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India Intelligence & Insights

Future of India's Video Market: M&A and convergence redraw battlelines

February 29, 2024

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M&A and convergence redraw battlelines

Key Highlights

- RIL-Disney mega merger to redefine video market dynamics
- Zee-Sony fallout and the test of survival of the fittest
- Global streaming majors leverage tech prowess, fine-tune content strategy
- 2024 to see disruption in content and distribution marketplace

Global tech giants such as YouTube, Meta, Netflix, and Amazon have played a pivotal role in expanding India’s video market, now estimated by MPA to be worth US$8.8 bil. in revenue for content owners. At the same time, there is value at risk for India’s once-thriving pay-TV market as it transitions to connected TV. Consolidation through M&A has become inevitable for industry incumbents seeking to achieve scale, enhance profitability, and sustain competitiveness.

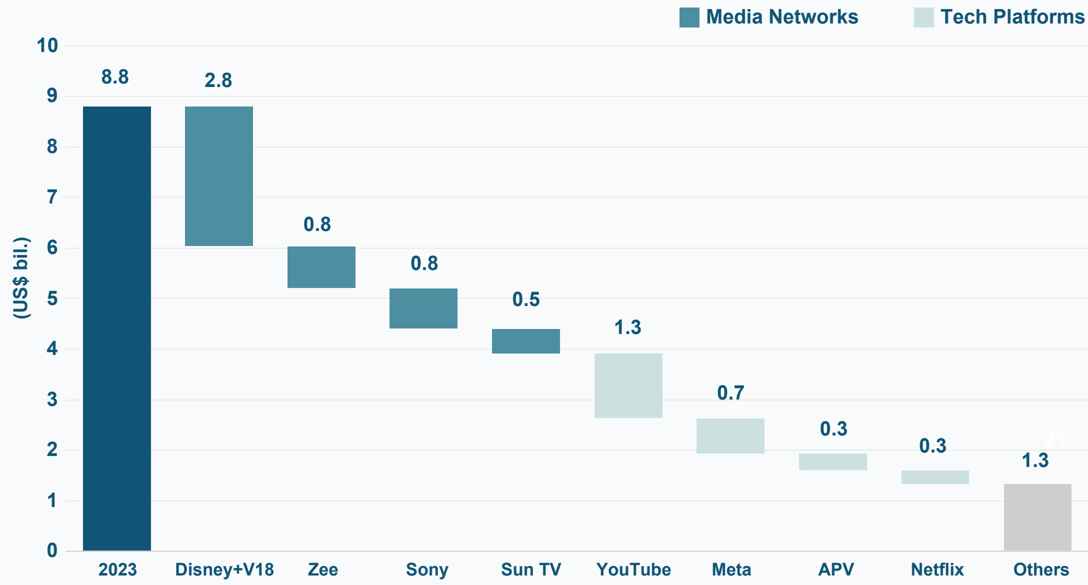
Live and linear TV retains significant value and profitability with its low-cost local IPs featuring recurring episodic content finding a strong foothold on streaming VOD platforms, providing media companies with the ammunition to compete against the growing dominance of global tech majors.

The future will remain anchored to extracting more value from the US$1.2 bil. pay-TV affiliate fee market (i.e. wholesale fees paid to broadcasters from operators) while also growing the US$1 bil. SVOD market and capitalizing on the robust US$4.7 bil. video advertising market, including US$4 bil. in TV advertising and US$0.7 bil. in premium AVOD revenue (i.e. excluding YouTube, Meta etc.)

The repercussions of the Sony-Zee deal fallout will be far-reaching for stakeholders in the content and distribution industry while the JV between Reliance-Viacom18-Disney India is set to create a formidable entity, ultimately benefiting from scale and significant synergies in TV and streaming video while attempting to redefine the total industry revenue pie.

Under a new market framework, the industry will also need to address past excesses and constraints, particularly the under indexing of advertising spend relative to GDP and content cost inflation in streaming while investing to grow talent pools across content and deepening technological capabilities.

