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New Year surprise for broadcasters – ARPU to witness a decline as monthly bills of subscribers to go down by 6-14% for a-la-carte channels

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OVERVIEW

On January 1, 2020, The Telecom Regulatory Authority of India (TRAI) amended some provisions of the Telecommunication (Broadcasting and Cable) Services (Eight) (Addressable Systems) Tariff Order, 2017. The Tariff Order, which became (mandatorily) effective from April 1, 2019 provided a framework for the pricing of television channels offered to subscribers as well as in interconnection agreements among the various industry participants, including broadcasters and the distribution platform operators (DPOs). The Tariff Order had aimed at giving the subscribers their right to choose, by mandating the broadcasters to declare the nature of channels as free to air (FTA) or pay channel as well as declare a-la-carte pricing of all channels. Contrary to TRAI's expectations, given the high channel pricing of the popular general entertainment channels (GECs) and sports channels (majority of which -66 of the 330 existing pay channels- are priced at the ceiling rate of Rs. 19 per month), the very purpose of the Tariff Order was defeated, resulting in surge in bills for subscribers (by 13-23%, as per ICRA's estimates). Furthermore, bouquets continued to dominate the subscription patterns, thereby allowing broadcasters to continue push their non-popular channels on to the subscribers (subscription of most popular channels on a-la-carte basis is less than 10% compared to

bouquet-based subscription). The recent amendments introduced by TRAI endeavour to correct this anomaly. These amendments are slated to come in effect from March 1, 2020.

Monthly bills to reduce by 6-14% for a-la-carte channels, thereby making them more attractive than bouquets

As per ICRA's analysis, the proposed changes in tariff could potentially lower the direct-to-home (DTH) / cable bills of the subscribers by upto 14% (refer Exhibit 1) from the present levels and encourage subscribers to exercise their right to choose and opt for a-la-carte channels. ICRA expects reduction in prices of popular GECs and sports channels from Rs. 19 per month to Rs. 12 per month, given the revised ceiling rates for a-la-carte channels, to be included in bouquets. The amendments also seek to improve the attractiveness of a-la-carte channels, by reducing discounts that can be offered on bouquet pricing to 33% (vis-a-vis a-la-carte prices, from existing average levels of discounts of 40-54%), as well as through introduction of two new conditions of i) capping the maximum retail price (MRP) of a-la-carte channel that can be included in a bouquet to upto three times of the average MRP per month of a pay channel of that bouquet and ii) MRP, per

month, of a pay channel to not exceed the MRP, per month, of the bouquet containing that pay channel. While ICRA does not expect the bouquet prices to increase, the channel offerings under the bouquet are expected to reduce as broadcasters adhere to the above mentioned twin conditions. As per ICRA's analysis, while an earlier bouquet price of Rs. 349 included 81 pay channels, the same is now expected to fetch only 51 pay channels. However, the same should not adversely impact the subscribers, as their viewing is largely restricted to few popular channels.

TRAI has also increased the channel offerings for the network capacity fee (NCF) of Rs. 130 (excluding taxes) per month to 200 standard definition (SD) (pay or FTA) channels from the present 100 SD channels. Furthermore, the 26 mandatory Doordarshan (DD) channels are now to be offered free of cost, over and above the 200 SD channels in the same NCF of Rs. 130. The NCF required to be paid for channels more than 200 has also been capped at Rs. 160 per month (excluding taxes), as against the present NCF of Rs. 20 for a slab of every 25 channels over 100 channels. This is expected to reduce the NCF burden on the subscribers, especially those opting for channel bouquets (owing to the large number of channel offerings). However, the overall impact of the same on the subscription charges will be negated by the non-availability of discount of 15% on the MRPs of channels offered under a bouquet to DPOs (which is being currently passed on to the subscribers).

The DPOs however, shall continue to enjoy 15% incentive from the broadcasters on the MRPs of a-la-carte channels, which is expected to be passed on to the subscribers opting these channels.

