across the country, as part of its 'Mission Digitisation' programme.

The balance ~16 million TV HH to be digitised are in Phase-IV markets, which primarily comprise rural areas, where the pace of digitisation has remained slower than the other phases, given their lower per capita income. Furthermore, owing to the uneven terrain and fragmented nature of the market, MSOs find it uneconomical to invest in extending digital cable in these areas. DTH is thus, deemed to benefit in the last leg of digitisation. Infrastructure sharing for cable distribution between the MSOs and headend-in-the-sky (HITS) operators as well as provision of subsidy to MSOs for undertaking investments in Phase-IV markets were also being mulled over by MIB; however, there has not been any progress on these fronts.

**Exhibit 2: Phase-wise targeted completion of digitisation**

	Areas covered	Slated to be completed by	Estimated subscriber base	Status
Phase-I	Metro cities - Delhi, Mumbai, Kolkata, Chennai	October 2012	~12 million	Complete, except Tamil Nadu
Phase-II	38 cities (with population of more than one million)	March 2013	~22 million	
Phase-III	All other urban areas (Municipal Corporations / Municipalities)	January 2017	~50 million	Complete
Phase-IV	Rest of India	March 2017	~113 million	~90% completed

Source: MIB, ICRA research



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