



The Indian radio industry

Overview and future prospects

July 2010



Foreward

India's commercial radio industry has only emerged in the last 15 years with two phases of FM licencing (in the late 1990s and 2006/07). The industry's birth was damaged by a licencing process which encouraged overbidding and an annual fee structure which has ultimately proved unsustainable. Whilst these issues were resolved by the time of the second phase of licencing, the industry has struggled with building sustainable profitability – primarily due to heavy investment in brand building and a tight regulatory regime which has restricted the industry's ability to reduce costs through networking content and ownership of multiple licences in each city.

However, we believe the industry's medium to longer term prospects are excellent – driven by growth in audiences and advertisers. In terms of audience growth, the commercial stations' mix of popular music and talk is highly attractive to India's rapidly growing commuter class of urban professionals. Second tier towns and cities present relatively virgin territory and broadcasters should be able to attract a growing share of ad budgets from FMCG companies, automotive manufacturers and banks seeking to target India's increasingly wealthy semi-urban consumers.

Plans for the third phase of licencing are in process (possibly in 2011) and should see commercial FM broadcasting extended to another 90 towns and cities. These new locations are becoming increasingly important consumer markets – this should improve the business case for broadcasters looking to bid for these new licences.

Audience measurement is also an issue which needs to be addressed. The official RAM system is only employed in four cities which is clearly not sufficient if the industry is to attract a greater share of advertising budgets in second tier cities.

In terms of the regulatory environment, the broadcasters are pushing for a number of changes which are currently being considered by the Ministry of Information and Broadcasting. These include extension of FM licences to 15 years (from the initial 10 year period), the ability to network content across different stations and broadcasting news and current affairs

The prospects for the sector are excellent, if a number of regulatory and media measurement issues can be resolved. A lifting of the 20% cap on foreign direct investment may also attract much needed capital for investment.

Heernet ventures has a strong track record of working with leading media companies and investors on identifying investment opportunities in emerging markets such as India.

If you would like to discuss opportunities in this sector, please get in touch.

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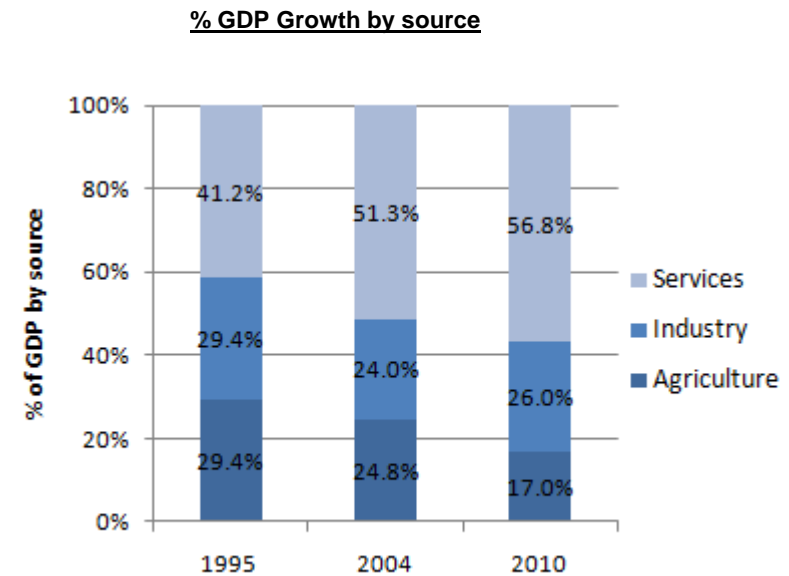
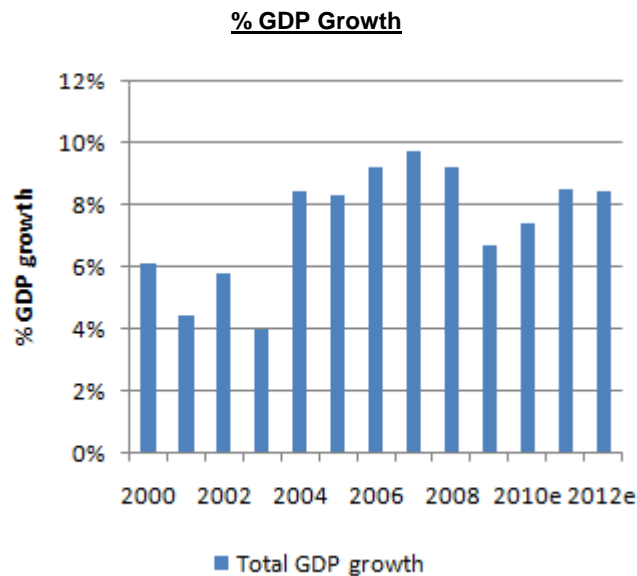
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Indian Economic Landscape

