Article

Diganta Dey

Financial Modeling of Indian Film Industry: Bubble or Reality

'Finance' a word which is included in everything. Our morning alarm bell to bed at night, this word actually chasing us in different forms. Every industry has their own calculation of their financial modeling worldwide. 'Entertainment' is not exempted from this category. But if we take a deeper analysis of this Industry specially in India then we will get a mix bag report which is not up to the mark in terms of global standard. First, we have to acknowledge that the 'Finance' part is co related with everything like political scenario in state & nation, Government's policy & taxation rate, Per Capita Income of citizen or expense power, Inflation Index, Industry's own rules & regulations factor & moreover the interest of people to watch cinema etc. The list is exhaustive if we go to deeper analysis. So, for structured criticism, taking major points to come into a conclusion based on facts.

- **Entertainment Sector Contribution in Indian GDP**: - As per many statistics, the average value of Indian film industry is 183 billion Indian rupees on 2020. Estimates for fiscal year 2022 showed a growth of 196 percent however the data on GDP (Gross Domestic Product) contribution of each sectors, 'Entertainment' sector's measurement is included with various sectors like- Trade, Hotel, Transport, Communication & Service related to Broadcasting which falls under 'Service Sector'. India has 3 major sectors for GDP calculation- Primary, Secondary & Tertiary. There is another division where all sectors are divided into 3 major segments like Agriculture, Industrial & Service. India's all time high contribution comes under Service Sector but exclusively how much from Entertainment is still in smoke. This segment falls under 18% of GST (Good & Service Tax) slab which means Government takes it as a 'Luxury Segment' but the revenue comes from this segment is still low which means there is some crunch in between production & revenue. Right now, India's GDP projection is in between 7.5-12.6% by World Bank which is a bit high in terms of India's standard but the forecast is going down at least 4% & it is alarming in nature. The dip is for COVID impact where now India is one of the fastest dropping GDP country (2020 Statistics) with -23%. It is actually indicating the overall massive impact of each sectors but surprisingly film & digital content manufacturing is not too much affected with. That means, a discrepancy in the data is clearly visible where audience growth & advertising revenue is going high. It indicates 2 things – 1) High CAGR (Compounded Annual Growth Rate) in this industry which is a very good point in terms of business perspective & growth. 2) Loopholes in Industry's actual data calculation.

Fig 1:- (Sector Wise GDP contribution)