REVENUE OF MAJOR VIDEO PLATFORMS IN INDIA (CY 2023E)



Note: Includes only video revenues for Meta
Source: Media Partners Asia

Disney-Viacom18 mega merger. Reliance Industries Limited (RIL) and Viacom18, along with Bodhi Tree Systems, have agreed to acquire a controlling stake of 63% in a new joint venture with Disney India. RIL will be investing ~US$1.4 bil., into the JV. The JV will be controlled by RIL and owned 16% by RIL, 47% by Viacom 18 (including Bodhi Tree and controlled by RIL), and 37% by Disney. Nita Ambani has been named Chairman and Uday Shankar, Vice Chairman. RIL will have five seats on the board of directors of the JV, Disney will have three directors and there will be two independent directors.

The new MergeCo is valued at US$8.5 bil. post money and excluding synergies. The valuation could move towards US$9 bil. once a deal is finalized towards injecting Disney India's other media assets, including mainly its 30% stake in pay-TV operator Tata Play. MPA estimates indicate Disney India was valued at US$3-3.5 bil. as part of the transaction, representing a favorable deal for RIL and Bodhi Tree while Disney will no longer need to consolidate its sports losses in India. Viacom18 was valued at an estimated ~US$4 bil. with the remainder taken up through RIL-infused cash. RIL's commitment to the business continues to grow with the company investing ~US$2.4 bil. through major transactions over the last two years.

Disney will likely enter into a separate content licensing agreement with the new entity. Disney separately filed that in its current quarter, the company expects to record non-cash pre-tax impairment charges estimated at US$1.8-2.4 bil., approximately half of which reflects a write-down of the net assets of Star India, to adjust them to fair value (less estimated transaction costs) and half of which reflects a write-down of goodwill at its entertainment linear networks reporting unit, reflecting the impact of removing Star India. Under its held-for-sale accounting guidelines, Disney will continue to adjust the net book value of Star India to fair value until the closing date of the transaction, which is expected after regulatory approval at end-2024 or early 2025.

The new entity consolidates 100+ TV channels and two streaming VOD services and is set reshape the industry landscape in its next growth phase. As the two networks integrate and explore meaningful synergies expected to materialize over the next two years, RIL's immediate injection of US$1.4 bil. will fuel accelerated investments in content, leading to the development of a world-class streaming offering.

The new entity will have a complimentary portfolio of TV channels providing an all-in-one offering of entertainment, sports, kids, and regional channels. As a result, the combined entity will be able to capture (based on MPA analysis of current merged entity data and our models): (1) 35% of total TV viewership; (2) 40% of the total revenue market for broadcasters, including ad sales and affiliate fees; and (3) 45% of the premium VOD streaming market, including SVOD and premium AVOD but excluding YouTube and Meta.

Revenue and cost synergies. There will be plenty of synergies required (and available across both TV and streaming) after the deal closes end-2024 or early 2025 pending regulatory approval. Pro-forma for FYE March 2024, MPA estimates the combined entity will generate US$2.8 bil. in revenue and an EBITDA loss of ~US$0.2 bil. This includes: (1) A profitable, combined TV entertainment business, which we estimate will generate in FYE March 2024 US$600 mil. in EBITDA on revenues of US$1.3 bil.+; (2) A loss making combined TV sports business, which we estimate will lose US$600 mil. in FYE March 2024 on revenues of US$700 mil.; and (3) A fast growing combined streaming VOD business, which we estimate will generate total revenue of US$800 mil. with EBITDA losses of US$150 mil.

The television business remains integral to the company's video strategy due to its scale and profitability. Disney's core entertainment business brings in hefty annualized operating profits while recurring episodic, relatively low-cost local GE content now has a strong presence on its streaming service and that of Jio Cinema. However, challenges persist with Disney's India sports business, which recorded a US$315 mil. loss in Q4 2023. These losses are expected to increase in the coming years, attributed to Disney's aggressive bidding in the previous year, particularly the US$3 bil. renewal of ICC Cricket rights and Zee's non-payment of license fees.