TRAI has also introduced provisions relating to NCF charged for multi-TV homes and long-term subscription plans, both of which favour the subscriber. The NCF for every additional TV in a multi-TV home has been capped at 40% of the declared NCF for the first TV, as against the current practice of uniform NCF across all TV connections in a multi-TV home. Furthermore, DPOs shall allow distinct choice of channels and bouquets of channels to each TV connection in a multi-TV home. While the existing tariff order is silent on the provisions pertaining to long-term subscription plans, the recent amendments allow DPOs to offer discounts on NCF as well as the distributor retail price (DRP), for long-term plans (minimum tenor of six months) as per their discretion.

Credit negative for broadcasters; mixed bag for DPOs

The amendments are expected to be a mixed bag of positives and negatives for DPOs. The overall reduction in NCF and the cap on NCF to be charged for additional TVs in a multi-TV home is negative for the DPOs. Furthermore, the discount of 15% on MRP of channels provided under the bouquet has also been done away with, though the DPOs will most likely offset the same by way of withdrawal of discounts offered to subscribers. TRAI has, however, allowed DPOs to offer different NCF across geographical regions (state / district / towns) as well as offer promotional schemes (on NCF / DRPs), upto 90 days at a time, twice in a calendar year. DPOs are additionally allowed to offer discounts on NCF / DRPs for long-term subscription plans. This is a credit positive for DPOs given the lock-in of subscriber base for longer duration (thereby reducing churn of subscribers) as well as advance receipt of funds which will support their working capital needs.

For the broadcasters, the recent amendments will adversely impact their revenues. The subscription revenues are expected to reduce (as subscription charges for a-la-carte channels will reduce and also due to the expected shift of subscribers from bouquets to a-la-carte selection). Furthermore, given the reduction in the number of channels that can be offered in a bouquet (for a given price), bundling of non-popular channels with established ones will reduce, thereby impacting their reach and thus advertisement revenues for

the broadcaster. The amendments will thus necessitate renewed efforts on the part of the broadcasters on pricing and bouquet composition, so as to minimise the adverse impact on their profitability. In such a scenario, broadcasters could also possibly convert some of their non-popular channels from pay to FTA, to improve their reach. This, however, would eventually lead to increased focus on content quality.

What has changed in the Tariff Order?

	EXISTING REGIME	NEW REGIME	EXPECTED IMPACT ON STAKEHOLDERS
BOUQUET PRICING	X No cap on discounts offered on bouquet pricing (vis-a-vis a-la-carte prices of channels included in the bouquet)	✓ Cap of 33% on discounts offered on bouquets vis-a-vis a-la-carte prices of channels included in the bouquet	↑↑ Consumers – Positive (if they shift to a-la-carte)
	X Price ceiling of Rs. 19 for any channel that is included in the bouquet	✓ Price ceiling for any channel to be included in the bouquet reduced to Rs. 12	↓↓ Broadcasters - Negative
	X Broadcasters can offer discounts, on the MRP of a pay channel or bouquet of pay channels, to DPOs not exceeding 15% of the MRP	✓ Broadcasters are not permitted to give any discounts on bouquets to DPOs, though may continue giving so for a-la-carte channels	↓↓ DPOs - Marginally negative
		✓ MRP per month of any a-la-carte pay channel, forming part of a bouquet, cannot exceed three times the average MRP per month of a pay channel of that bouquet ¹	
		✓ MRP, per month, of a pay channel shall, in no case, exceed the MRP, per month, of the bouquet containing that pay channel	
		✓ Number of bouquets of pay channels offered by a broadcaster at any given point of time should not be more than the number of pay channels offered by that broadcaster on a-la-carte basis. Any exception to this, is required to be approved by TRAI on a case to case basis. No cap on number of bouquets provided by the DPOs	
NETWORK CAPACITY FEE (NCF)	X NCF, per month, per set-top box, for upto 100 SD channels (FTA or pay) is capped at Rs. 130 (excluding taxes). These 100 channels to mandatorily include 26 DD channels	✓ Number of SD channels to be offered for NCF of Rs. 130 (excluding taxes) per month increased to 200. Mandatory 26 DD channels to be offered free of cost. Effectively, a subscriber will get 226 channels for Rs. 130 (excluding taxes).	↑ Consumers - Marginally Positive
	X Additional slabs of 25 channels (above 100 channels) to be provided at NCF of Rs. 20 (excluding taxes), per month.	✓ Ceiling of Rs. 160 (excluding taxes) on NCF introduced, if total channels opted by subscribers exceed 200	↔ Broadcasters - Neutral
	X Every DPO required to offer at least one basic bouquet of 100 FTA channels including all the mandatory channels as per the Government of India	✓ Requirement to offer basic service tier done away with	↓↓ DPOs - Negative
			↑↑ Consumers - Positive

