UK INDIA
BUSINESS COUNCIL

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SECTOR:
DIGITAL INNOVATION

SECTOR OVERVIEW:
January 2013

Welcome to UKIBC's quarterly report on Digital Innovation. Over the past few months we have seen some exciting developments, including the visit of Boris Johnson to India, promoting London as a destination of choice for investors and raising the profile of the Great Britain brand. In ICT, the Mayor's visit to Hyderabad coincided with two Indian ICT majors announcing plans to base their European operations in London.

Also in the last quarter, the UKIBC co-hosted an event on India's media and entertainment in cooperation with BT and KPMG, where we heard engaging presentations from key players including Sanjay Gupta, COO of Star India; and Jehil Thakkar, Head of Media and Entertainment at KPMG India, to name a few. In this report I will share with you an overview of the media and entertainment sector including trends and growth drivers, based on the very insightful presentations seen at the event. Useful tips shared by panelists on how to succeed in India's entertainment sector are also detailed here.

I hope you will find this report interesting. On behalf of everyone at UKIBC, allow me to wish you a very happy and successful 2013.

CONTACTS:
Digital Innovation

Radhika Pandey

Email: Radhika.Pandey@ukibc.com

Tel: +44 (0)20 7592 3842

OVERVIEW OF INDIA'S MEDIA AND ENTERTAINMENT SECTOR

We recently hosted an event in cooperation with BT and KPMG, titled: "Tuning in to India's Media and Entertainment Growth". At the event we heard insightful presentations on the sector's growth, drivers, trends, and importantly, about the constantly evolving Indian consumer.

The emergence of India's middle class has changed the patterns of Indian consumption. The services sector has been expanding steadily, now contributing more than half of India's GDP. This has had a great impact on media and entertainment, a sector that registered 12% growth in 2011 and is expected to double by 2016.

Size of Indian Media and Entertainment Sector

(USD Million)

Sector	2010	2011	Growth (Y-o-Y)
TV	6,498	7,047	11%
Print	4,221	4,472	6%
Film	1,823	1,990	12%
Radio	219	246	15%
Music	188	193	5%
OOH	361	381	7.9%
Animation and VFX	516	664	31%
Gaming	219	278	30%
Digital Advertising	219	330	54%
Total	14,264	15,602	12%

Source: KPMG FICCI Report 2012

The chart above details the size and growth in media and entertainment. Three sectors can be noted for their outstanding growth: animation, gaming and digital advertising, the latter one reporting 54% growth in the last year. This is an indication of the opportunities fast arising in new media categories.

TV and print are the top sectors by value, and, unsurprisingly, also by advertising revenue. According to analysis by KPMG, Indian advertising revenues in 2011 totalled USD$6.4 billion, with TV and print as the biggest players, followed by radio, out-of-home (OOH) and digital advertising.

Print media remains a large and growing player in India, with an estimated CAGR of 9.1 percent to 2016. Digital sources are growing and some Indian print players are starting to engage with audiences online. However, print remains traditionally strong.

Key trends and developments

At the event in November, KPMG identified key trends and developments taking place in India's Media and Entertainment. Below I explain how some of these are positively affecting the sector, but first want to set out the key areas of opportunity:

Opportunities for UK companies in Media and Entertainment

SECTOR:
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The following opportunities for UK businesses emerged at last month's event on Indian media and entertainment. Jehil Thakkar, from KPMG India, listed them as follows:

- Animation and VFX
- Live events (venues)
- TV production (content and formats)
- Value added services
- Software licensing
- Radio broadcasting
- Niche magazines
- Advertising agencies
- Publications, and
- Film exhibitions (e.g. multiplexes)

Regulatory shifts

Showing eagerness to stimulate investment and liberalize the market, India's government has carried out a series of reforms. In media and entertainment, the FDI limit in the TV distribution industry has now been raised from 49 to 74%. Further reforms are expected in the radio industry, which could include relaxation of FDI limits and ownership constraints.