The new entity will aim to maximize the value of its combined asset portfolio, leveraging its network and distribution strength across both television and digital platforms. Management's strategic decisions, including operating two separate channel and streaming brands, pruning channels for regulatory compliance, and rationalizing programming budgets, will drive cost synergies.

What's next for Sony and Zee?

Sony India. The aftermath of the failed merger has turned contentious with both Zee and Sony resorting to legal action. Sony initiated proceedings with the Singapore International Arbitration Centre (SIAC), while Zee filed a petition with the National Company Law Tribunal (NCLT) to enforce the merger agreement. SIAC rejected Sony's request to halt the NCLT petition, while NCLT accepted Zee's petition the case is scheduled for hearing on March 12, 2024. Meanwhile, in the Q4 2023 earnings call, Hiroki Totoki, President, COO & CFO of Sony Corp, reiterated the company's commitment to the Indian market, stating, "India has great growth potential on a long-term basis. It's a very appealing market. Therefore, we will seek various opportunities, and if we can find another opportunity that would replace this type of plan."

As competition intensifies, Sony's organic growth path will be long and arduous. Finding inorganic opportunities with similar scale to Zee and a willingness to exit or cede operational control of their business are scarce. Sun TV Networks, a major player in South India with significant cash reserves and a market capitalization of US$3 bil., represents a costly proposition for strategic buyouts. However, combined with Sony's earmarked investment of US$1.2 bil., the two entities can explore the possibility of forming a joint venture to expand into diverse regional markets, genres, as well as scaling their digital ventures.

Sony India has a track record of unsuccessful domestic M&A endeavors, including the failed acquisitions of ETV and Maa TV in 2011-12, JV attempts with Viacom18 in 2020, and the recent fallout with Zee. Among established international networks in India, WarnerBros Discovery (WBD), despite its limited scale in the market, could complement Sony's existing portfolio. Both entities understand their respective linear businesses, having previously shared a twelve-year-old distribution partnership (MSM-Discovery). This also aligns with WBD's global strategic decision to prioritize content licensing and in future allocate resources to scale their streaming service HBO Max.

Zee. With contracting profit margins and dwindling cash reserves, Zee's liquidity situation remains strained and is anticipated to deteriorate further amidst ongoing legal tussles and regulatory overhangs. Sony has sought a termination fee of US$90 mil. Meanwhile, Star has accused Zee of breaching the alliance agreement, claiming non-payment of US$200 mil. for the initial installment of ICC television rights. While Zee has contested these charges, any payout would strain its finances, with a cash balance of just US$100 mil. as of December 2023.

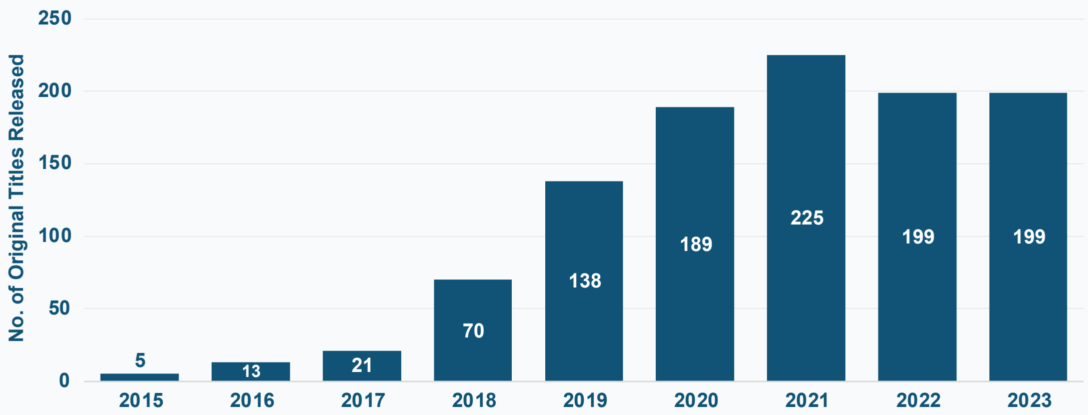
After the failure of the Sony merger, Zee needs a strategic pivot to revive its business. With a primary focus on revenue growth and margin enhancement, the company plans to review and optimize its cost structure across content, technology, marketing, and manpower. It also intends to recalibrate peak investments in its digital arm, Zee5, and explore opportunities to monetize its extensive library. With these initiatives, Zee plans to elevate its EBITDA margin to 18-20% by FY2026 from its current level of 11%.