The shape of the Indian economy has changed significantly since the 1990s

- ▶ India weathered the economic crisis well (primarily due to a banking sector that was not exposed to the global economy) – GDP growth remained over 6% in 2008
- ▶ The shape of the economy has changed radically, with agriculture declining from a third of the economy to 17% - much of the growth has been in the services sector (not manufacturing)
- ▶ India is emerging as an important market for business, IT and financial services



India is targeting economic growth of 10% p.a.

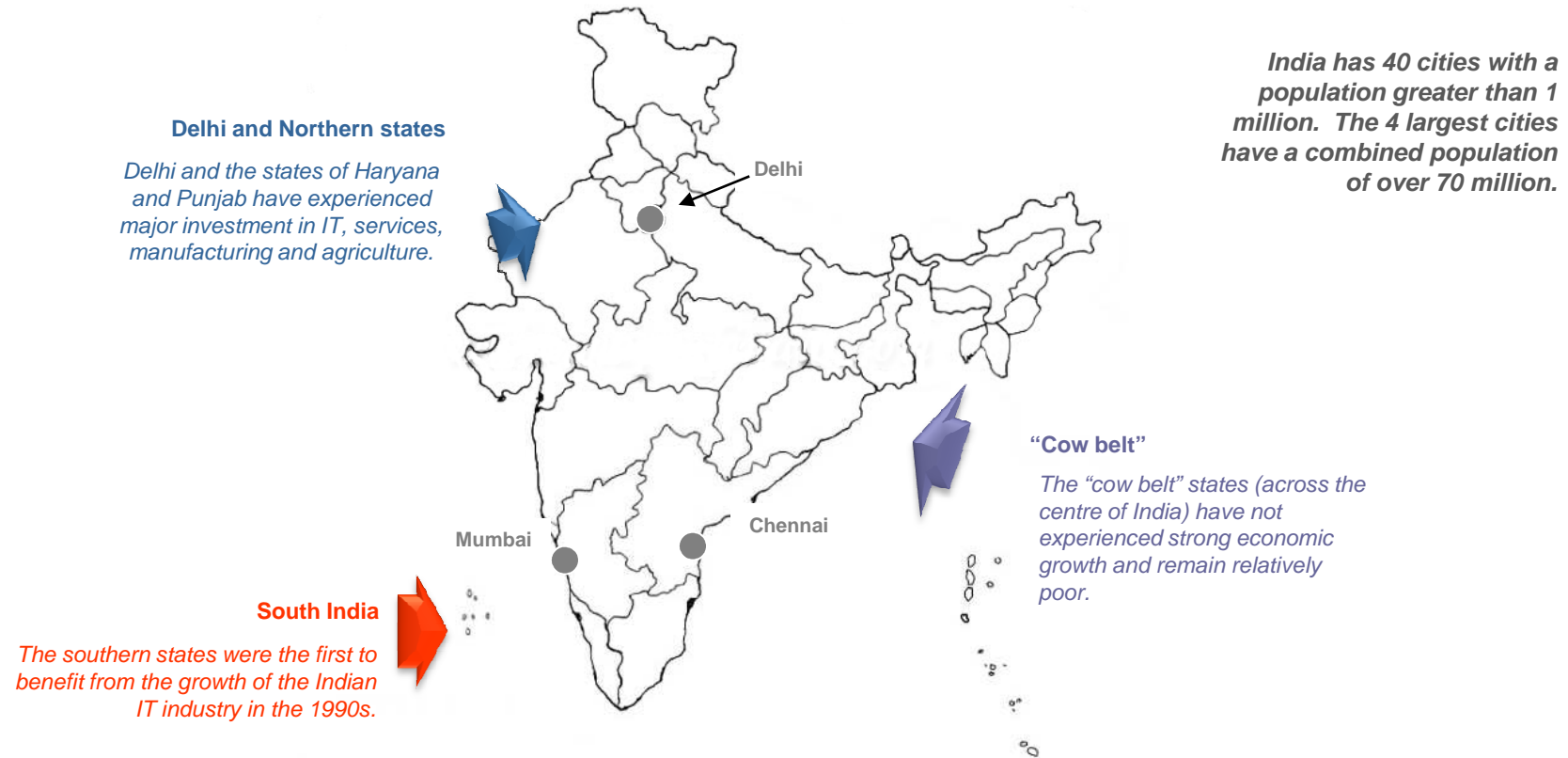
Key observations

- Among the BRIC economies, India has the greatest growth potential
- India has not yet undergone industrial growth in the way that China has
- India benefits from a young population (compared to other BRIC countries) which will provide a large workforce in the medium term