Emerging New Consumption Centres and Regionalisation

The UKIBC has long paid attention to the emergence of Tier II and III cities in India and the opportunities these untapped markets pose for business. KPMG has identified 12 new centres of consumerism growing around emerging cities as is cleverly demonstrated in the map below:

Emerging centres of consumerism

Source: Indian's Urban Awakening, IRS, KPMG Analysis

This map illustrates rural areas and populations rapidly developing into urban centres. This emerging consuming class increasingly demands access to products and services.

Getting to know the Indian consumer

Currently there is a window of opportunity to explore opportunities in India. But, it is important to know the Indian consumer.

Mr Sanjay Gupta, COO of Star India, the country's No. 1 television network, spoke about the market and shared some tips.

Star India has 20 television channels. They operate in 6 languages to meet the demand for regional language content consumption. Five years ago, they only operated in two languages. He described India as diverse, young, restless and value-conscious. In order to be successful, he advised newcomers to India to look for unifying themes, to adapt to the country, and to take advantage of technology to leapfrog. Unifying themes can be very successful, however, it is essential to adapt to the different regions, for example by speaking to people in their own language.

Sanjay Gupta, Star India, speaks at the event "Tuning in to India's Media and Entertainment Growth"

According to research by McKinsey, India's urban population is expected to grow to 590 million by 2030, with 4 cities potentially graduating to Tier I status (population greater than 4 million) and a whopping 26 cities graduating to Tier II status (population between 1 and 4 million). This will no doubt push up the demand for content in media and entertainment in all categories.

Growth is catalyzing opportunities in the entire country. Indian regions, however, are very diverse. They are unique in their identities and even the languages that they speak. Regional markets are large and growing. Split by language, India's

English market has a population of 54 million, against over a billion split between the Hindi and Vernacular markets. In print media, Hindi and Vernacular languages combined make up 89% of readership; and Star Network's TV entertainment offering in West Bengal is split by 70% Bengali and 30% Hindi or other content. Opportunities in regional markets are steadily growing as more rural population gain access to technology like smart phones.

For UK companies looking to access these diverse consumers, partnerships with already established Indian companies in media and entertainment, who know the market, are highly valuable as they have a great understanding of the Indian consumer.

Digitization

Active urban Internet usage has grown consistently in the last five years, going from 29 million users in 2007 to an estimated 84 million by the end of 2012. Nowadays, more than half of the users access Internet through mobile devices, with media consumption a major activity, including access to e-mails, social media and music and video.

India is going digital... and mobile:

- Mobile gaming grew 55% to reach £48.7 million in 2011
- 40% of searches happen on mobile
- 264 million Internet-enabled smart phones by 2016
- 90% of all internet connections will be wireless by 2016

Source: KPMG

Tips For Success

At the event, Terry Tyrell, Chairman of The Brand Union, shared his experience of working with India's Airtel to improve their offering and brand image both in India and abroad. He listed some key points for success:

- Trust is paramount
- Relationships are the key to business growth
- Providing choice is essential
- Ensure the final decision maker is involved early on in the process
- With such cultural diversity the rules of engagement are widely different
- Demonstrate 'value for money'
- Beware of 'scope creep'

MARKET UPDATE

Mayor of London's visit to India, ICT highlights

At the end of November, the Mayor of London, Boris Johnson went on a five-day visit to India, touching down in Delhi, Hyderabad and Mumbai. With an aim to promote London as a destination of choice for investors, the Mayor was accompanied by a delegation of top London businesses.

In Hyderabad, one of India's renowned hubs for information technology, the Mayor met leading Indian technology entrepreneurs, leveraging London's high profile following the 2012 Olympics, the most connected games ever.

On the same day, two well known Indian tech firms announced their plans to base their European operations in London: Nazara, a mobile games developer, and SmartPlay Technologies, a semi-conductor design company. They follow other Indian majors already established in London including InfoTech, Wipro, TCS, HCL Technologies and many other smaller Indian digital technology businesses. You can find out more about HCL Technologies at the end of this report.

Online banking

The Economic Times reports on the growth of mobile banking in India. Greater innovation, free apps, a low-cost incentive for banks, improved broadband speed and the growing use of smartphones are leading the way to consolidate a more widespread use of mobile banking. The total number of mobile transactions doubled in the last year.