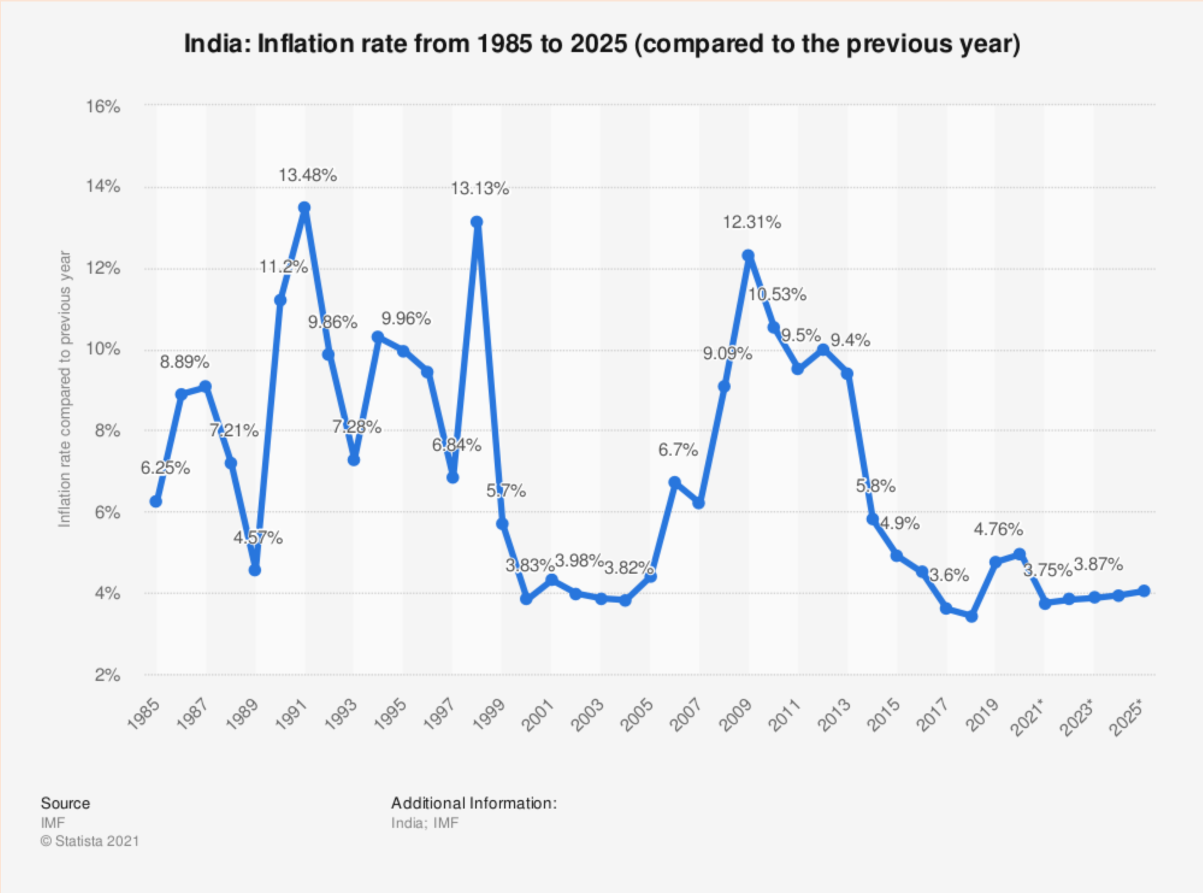
	Sector	GVA in 2018-19 (Rupees in Crore)			
		Constant prices	share (%)	Current prices	share (%)
1	Primary Sector	2,228,008	17.39 %	3,149,734	18.57 %
1.1	Agriculture,forestry & fishing	1,842,873	14.39 %	2,692,433	15.87 %
1.2	Mining & quarrying	385,135	3.01 %	457,301	2.70 %
2	Secondary Sector	3,644,647	28.45 %	4,585,286	27.03 %
2.1	Manufacturing	2,346,216	18.32 %	2,853,986	16.83 %
2.2	Electricity, gas, water supply & other utility services	287,109	2.24 %	452,683	2.67 %
2.3	Construction	1,011,322	7.90 %	1,278,617	7.54 %
3	Tertiary Sector	6,936,122	54.15 %	9,226,346	54.40 %
3.1	Trade, hotels, transport, communication and services related to broadcasting	2,467,622	19.27 %	3,157,709	18.62 %
3.2	Financial, real estate & prof servs	2,775,970	21.67 %	3,555,780	20.96 %
3.3	Public Administration, defence and other services	1,692,530	13.21 %	2,512,857	14.82 %
	GVA at basic prices	12,808,778	100.00 %	16,961,365	100.00 %

The GDP is not only the factor, there are some other co related points like Per Capita Income is one of the key measurements where we can actually measure the expense power of anybody. This point is also co related with business, export & job growth. India is calling a super power for one of the biggest economies but the sad part is still average per capita income of an Indian is low in terms of global standard. The poverty index is reducing which is a good sign but people are struggling to get their bread & butters & essential commodities then the luxury product like Cinema should be affected drastically but no such effects is still showing on the data & analysis given bellow.

- **Inflation in India: -** 'Inflation' or rising cost of product & service is one of the key factors to measure the Indian film industry's actual growth. This inflation thing creates a major impact on Indian economy. Mainly excessive crude oil import (lack of our oilfields to serve the entire nation's need) & fiscal deficit (Trade deficit mainly) are the major factors for hyper inflation in India. In terms of equilibrium theory of market, inflation is needed but in a certain scale. Upper or lower in the inflation scale causes hyper inflation or deflation. For India, RBI (Reserve bank of India) is the only body who is like watchdog on this issue & make changes on repo rate to control the inflation mainly. Indian standard scale for inflation is 4 (+/- 2). That means higher point is 6 &