¹ If the MRP of a bouquet is Rs. X per month and there are Y number of pay channels in that bouquet, then the average MRP per month of a pay channel of the bouquet shall be Rs. X divided by Y

	EXISTING REGIME	NEW REGIME	EXPECTED IMPACT ON STAKEHOLDERS
PROMOTIONAL SCHEMES	X Not allowed. DPOs mandated to charge similar NCF across geographical regions	✓ DPOs allowed to offer promotional schemes. The duration of such scheme to not exceed 90 days at a time and more than twice in a calendar year ✓ DPOs permitted to declare different NCF for different regions / areas, such as state, district, town within its service area	⇔ Broadcasters - Neutral ↑↑ DPOs - Positive
MULTI-TV HOMES	X No explicit provision. The Order mandated uniform channel pricing across multi-TV connections, though did not prohibit discounts on NCF	✓ NCF for every additional TV in multi-TV homes capped at 40% of the declared NCF for the first TV + TRAI has defined multi-TV home as a household having more than one TV connections in the name of a single person under a single subscriber ID ✓ DPOs to allow multi-TV home subscribers to choose different set of channels for each TV connection	↑ Consumers - Positive ⇔ Broadcasters - Neutral ↓↓ DPOs - Negative
LONG-TERM SUBSCRIPTION PLAN	X No clear provision. DPOs are required to declare NCF and DRPs of channels and bouquet of channels on a monthly basis	✓ Long-term subscriptions plans to have minimum tenor of six months ✓ DPOs allowed to provide discount on NCF and DRPs for long-term subscriptions at their discretion	↑ Consumers - Positive ⇔ Broadcasters - Neutral ↑↑ DPOs - Positive

Source: TRAI, ICRA research

Exhibit 1: Monthly bills under various scenarios

		Family of 2	Family of 4		Family of 6 or More				
Genre	A-la-carte		A-la-carte		A-la-carte		Bouquet		
	# of channels	Price (Rs.)	# of channels	Price (Rs.)	# of channels	Price (Rs.)	# of channels	Price (Rs.)	
GEC	-	-	2	22-24	3	34-35	Star	12	49.0
Sports	2	24	2	24	2	24	TV 18	6	22.0
News	2	1-2	2	1-2	2	1-2	Sony	8	31.0
Movies	2	13-24	2	13-24	2	13-24	Zee	10	39.0
Kids	-	-	1	6-8	2	7-14	Disney	4	10.1
							Times		5.0
							Network	4	
							NDTV	3	3.4
							TV today	2	0.8
							Turner	2	5.7
Monthly Bill									
Network Capacity Fee		130.0		130.0		130.0			130.0
Add: Pay Channel Costs		38-50		66-81		79-99			165.8
Add: GST @18%		30-32		35-38		38-41			53.2
Less: Discount @15%		6-7		10-12		12-15			-
Total (Rs. per month)	6 Pay + FTA	192-205	9 Pay + FTA	221-237	11 Pay + FTA	235-255	51 Pay + FTA		349
Total (As per the existing Tariff Order)		204-223		240-271		264-296	81 Pay + FTA		346
% Change		Reduction in bill by 6-8%		Reduction in bill by 8-13%		Reduction in bill by 11-14%			Increase in bill by 1%, with reduced channel offerings
	Source: ICRA research; Same channel offerings as considered in ICRA previous report on Tariff Order issued in March 2019 have been used to calculate the relative impact on pricing. A-la-carte channel pricing has been capped at Rs 12 under the new changes. MRP of pay-channels as on October 21, 2019 has been considered. While some of the broadcasters have introduced festive offer pricing on GECs, same has not been considered owing to promotional nature of such schemes. Bouquet pricing has been largely kept at existing levels for packs, subject to meeting of the 33% discount condition as proposed by TRAI. The channel offerings under the bouquet are, however, expected to reduce to comply with the new twin conditions-i) capping of the MRP of a-la-carte channel that can be included in a bouquet to upto three times of the average MRP per month of a pay channel of that bouquet, ii) MRP, per month, of a pay channel shall, in no case, exceed the MRP, per month, of the bouquet containing that pay channel								