- Urbanisation and growing middle class
 - India's urban population has grown by 150 million in the last 15 years
 - Middle class is approx. 300 million (growing by 10% p.a).
- Consumer spend is booming in the urban areas – driven by the rapidly growing middle class and greater levels of disposal income.

Key economic indicators for the BRIC countries

		India	China	Brazil	Russia
Population (mn)		1,189.7	1,346.8	192.0	141.8
Workforce (mn)		480.0	764.0	92.9	74.1
Literacy rate		70%	91%	89%	99%
GDP (USD billion)	2008	1,171	3,823	1,573	1,671
	2009	1,351	4,239	1,461	1,428
GDP (Local curr bn)	2008	53,218	26,555	2,890	41,540
	2009	58,851	29,005	3,018	43,128
Real GDP growth (08-09)		6.1%	8.1%	-0.6%	-7.8%
GDP per capita (USD)	2008	670	2,839	7,501	11,786

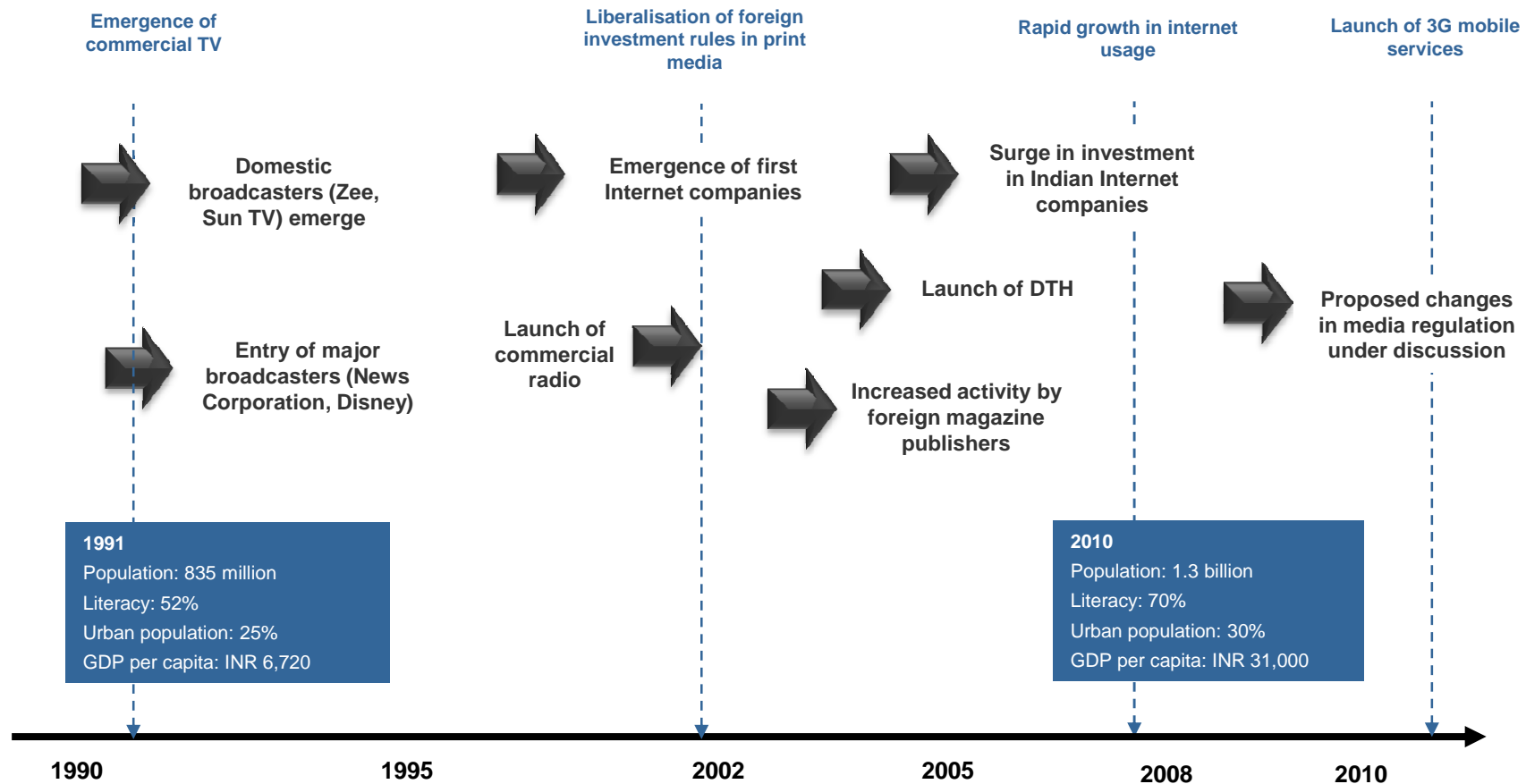
Economic development varies considerably on a regional basis