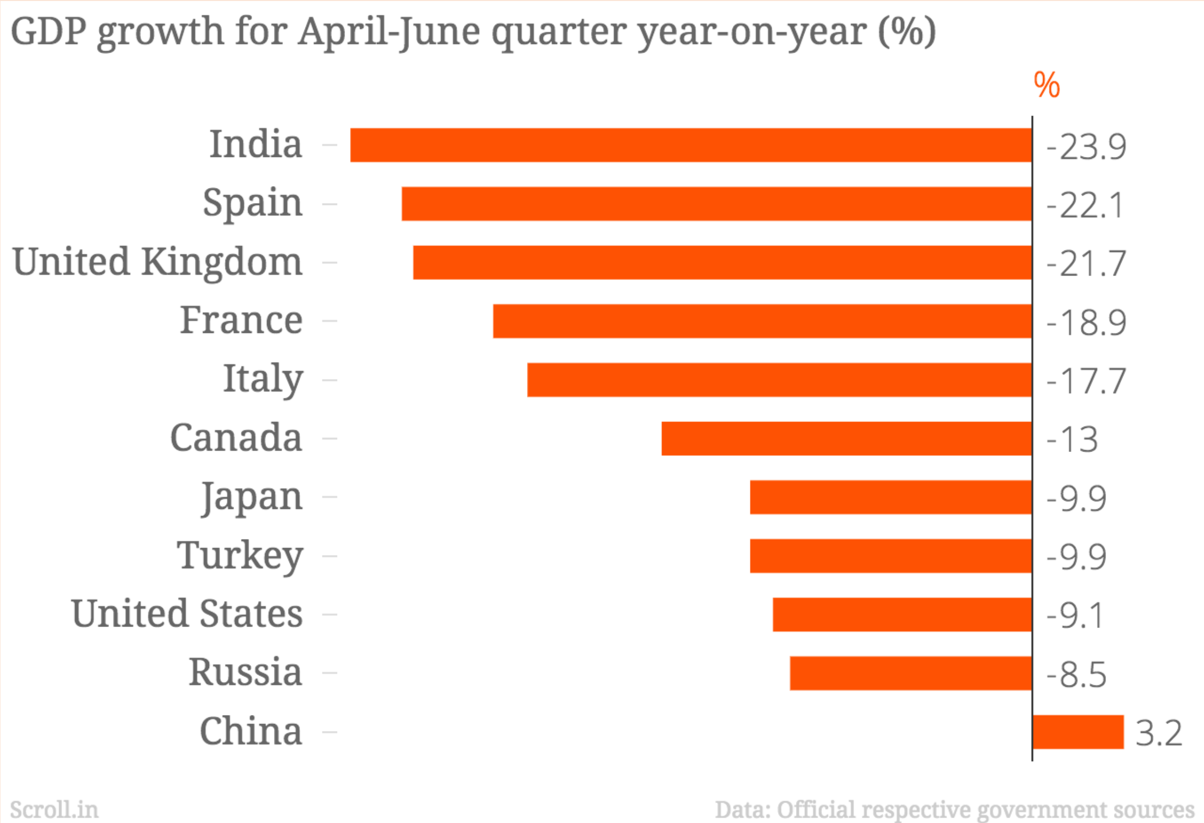
the lower point is 2. Right now, India's inflation rate is 5 & IMF (International Monetary Fund) projected the rate in bellow 4 in near future. But the point is the high inflation rate actually affects people & their purchasing power. But the film industry is still growing in terms of high numbers of digital footfall & 'Crore Club' revenues is again unrealistic.

Fig 2:- (Inflation Rate of India)



As of now we are seeing two points where the GDP calculation of this sector is still hazy because there are some other industries like hotel & travel is included & now the high number of 'Crore Club' (used so many times in Bollywood genre movies) is not calculative in proper taxation data which means there is no such concrete ground of evidence of those claims by some big production houses. May be the cashflow is massive but the real income (profit after tax) is still not disclosed by them for unknown reason. Where GDP as of now struggling to go in 'Plus', film industry is investing heavily as per many news sources. Then again one question arrived that the money is actually a real investing money or it is travelled from another sector to entertainment specially?!

Fig 3:- (GDP Growth of Countries in Pandemic)



In conclusion segment few points are discussed but but as of now we have to discuss the source of funding in spite of low growth in Indian economy. A major point is coming in this scenario is FDI (Foreign Direct Investment). Government policy on FDI has been revised recently where more sectors are exempted to welcome FDI but in this scenario there are some risks involved like foreign company's interest & market grabbing theory, risk of local & small producer's or service provider's interest, monopoly game in the name of fair competition etc. There are some good points also like knowledge sharing, knowledge transferring, co-branding etc but we have to take some examples to understand the scenario after increasing limit from 74% to 100%.