The State Bank of India (SBI), the country's largest bank, has 5.2 million registered users of mobile banking services (out of a total customer base of 200 million). And ICICI Bank, the country's largest private-sector bank, saw a 100% growth in their number of customers using mobile banking in the past year. The sector is indeed picking up and is likely to grow steadily as more banks and customers embrace new technologies. Finding a good mix of security features and flexibility for the customer will be essential in this process.

Read the full story here http://articles.economictimes.indiatimes.com/2012-12-11/news/35749517_1_account-holders-icici-bank-hdfc-bank

INVESTMENT UPDATE

Microsoft to open 100 innovation centres across India

Microsoft Corporation (India) announced earlier this month the launch of 14 Microsoft Innovation Centres (MICs) in India. This is the first stage of an initiative that will see a total of 100 such centres open in India over the next two years. Having signed MoUs with leading academic institutions in four Indian states, the first fourteen innovation centres will be located in various emerging cities, including one in Hyderabad.

Microsoft aims these centres to act as hubs providing research, software solutions, and to create a pool of technology experts across India. According to a statement by Microsoft, developers at the MICs will be encouraged to innovate across key priority technology areas driving growth, namely: Mobility (Windows Phone), Cloud (Windows Azure), Kinect, Accessibility, Healthcare and a wider ambit for solving problems with an India focus. MICs will stimulate the development of technology ecosystems in emerging cities by supporting innovation, start-ups and generating employment.

Kolkata, dreamland for investments in ICT

In December, Kolkata once again captured investors' attention. Hosting two major technology events, Chief Minister Mamata Banerjee had the opportunity to promote the state of West Bengal as a "dreamland" for ICT investments.

Firstly, the four-day INFOCOM conference took place in the East Indian city. The conference is a large congregation of ICT professionals, buyers-sellers, corporate leaders, academicians, visionaries, and policymakers in India. INFOCOM was quickly followed by PanIIT, the annual meeting of the global association of Indian Institute of Technology (IIT) alumni. It was Kolkata's first time hosting PanIIT, which in India had only previously taken place in Delhi, Bangalore and Hyderabad. These two high-profile events proved to be a fantastic opportunity for global players to interact with Indian industry, promote investment and showcase the potential of eastern India.

In August, the West Bengal government approved a new information and technology policy, placing special emphasis on jobs linked to hardware, animation and graphics. This is part of the Information & Communication Technology and Incentive Scheme Policy 2012

COMPANY PROFILE - HCL TECHNOLOGIES

www.hcltech.com

HCL is a $6 billion leading global technology and IT enterprise comprising two companies listed in India: HCL Technologies and HCL Infosystems. Founded in 1976, HCL is one of India's original IT garage start-ups. A pioneer of modern computing, HCL is a global transformational enterprise today. Its range of offerings includes product engineering, custom and package applications, BPO, IT infrastructure services, IT hardware, systems integration, and distribution of information and communications technology (ICT) products across a wide range of focused industry verticals. The HCL team consists of over 85,000 professionals who operate from 31 countries including at 500 locations in India. HCL has partnerships with several leading IT and technology firms.

HCL works with a number of different clients in the UK, spanning a variety of different sectors. It is also committed to growing its business in Europe and in a host of other international locations. HCL has invested heavily in joint ventures with British Telecom and Deutsche Bank both in India and overseas. The company has entered strategic alliances with partners in France (GFI) and in the Nordics (Sigma), developing joint go-to-market strategies for local markets and customers. In addition, HCL Technologies acquired Axon and created HCL Axon in 2008, the largest IT acquisition at that time by an Indian company.

HCL has built domain depth through a focus on verticals in industries such as financial services, hi-tech and manufacturing, retail, media and entertainment, life sciences, and telecom. Financial services is one of the largest growing verticals in HCL, built on strong domain competencies spanning retail and corporate banking, capital markets, and insurance.

HCL has, since its creation, been open to partnerships. It has partnered and will continue to partner with companies from all across the world. In 2006, HCL won UKTI's 'Investor of the Year' Award, showcasing the company's history of investment in UK.