Snapshot of the Media and Advertising Industry

The emergence of commercial television in the early 1990s was a key step in the liberalisation of the media sector



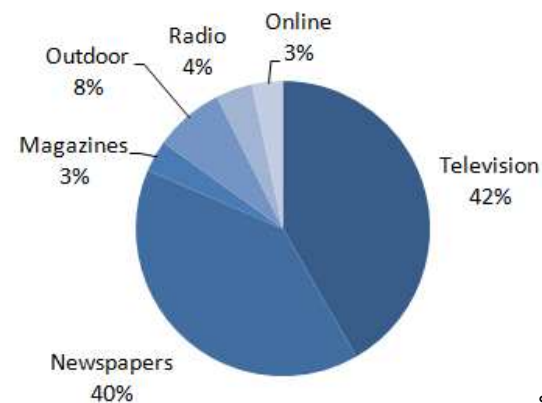
Indian media sector is achieving double digit revenue growth

- ▶ The Indian advertising market is estimated to be worth approx. INR 205bn in 2010
- ▶ Growth has been 11% p.a. for the last 4 years
- ▶ TV and newspapers account for 82% of total adspend
- ▶ Radio advertising is approx. INR 8.3 billion (2010e) – average annual growth of 26% since 2007

Indian adspend (2007 – 10e)

INR millions	2007	2008	2009	2010e	CAGR
Television	59,595	69,756	77,830	85,600	12.8%
Newspapers	64,972	74,663	74,898	81,627	7.9%
Magazines	5,315	6,757	6,710	7,111	10.2%
Outdoor	11,740	13,311	14,282	15,708	10.2%
Radio	4,092	5,610	6,891	8,268	26.4%
Online	3,425	3,952	5,307	6,955	26.6%
TOTAL	149,142	174,051	185,920	205,271	11.2%

Indian adspend share (2010e)



Source: Magna Global

The growth prospects for the media sector are extremely good

- ▶ The media sector will continue to experience strong growth, driven by:

- Growing literacy
- Increasing private consumption
- Development of consumer-driven sectors such as retailing, financial services and automotive

- ▶ In addition, there are a range of favourable industry specific trends (such as digitalisation)

Growth drivers in the media sector

Sector	What will drive growth
Television	<ul style="list-style-type: none"> ▪ Development of DTH services (only launched in 2004) ▪ Roll out of conditional access technology in cable TV households (70 million households)
Radio	<ul style="list-style-type: none"> ▪ Launch of 400 new commercial FM stations across India in 2006/07 ▪ Phase 3 licencing in 2010/11
Consumer magazines	<ul style="list-style-type: none"> ▪ Significant number of new title launches (especially foreign titles) ▪ Many niche markets are untapped
Newspapers	<ul style="list-style-type: none"> ▪ Increased literacy (driving readership) and urbanisation ▪ Online migration will reduce rate of growth ▪ Increased adspend (driven by growth in consumer spending)
Online media	<ul style="list-style-type: none"> ▪ Increased internet penetration – both PC and mobile ▪ Launch of 3G services (over 500 million mobile subscribers)