- **FDI (Foreign Direct Investment) Impact: -**

- With more than 600 television channels, 100 million pay TV households, 70,000 newspapers and 1,000 films produced annually, India's vibrant media and entertainment (M&E) industry provides attractive growth opportunities for global corporations. In recent years, with near double-digit annual growth and a fast-growing middle class, there has been a renewed surge in investments into the country by multinational companies.
- At present, India has probably one of the most liberal investment regimes amongst the emerging economies with a conducive foreign direct investment (FDI) environment.

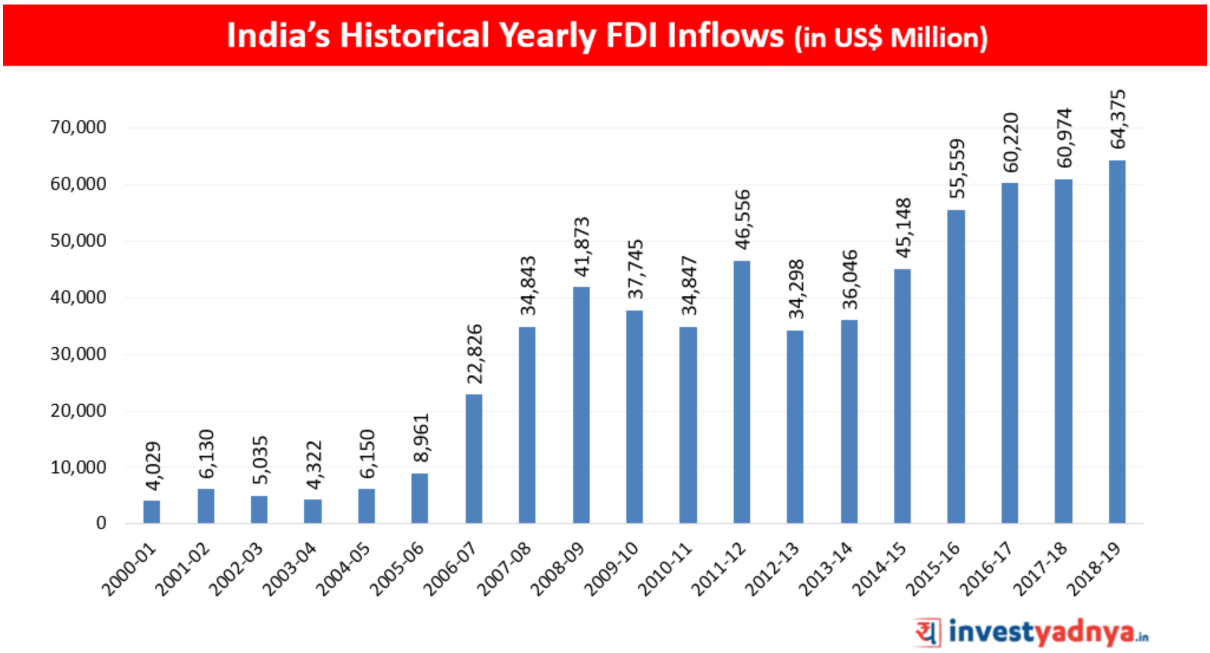
The M&E industry has significantly benefited from this liberal regime and most sectors of the M&E industry today allow foreign investment. The government (GOI) has recently further liberalised the FDI caps in key sectors (including Direct-To-Home (DTH), print media and radio) and entry restrictions for foreign companies have been relaxed for most segments of the M&E industry.

- In the year 2001, the film industry was granted the status of an 'industry'[1]. Since then, the GOI has taken several initiatives to liberalise the foreign policy regulations relating to films. Through the liberalisation of the foreign exchange regulations, the GOI has allowed 100 percent FDI in the film sector. For the purposes of FDI, film sector broadly covers film production, exhibition and distribution, including related services and products. FDI in the sector is permitted without any prior approval ('automatic route'). In addition, there are no entry level conditions for FDI in the sector. However, investors must comply with certain post filing requirements, including notifying the Reserve Bank of India within 30 days of receipt of inward remittance in India and filing of certain documents within 30 days of allotment of shares.
- The GOI has also entered into film co-production treaties with several countries[2] and is in the process of entering into more bilateral pacts with countries like Australia, China and Canada.