Impact on the content market. In 2023, streaming majors Netflix, Amazon, Disney+ Hotstar, Jio Cinema, Sony LIV, and ZEE5 accounted for more than 95% of content investment (excluding sports). However, ongoing merger discussions between Reliance and Disney India initiated since December last year has led to a halt in commissioning and licensing of new projects. Subsequently, the fall out between Zee and Sony and concerns on cash flow management stemming from legal contingencies prompted Zee to freeze commissioning for new projects. Sony, known for its preference for cerebral content over premium projects, has consistently operated within a modest budget.

SVOD major Prime Video too has remained selective on commissioning new projects as it re-evaluates its content strategies, with a focus on content that can travel well both domestically and internationally. Since 2H 2023, most major SVOD platforms have scaled back their spending on local content investments, particularly on big-budget tentpoles. Budgets for originals shows, which previously averaged Rs200 mil. or US$2.4 mil., have been reduced by 15-25%.

There is no major hold up on budgets at Netflix, however the platform's lengthy pre-production phase has limited the number of local original show releases. Instead, the platform has seized this opportunity presented by the buyer's market by increasing its investments in movie acquisitions. Notably, it has focused on successful post-theatrical acquisitions such as “Animal,” “Jawan,”, “Dunki”, and “Salaar”.

NUMBER OF INDIAN ORIGINAL TITLES RELEASED ON TOP OTT PLATFORMS (2015-2023)



Note: 1) Indian Original content for a platform includes both local originals and direct-to-OTT movie releases
2) Indian Originals from Disney+ Hotstar, Amazon Prime Video, Netflix, Sony LIV, Zee5, and Voot/Jio Cinema have been considered for analysis
Source: Media Partners Asia

India's SVOD market has captured the affluent 30 mil. NCCS A1 and A2 homes. However, winning the next 30 mil. homes in the NCCS A3 segment poses a greater challenge, mainly due to a considerable decline in average income levels and the need for additional content investments as audience heterogeneity widens. Going freemium presents an ideal solution as advertising revenues can help offset the lower ARPUs in these markets. Content creators will therefore need to move away from edgy concepts and explore new formats that are more conducive to advertising. Formats such as telenovela shows with 60-70 episodes offer versatility of streaming online as well as creating new program bands for television channels.

Despite facing margin pressure, the TV entertainment segment remains profitable, generating steady cash flows. Content producers are thus redirecting their resources towards TV over streaming. However, 1H 2024 will remain challenging for TV producers as upcoming sporting events, including the IPL and T20 World Cup, are expected to generate significant advertising revenue with demand for new entertainment shows picking up from June-July. Furthermore, pruning of channel portfolios across major networks will limit the number of available prime time slots in the market. Renowned production houses continue to prioritize pitching tentpole shows to broadcasters, ensuring timely repayments.

Impact on broadcaster's affiliate income. Affiliate fees, making up ~30% of a broadcaster's revenue, offers a stable income stream and boosts profitability. Despite the implementation of TRAI's New Tariff Order (NTO), channel ratings still do not have a major barring in DPO's allocation of content costs to various broadcasters. A case in point is Sony, whose subscription revenues have not only remained intact but have also seen growth despite losing IPL rights to Disney in 2018. With pay-TV rapidly transitioning to connected TV, broadcasters are turning to mergers and acquisitions as the primary strategy to expand affiliate income. As the market consolidates, any incremental growth in affiliate income for larger players may come from smaller networks in order of their strength. Among these, news channels will remain most vulnerable (particularly post-elections) as DPOs seek higher carriage fees. Smaller networks such as Times and WarnerBros Discovery will follow. Sony too given its limited regional presence, will likely get challenged by local DPOs. In contrast, larger players like Zee and Sun, boasting a wider and concentrated portfolio of channels, will be last and least to get affected.