Radio Industry Overview

The commercial radio sector emerged in the late 1990s

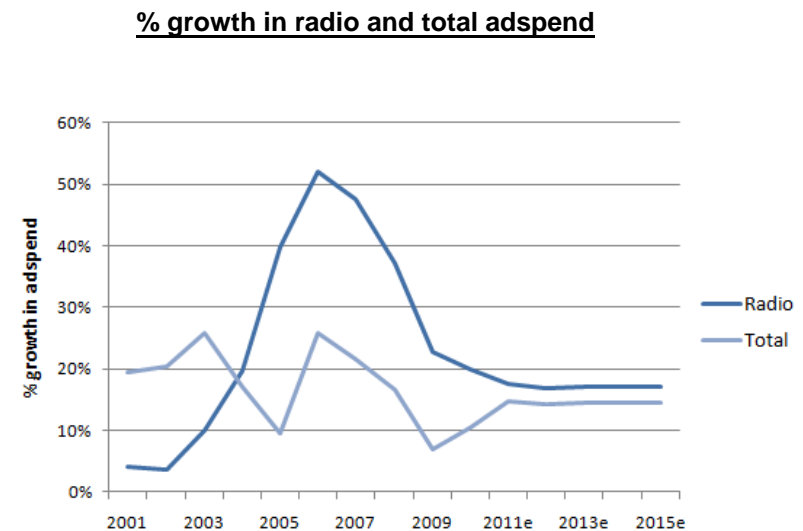
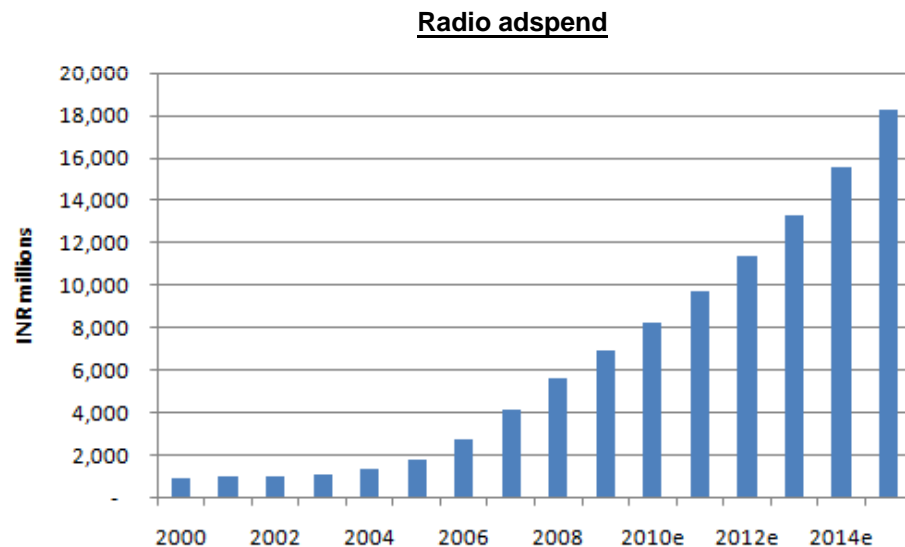
- ▶ Public sector broadcasting was launched in the 1920s
- ▶ Today, the public broadcaster All India Radio broadcasts a number of national and local stations in over 15 languages. It still has a monopoly over news and current affairs.
- ▶ A number of local stations were launched in the 1990s, but the first genuine licencing process for commercial radio started in the late 1990s
- ▶ A third stage of licencing (Phase 3) is planned for late 2010/early 2011

Licencing details

Phase	Timing	No. of licences	Approach
Phase 1	1998/99	Of the 108 licences available, 40 were awarded and 21 actually started broadcasting.	Licences based on upfront fee plus annual fixed fee Auction was 'highest bidder wins' Unrealistic bids were made and many stations never launched
Phase 2	2006/07	245 licences were allocated to 38 broadcasters across 87 cities	Licences based on an entry fee plus a share of revenues
Phase 3	2010/11 (?)	Upto 700 licences for 92 small towns	Has been delayed – primarily because the industry is cash strapped

Radio advertising is worth approx. INR 8.3 billion

- ▶ Radio adspend (2010e) estimated to be INR 8.3 billion – growth of 20% on 2009
- ▶ Growth rates in the sector have fallen from a peak of 50%
- ▶ Future 'like for like' growth is likely to be 15%-20% p.a. However, an additional 700 new stations as expected in Phase 3 licencing will greatly expand the market