In spite of those good factors, few deals actually prove the intention of those multinational entertainment companies to grab the Indian market where the Bollywood dominance is going high with their own style of making. But for meaningful art-based films are still seeking their supports for foreign markets as well as India's regional markets but no such significant improvement is there. Here are such deals –

1) Walt Disney, who earlier held a 50% stake in UTV, has now acquired a controlling stake in UTV Software Communications.
2) Balaji Telefilms Limited has raised Rs 150.08 crore (US$ 22.09 million) through allotment of equity shares on preferential basis to catapult the launch and growth of ALT Digital Media, a Business-to-Consumer digital content business segment of Balaji Group.
3) US based investment firm Tiger Global Management LLC has acquired a 25 per cent stake in 'The Viral Fever' (TVF), an online video content creator, for US$ 10 million.
4) Reliance Entertainment (owned by Mr Anil Ambani) and DreamWorks (led by Mr Steven Spielberg), along with Participant Media (led by Mr Jeff Skoll) and Entertainment One (eOne) have formed a new film, television and digital content creation company called 'Amblin Partners', and have raised US$ 500 million in debt to develop and produce films.

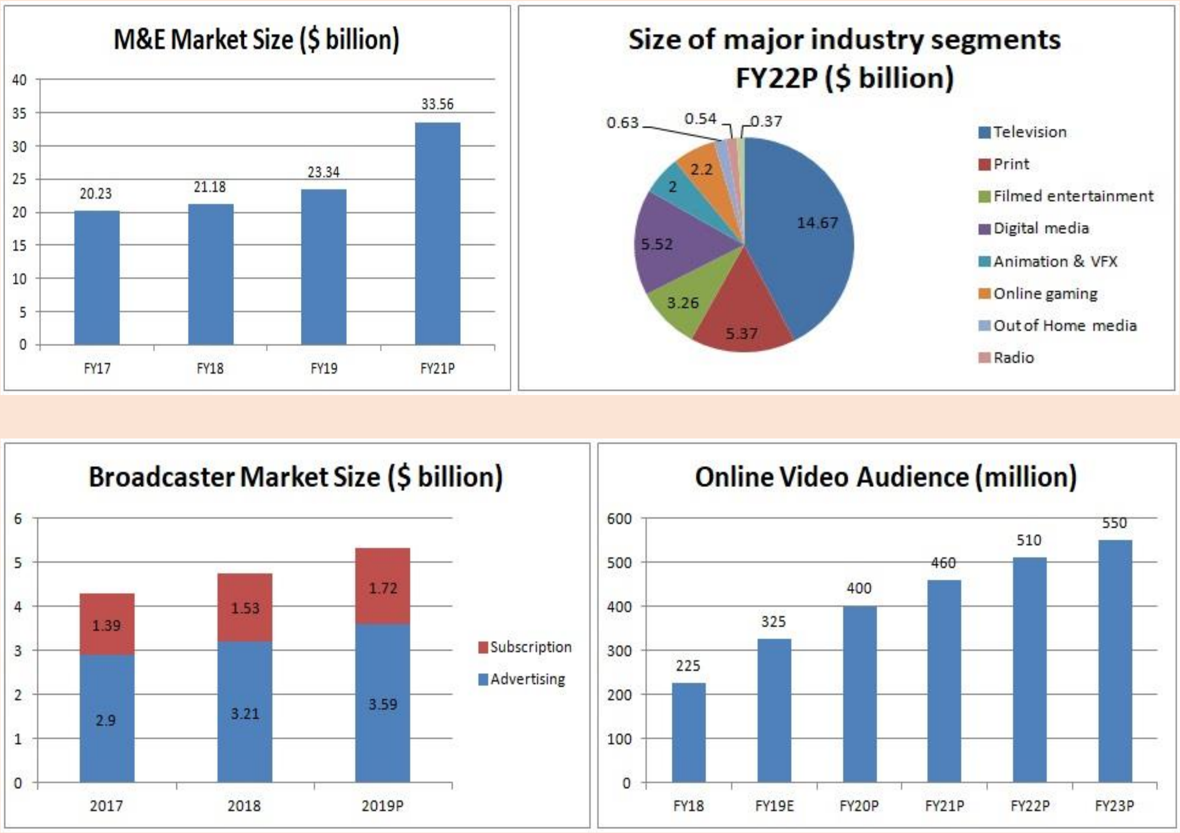
Fig 4:- (FDI Historical Data in India)



So as per data & events we can make a point the FDI has a good track record in Indian market but it for a specific genre based movies & those houses have their regional section in different state but the signific works are actually done by some less known or semi known production house in terms of quality content & few of them are successful in the business also. But large investment means large risk involved so those houses are playing safe to secure their investment in this volatile market & less invested in R&D of new meaningful cinema.