Exhibit 2: Summary of Revised Tariff Order and Interconnection Regulations: Broadcasters

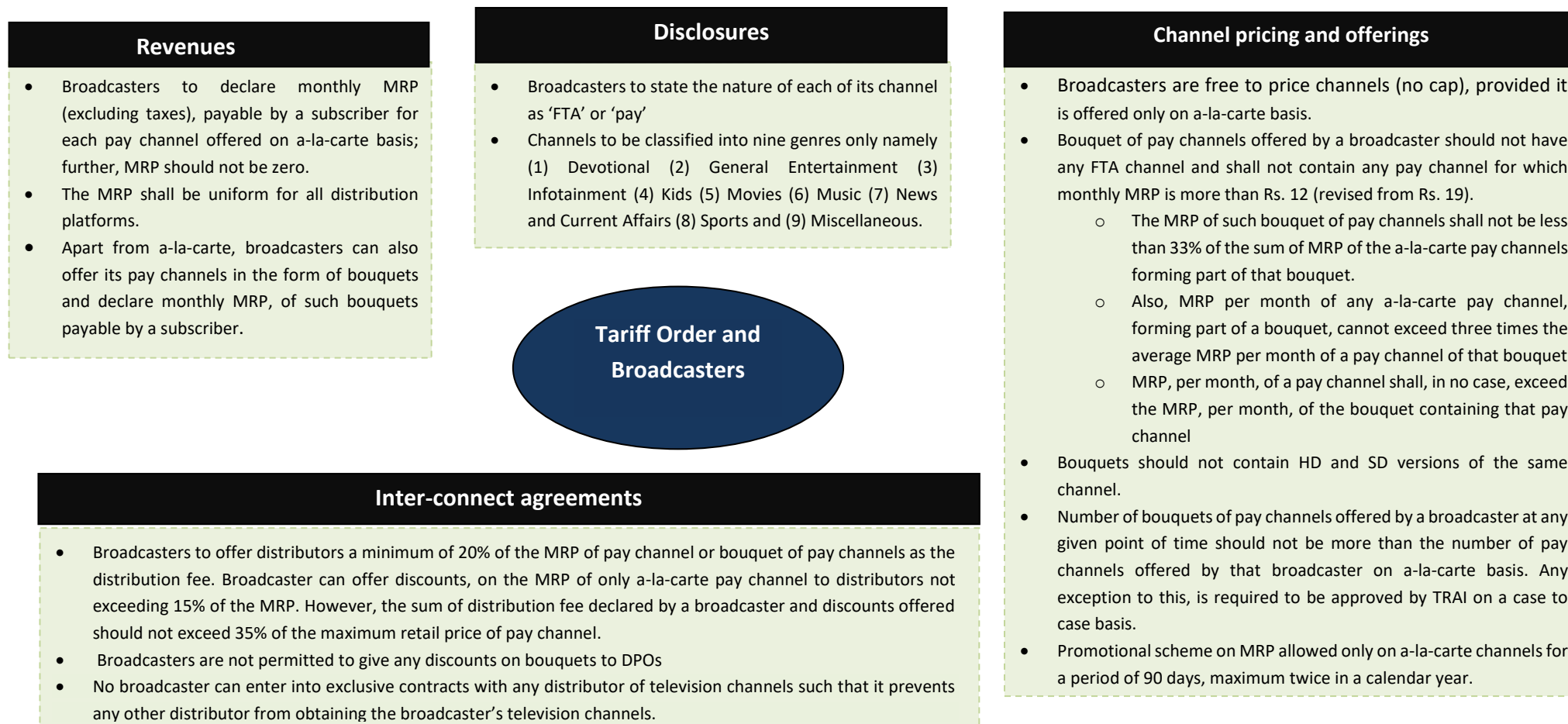