Three groups have achieved effective national coverage

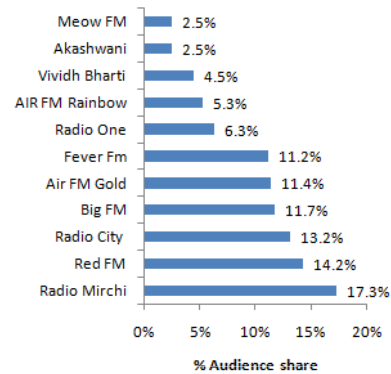
- ▶ There are 3 groups with 'national coverage' – they have a presence in the major cities (Sun TV's radio operation dominates the southern states)
- ▶ The BBC has a 20% stake in Radio Mid-Day's Mumbai licence and Virgin Radio has a partnership with the Hindustan Times

Major players

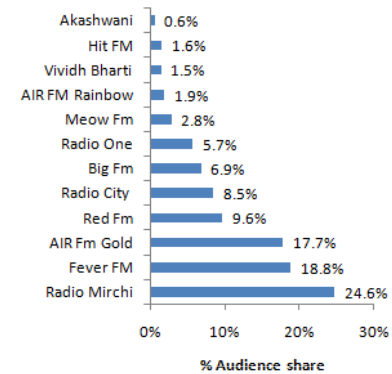
Company	Ownership	Brand	No. of stations
Adlabs Radio	ADAG Group	Big FM	44
E.N.I.L.	Times of India Group	Radio Mirchi	32
Kal Radio, South Asia	Sun TV Networks	Red FM, Surya Radio	35
M.B.P.L.	Music Broadcast	Radio City	20
Synergy Media	DB Corporation	My FM	17
B.A.G. Infotainment	B.A.G Films and Media	Radio Dhamaal	9
Dainik Jagran	Dainik Jagran Group	Mantra	8
Malar Publications	Malar Publications	Hello FM	7
Radio Mid-Day	Mid-Day Multimedia	Radio One	7
Radio Today Broadcasting Ltd	India Today Group	Meow FM	6
Malayalam Manorama Radio	Malayalam Manorama	Radio Mango	4
H.T. Music	Hindustan Times Group	Fever 104	4
Rajasthan Patrika	Rajasthan Patrika	FM 95 Tadka	4

Radio Mirchi and Big FM have established a leadership position in the four cities where audiences are measured

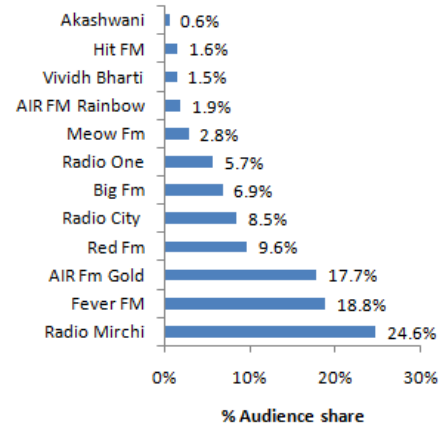
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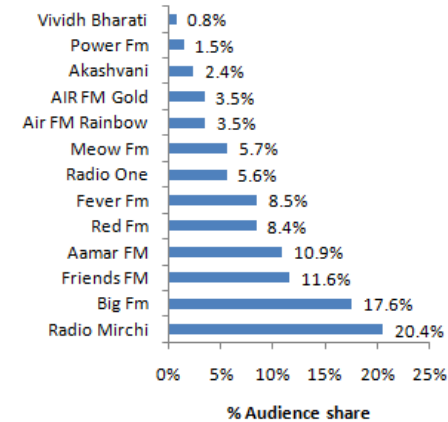
Mumbai