PAY-TV CONSOLIDATION AND IMPACT ON BROADCASTER'S AFFILIATE INCOME

Source: Media Partners Asia

As traditional television broadcasters pivot their strategies, global streaming giants will have to reassess their India playbook.

Netflix. Netflix is capturing India's affluent market with well over 10 mil. subscribers who consistently pay more than three times the average industry ARPU every month. Its success in acquiring new subscribers is driven by a combination of local original shows, digital premieres of blockbuster movies, and expanded telco partnerships which have driven new subscriber additions. However, it's the platform's international content, which enhances user retention. In 2023, ~ 70% of content consumption on the platform stemmed from international offerings. Netflix will face competition from Jio Cinema, especially with its focus on delivering premium international content from major studios such as NBCU, WBD, and Disney though the marketing and curation of the premium Hollywood content tier on Jio Cinema remains in its infancy. Nevertheless, amidst peers scaling back on content spending, Netflix maintains a robust investment strategy to attract local and regional talent, solidifying its position in the market.

Amazon Prime Video. Prime Video maintains its position as India's largest pureplay SVOD service. However, subscriber growth for its traditional plans have slowed significantly since 2022. To enhance subscriber penetration, the platform has, over the past 12-18 months, introduced several new tiers, offering pricing flexibility and convenience. These include mobile-only plans, "Prime Lite" ad-supported options, TVOD, and expanded Prime Channel partnerships, providing a diverse range of content across regional languages and genres. These new tiers have driven incremental subscriber growth for the platform.

There is significant growth potential from these additional service offerings. For example, in its home market, the Prime channels business, which includes mainstream OTT services, contributes to over a third of Prime Video's revenues. However, in India, leading broadcast networks, which own the majority of premium content IP, have remained focused on their own D2C strategies. Now, as Sony and Zee streamline their cost structures and channelize resources to focus on the profitable television business, they can become strategic partners for Prime Video channels, to mutually scale their digital business.

To sustain growth with profitability, Prime Video must make more prudent choices in its content investments. Prime Video's viewership remains driven by local content. Therefore, third-party partnerships and a recalibrated strategy for commissioning new local originals will be critical. Prime Video's latest series, 'Poacher', exemplifies this strategic shift towards creating content with broad appeal across multiple high-ARPU markets, potentially offsetting the costs of its high-value tentpole properties.

Social Video: YouTube and Meta. YouTube and Meta are formidable players in India's video market, primarily driven by advertising revenues. Video continues to be the fastest-growing segment, constituting about 30% of total revenues for both companies. For Meta, short form videos are a hit amongst India's youth. With over 300 mil. Instagram users, India is the biggest market for Instagram Reels, followed by United States and Brazil. For YouTube, the big screen TV has become the fastest-growing segment, reaching ~60 mil. users as of 1H 2023. In 2023, both platforms maintained their dominance, collectively commanding a 55% share of the total online video market and ~75% of the rapidly expanding AVOD segment.

While local BVOD players are strategizing for the next phase of growth through mergers and acquisitions, they still have a long journey ahead in terms of integrating operations, recalibrating their content offerings, and building robust tech stacks. In contrast, YouTube and Meta have leveraged their technological prowess to empower content creators with new tools and features, enhancing user engagement and unlocking fresh monetization opportunities. According to Meta India, 53% of non-internet users would go online if content was available in their native languages, and AI can assist in creating more vernacular and personalized content.

About Media Partners Asia

Media Partners Asia (MPA), established in 2001, is a leading independent provider of advisory, consulting and research services, focusing on media and telecoms in Asia Pacific and the Middle East. MPA also operates AMPD, launched in 2019. AMPD measures digital activity in 12 global markets with unique technology, focused on video, content, advertising and connectivity sectors with two key products as well as detailed consumer insights. MPA has been involved in due diligence for M&A activity in APAC with numerous local and cross border transactions while also operating as an IC (Independent Consultant) in the IPOs of media and telecoms companies. MPA also hosts APOS, the leading annual summit for Asia's TMT industry with global impact.

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