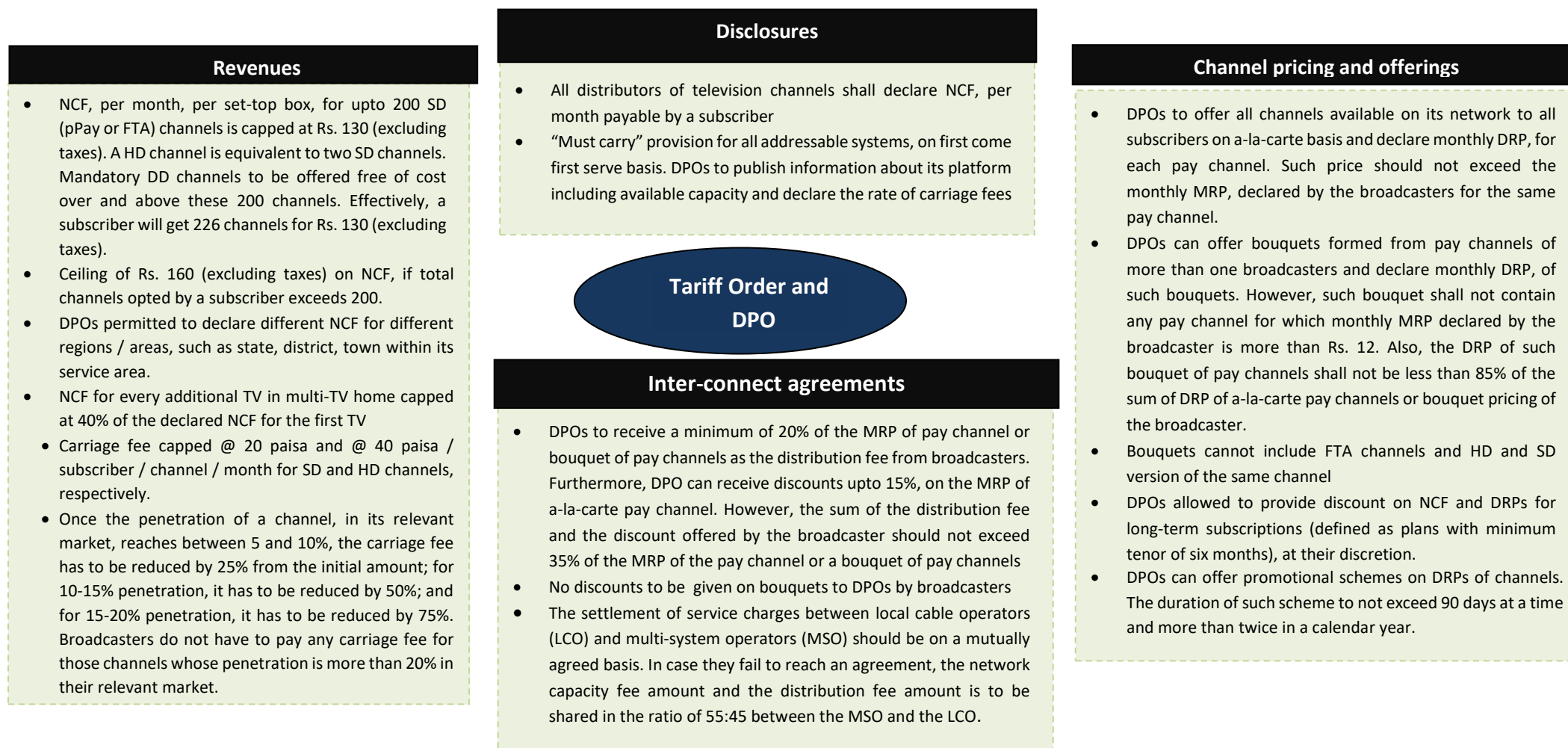


Exhibit 3: Summary of Tariff Order and Interconnection Regulations: DPOs



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