- **Entertainment Industry Bubble: -**
- India is the second-largest television market with an opportunity to cater to 100 million homes.
- India is one of the largest broadcasting markets with a total of 243 FM channels being operational.
- Animation and VFX industry in India grew from 73.9 billion in FY18 to 87.7 billion in FY19.
- The total subscriber base for the Indian television industry increased to 195 million in 2019 from 183 million in 2017.
- The Indian film industry is expected to grow at a rate of 11.9% by 2020 due to digitalization.
- Between 30-35 million OTT subscribers are expected by 2021.

Fig 5:- (M&E Industry Insight)



Government Policies

- The Government has increased the FDI limit from 74% to 100%
- Increasing liberalization and tariff relaxation
- Measures such as digitization of cable distribution to improve profitability and ease of institutional finance
- FDI limit in radio including private FM channels have been increased from 26% to 49%
- The Government introduced National Digital Communications Policy 2018 for affordable digital communications infrastructure and services

Investments

- From April 2000 to December 2019, FDI inflows in information and broadcasting sector reached $8.71 billion
- In 2019, the sector witnessed a total of 21 mergers and acquisition (M&A) worth $240 million

Market Overview

- The Entertainment Industry is split into 10 segments: Television, Radio, Print, Films, Live events, Digital media, Music, Out of Home, Animation and VFX and Online Gaming
- Media and Entertainment Industry is set to expand at a CAGR of 13.5% during 2019-24
- The Indian media and entertainment industry is expected to reach around INR 3.07 lakh crore by 2024
- Digital M&E platforms in India grew 13.3% in FY19 to reach Rs 163,100 crore contributing the most to M&E's growth
- India's online gaming industry is expected to grow at a CAGR of 22% during FY18-FY23 to reach INR 11,900 crore in FY23
- It is expected that sports can create 4.3 million jobs by 2022
- The Indian digital segment is expected to witness a growth of 29.1% CAGR during FY19-FY24.

Television segment

- In 2019, television market size increased to INR 815 billion from INR 660 billion in 2017 and is estimated to surpass $13 billion by 2023
- The share of broadcaster subscription revenue was 25% of the total collection, estimated around INR 11,000 crore in 2019

Other segments

- During 2018-23, segments are expected to increase at CAGRs of 30.20% for Digital Advertising, 15.50% for Animation and VFX, 22.10% for Gaming, 9.20% for OOH and 10.20% for Radio
- India's advertisement market is projected to grow 10.62% y-oy to INR 85,250 crore till 2021
- Digital advertising generated revenues worth INR 15,467 crore in 2019
- Music entertainment market size is expected to touch INR 35 billion by FY24 from INR 17 billion in FY19

OTT

- The online video market in India is estimated to reach $4 billion by 2025, with subscription services contributing more than $1.5 billion and advertising accounting for $2.5 billion
- India is projected to become one of the top 10 global OTT markets to reach US$ 823 million by 2022

Strategies Updated

- Regional entertainment is growing and therefore, the suppliers are able to expand their forte in the products
- The manufacturing companies such as Videocon is offering combo deals
- TV programs being used as a medium of promoting films or other entertainment events

Growth Drivers

- Rising income: India's per capita income at current prices grew 11% to reach INR 141,447 in FY19AE
- Evolving lifestyles: During 2017-2025, elite, affluent, aspirers and next billion income classes are expected to grow at a CAGR of 11%, 9%, 5%, and 2% respectively
- Higher penetration and a rapidly growing young population coupled with increased usage of 3G, 4G, and portable devices would augment demand

New Opportunities

- Growth in international animation films, especially 3D productions, and the subsequent work for Indian production houses will help the growth of this segment
- Accelerated growth is forecast in regional print and local news segments growing at a CAGR of 5.9% during 2018-2023
- In order to promote India as a location destination for foreign production houses, the Government is setting up a single-window clearance system for shooting permissions.