Bangalore



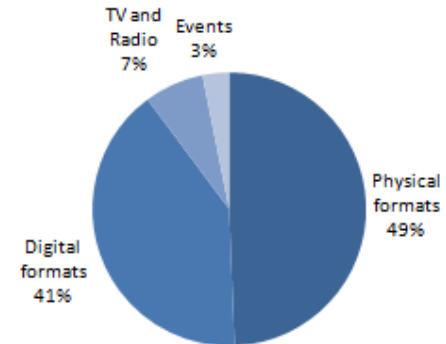
Kolkata



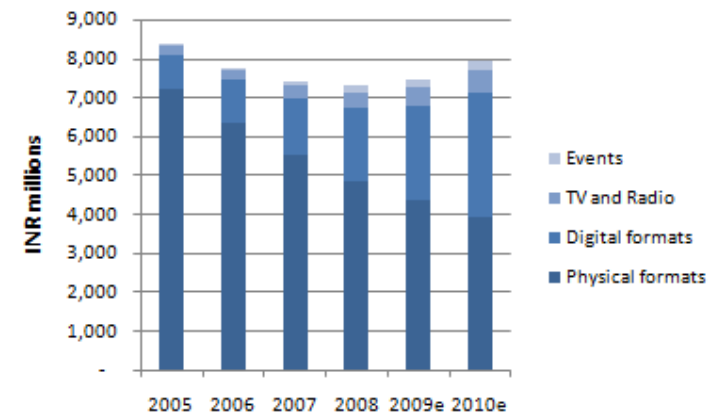
The music industry is migrating to digital formats

- ▶ Indian music industry generated revenues of approx. INR 7.5bn in 2009
- ▶ Piracy is a major issue
- ▶ The live events segment has excellent growth potential as infrastructure (venues) improves
- ▶ India's 500 million plus mobile subscribers are also an important market for music content (e.g. ringtones)
- ▶ Music is very closely linked to the film industry (which is highly reliant on musicals)

% share of revenue type (2010)



Music industry revenues by type



Source: Industry estimates



Regulatory environment

- ▶ **Regulated by the Ministry of Information and Broadcasting (MIB)**
- ▶ **The radio sector is highly regulated compared to other parts of the media (such as publishing and TV)**
- ▶ **The objectives of the regulation are to protect the public sector broadcaster (All India Radio) and to prevent significant foreign ownership whilst the industry is still in its early development**
- ▶ **Key elements of the regulation include:**
 - **Commercial broadcasters are not allowed to carry news and current affairs programming**
 - **Commercial broadcasters can not 'network' content across their stations**
 - **Can only own a single licence in a city**
 - **Foreign investment of up to 20% of equity is allowed (requires permission from the MIB)**
 - **No restrictions on cross-media ownership**



Outlook

- ▶ **The radio industry is still in its ‘growth stage’ and many radio operations have not yet reached profitability**
- ▶ **There are government discussions underway with respect to liberalising the regulatory environment for commercial radio.**
- ▶ **Key changes under consideration, include:**
 - **Increasing the foreign investment limit to 26%**
 - **Allowing networking of shows across stations (owned by one company)**
 - **Permission to broadcast news and current affairs**
 - **Extending the licence period (from 10 to 15 years)**
- ▶ **The industry is also keen to change the charging structure for music royalties (to a model based on % of revenues)**
- ▶ **Audience measurement is only undertaken in 4 cities at present – and discussions are underway to extend it to other markets**



Heernet Ventures – Expertise and Credentials



Overview

- ▶ Research and advisory firm focused on the global media industry
- ▶ Expertise in the traditional media, internet, entertainment and telecoms industries
- ▶ Deep industry knowledge, analytical expertise and a highly responsive client service model
- ▶ Two business lines:
 - Website dedicated to the global media industry (G2Mi.com) providing information and analysis on industry trends, market segments and companies
 - Advisory services to media companies and investors on growth strategy, competitive analysis, capital raising and acquisitions
- ▶ Offices in UK (London) and India (Delhi)
- ▶ Established in 2004

We cover the traditional media, internet, entertainment and telecoms industries

Industry coverage		
Consumer publishing Newspapers Magazines Directories	Facilities Printing Media production Logistics services	Telecoms Wireline telecoms Mobile telecoms Internet access services Wireless networking
Entertainment Filmed entertainment Music Events Cinema	Broadcasting Television DTH Cable TV Radio Emerging platforms (DTT, IPTV)	Gaming Consoles Gaming software Online gaming
Business & professional media Business media Educational publishing Scientific /academic publishing B2B Information services Training	Out-Of-Home media Billboard advertising Street furniture Transport	Technology Computers Entertainment devices Handsets Digital storage devices
Marketing services Agencies Market research Public relations Direct marketing	Digital media & commerce Search engines and portals Social media and networks E-commerce Online classifieds Mobile content and data services Digital media formats Online advertising networks	

Our advisory services are focused on four key areas

Growth strategy

As traditional media segments experience structural decline, we can assist companies with the development of an effective growth strategy.

Common challenges include:

- Developing an effective digital strategy for both internet and mobile platforms
- Growth into emerging markets. Analysing market attractiveness, regulatory environment and potential partners

Competitive analysis

Assisting companies to develop a better understanding of their competitive environment.

Research methodologies include:

- Analysing the strategies and market positioning of peer group companies
- Benchmarking analysis in areas such as product strategy and pricing

Capital raising

Our primary focus is on working with young companies in emerging markets to source investment from established media companies and investors in developed markets.

For companies seeking investment, we can assist with preparation of information memoranda, identification and targeting of potential investors and negotiations.

For investors, we can identify suitable investment opportunities and assist with the whole investment process.

Acquisitions

We can advise companies and investors on:

- acquisition search;
- commercial due diligence;
- and general transaction support.

We work with both media companies and investors. Our main area of specialisation is emerging markets.

We operate G2Mi.com - a leading information and analysis website for the global media industry

Industry Directory

A directory of firms providing a range of professional and business services to the media industry

Media Company Profiles

Profiles of over 1,000 media companies (including free company snapshots)

Industry Reports

Hundreds of reports on the media industry available for purchase

Newsletters

Range of newsletters on the Indian, Chinese and Yellow Pages markets

The screenshot displays the G2Mi.com website interface. The main header features the G2Mi logo and navigation links. The central content area is titled "Global Media Market Intelligence" and includes a search bar, a login form, and a registration form for free reports and newsletters. Below this, there are sections for "Quick Company Analysis" and "Media Industry Reports".

The "Industry Directory" section on the left lists various categories such as Consumer Publishing, Professional services, Alternative Media, Radio, Television, and Business and Professions. A "For existing subscribers" link is also visible.

The detailed profile for Telegraaf Media Group is shown on the right. It includes the following information:

- Ownership type:** Publicly listed
- Private equity investors:** No
- Stockmarket:** Euronext Amsterdam (Netherlands)
- Reuters Code:** TLGN:AS
- Bloomberg Code:** TELEG:NA
- Key activities:** Internet service provision, Mobile media, Search engines and portals, Broadcast and production facilities, Outdoor advertising, Business media and information, Comic books, Consumer magazines, Radio, Television broadcasting, TV/Radio production.
- Summary description:** Telegraaf Media Group NV is a media company based in the Netherlands. The company is principally engaged in the publication and distribution of newspapers, magazines, puzzle and games books, and door-to-door papers. It also operates in television and radio broadcasting, internet services, narrowcasting and text messaging services.
- Newspaper Publishing:** Telegraaf Media Group publishes a number of daily newspapers in Dutch. Its newspaper portfolio contains paid dailies (Uitgeversmaatschappij De Telegraaf, Haarlems Dagblad, De Gooi en Eemlander), free newspapers (Spts), regional dailies (Weekblad De Echo, Almere Vandaag) and free local newspapers (Holland Combinatie). The daily newspapers have a total circulation of 5.4 million copies (2008).
- Magazine Publishing:** The company publishes various magazines in the Netherlands through Telegraaf Tijdschriften Group, a subsidiary. Its published magazine titles are Cosmo GIRL, Residence, Jan, Prive, Vrouw and Sijl ontmoet Sijl. The company has a 20% stake in All van Gaal, a women's magazine publisher. The company has close to 26.8 million subscribers to its magazines (Q3 2008).
- Puzzle and Games Books:** Telegraaf also publishes puzzles and games books under the Keesing Puzzles and Games brand name. Its publications include Sudokru, Puzzelsport, Bingot, 10 voor Taal and Jan Meulendijks, with total annual circulation of approximately 65 million copies (2007).
- Online Media:** The company provides online solutions in the B2B and B2C markets. Its portfolio of websites includes relatieplanet.nl, iwannadate.nl, bolentekoop.nl, nieuwweboten.nl, campersencaravans.nl, geenstijl.nl, dumpert.nl, sugababes.nl and superdudes.nl.
- Radio Broadcasting:** Telegraaf Media Groep NV operates in radio broadcasting through the Sky Radio Group, which includes channels such as Sky Radio 101 FM, Radio 538, New Radio Veronica, Classic FM and TMF radio. Sky Radio, Radio Veronica, Classic FM and TMF have approximately 3.5 million Dutch listeners per week (2008).



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