Conclusions:

As we can see the difference between perception or future prediction & the current scenario. The total Media & Entertainment industry in India is on verbal boom. There are 3 major factors which is actually supporting this sentence-

1) In India, all major studios are run by individuals not the promoter of the company. So, it is going to be a too much personal issue where some decisions are made not led by the financial or business perspective but also for personal interest. That is why Hollywood Studios made a mark for their professionalism rather than Indian media industries. Few big studios in India have their own share traded in stock market (BSE & NSE) but in terms of Hollywood studios they are not famous among retail investors because of these companies are not too much transparent where investors can put their feet for not understanding their business model. So, for these data sheets are actually not working to convince a large number of investors to invest into these companies in open market!

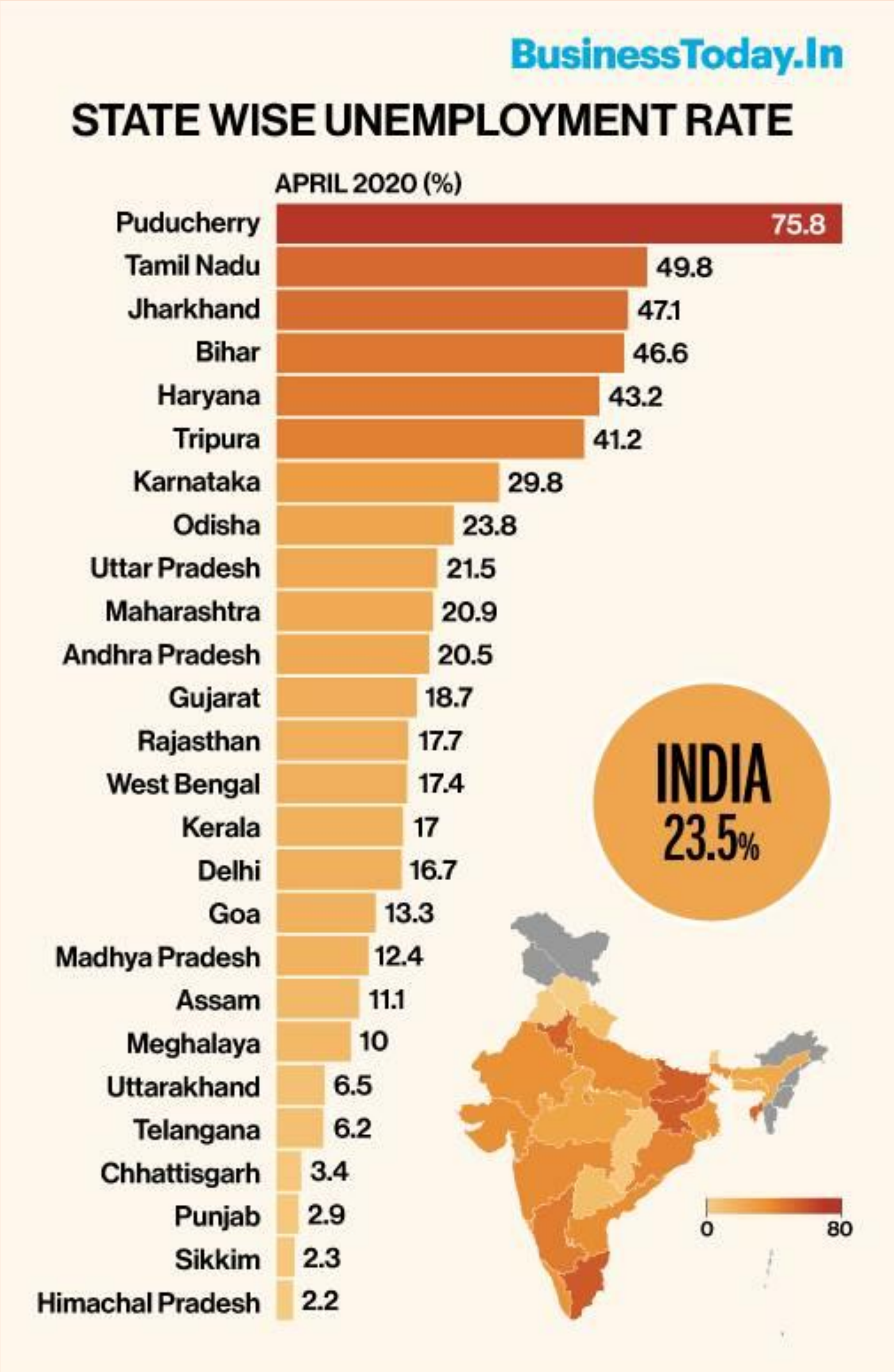
2) Per Capita Income is the only factor which is giving the actual scenario of society's earning & spending power. Economy is booming up but still struggling to get a handsome PCI is not a good sign. There is population metrics also which is affecting the PCI data but overall, it is a legitimate figure to understand the real economic scenario. So, Goa is the highest PCI state, the reason is foreign money flows into Indian market through the massive travel & tourism industry of Goa but same thing is dipping when it comes for Odisha. Cause lack of export-import, business establishment & corruptions along with political agendas. We can easily take a call that political stability, business or trade, education can reduce unemployment & leads to gain more purchasing power. Then it will automatically impact on cinema as well as any luxury product or service consuming. If you analyse the data, then you can easily understand the eastern part of India along with North East is facing severe unemployment as well as Per Capita Income issue rather than the western states. Government should focus on their basic duties & promote business/trades actually creates more revenue & beat unemployment as well as inflation rate (State wise) also. As an example of Telangana, PCI is very good & their love of cinema, creating a huge industry valuation. (Mostly Telugu Film Industry) in terms of film budget, profit & public consumption. Many businesses along with top most MNCs are coming there to set up their campus is actually creating jobs which is helping in cashflow. There are several similar examples in South Indian state where film industry is getting large for the cashflow & consumption.

Fig 6: (Per Capita Income State Wise)

COVID-19 Impact on Per Capita GDP of States (at Current Prices)			
States	Per Capita GDP (Rs in Lakh)*		
	FY20	FY21	Change in %
Delhi	4.48	3.79	-15.4
Chandigarh	3.91	3.37	-13.9
Gujarat	2.42	2.14	-11.6
Tamil Nadu	2.39	2.12	-11.4
Telangana	2.54	2.25	-11.1
West Bengal	1.40	1.24	-11.1
A & N Islands	1.99	1.78	-10.6
Maharashtra	2.06	1.85	-10.3
Haryana	2.92	2.63	-9.8
Jammu & Kashmir	1.12	1.01	-9.6
Rajasthan	1.33	1.21	-9.2
Bihar	0.55	0.50	-8.7
Punjab	1.82	1.67	-8.4
Kerala	2.44	2.25	-8.2
Andhra Pradesh	1.72	1.58	-8.1
Karnataka	2.60	2.40	-7.8
Uttar Pradesh	0.81	0.75	-7.5
Madhya Pradesh	1.09	1.01	-7.1
Uttarakhand	2.36	2.22	-5.7
Jharkhand	0.91	0.86	-5.4
Puducherry	2.59	2.46	-4.8
Himachal Pradesh	2.06	1.98	-3.7
Odisha	1.15	1.11	-3.7
Tripura	1.40	1.35	-3.6
Meghalaya	1.07	1.03	-3.3
Sikkim	4.42	4.32	-2.4
Mizoram	2.10	2.05	-2.4
Assam	0.99	0.97	-2.3
Chhattisgarh	1.12	1.10	-2.1
Nagaland	1.40	1.38	-1.5
Manipur	0.82	0.82	-0.6
Goa	5.29	5.31	0.3
Arunachal Pradesh	1.62	1.62	0.3
India	1.52	1.43	-5.4
Memo: India's Nominal GDP in Rs Lakh Crore			
Nominal GDP	202.3	194.6	-3.8

Source: SBI Research; * SBI Projections; Assuming Population growth of 1.1% p.a.

Fig 7: - (Unemployment Statistics State Wise)



3) To revive the entertainment industry, we need to support the single & multi screens who are running shows physically. Otherwise, big players are in OTT or digital segment can create an artificial monopoly to run their business in high profit margins. More avenues are open means more option to deal for the

business growth. Otherwise 'Cinema' the highly valued medium will lose its grandeur for going exclusively digital.

Reference:

1) https://statisticstimes.com/
2) https://indiancompanies.in/
3) https://www.ibef.org/
4) https://www.lexology.com/
5) https://www.businesstoday.in
6) https://www.statista.com

■ ***Mr. Diganta Dey is an independent filmmaker & writer. A fellow of Kyoto Filmmakers Lab 2020 (Japan). Completed NISM V-A certification under SEBI (Security Exchange Board of India) & empaneled with AMFI (Association of Mutual Funds in India).***