UK INDIA BUSINESS COUNCIL

partnership in action

SECTOR:
DIGITAL INNOVATION

SECTOR OVERVIEW OCTOBER 2012

Welcome to the UKIBC quarterly report on Digital Innovation. The goal of this report is to provide a roundup of the happenings in ICT and the media and entertainment industries. We provide insights on happenings in the marketplace, collaborations between UK and India, and case studies of companies that have succeeded. For those who are following our sector views, we are cycling through a variety of areas that come under Digital Innovation sub sectors and providing you with articles that we hope are informative, and which touch on the types of opportunities that we are seeing.

UKIBC update

With the summer holidays, we had a quiet couple of months with one main event which was jointly conducted with the Asia Pacific Technology Network (APTN). Titled “The Indian and Chinese Media Scenes Compared: Indian exuberance versus Chinese control?” , the speakers for each country were Peter Phippen, Founder and Chairman, East West Relations Ltd for the Indian media scene and Benjamin Schmittzehe, Chief Executive, Schmittzehe & Partners (Sustainomics Group) for the Chinese media. This was an interesting debate on the differences and state of the Chinese media and the Indian media and the potential they offer to western companies. It also discussed how the differences in these two media cultures affect the wider development of these two Asian giants.

CONTACTS: Digital Innovation

Priya Kurien

Email: Priya.Kurien@ukibc.com
Tel: +44 (0)20 7592 3842

POLICY UPDATE -FDI CHANGES IN THE BROADCAST SECTOR

In the face of very strong opposition, Prime Minister of India, Manmohan Singh has introduced a series of reforms in an attempt to boost growth and employment. This has been done by increasing the foreign direct investment limits (FDI) limit that currently exists in multiple sectors. This will now result in opening up the retail market to multi-brand retailers, give foreign airlines the ability to have a higher stake in the Indian airline industry and enable investment into power trading exchanges. However, the sector most relevant to this report is the opening up of the broadcasting sector by increasing the FDI limit from 49% to 74%.

This increased FDI limit will apply to broadcast carriage services providers, including Direct-to-Home(DTH), Head-end in the Sky (HITS - a satellite multiplex service that provides TV channels for cable operations), Multi-Service Operators (MSOs) and cable TV. In an attempt to enable new technologies to be brought into the country, Mobile TV, an area identified for high future growth, foreign ownership will be permitted. According to Commerce Minister, Anand Sharma, of the 74%, 49% will be through the ‘automatic route’ while the rest will be allowed through the ‘government route’, implying the Foreign Investment Promotion Board (FIPB)will need to provide clearance. The limit of 26% will continue to apply to TV news channels, current affairs, FM radio and content providers.

With over 225 million households with a TV in 2011, India is one of the largest television industries in the world. Of this, about 94 million users have cable TV and 41 million users have DTH (Direct to Home), the digital satellite service. Over 800 channels have permission to downlink into India and many cable operators provide over 300-400 channels to their premium subscribers.

There are multiple benefits to this policy change. This include having foreign investment into this sector that will enable the expansion of the broadcasting networks, which in turn will enable the latest technologies to be introduced to the last mile consumers. This will also help the government achieve its digitization goals for the country, with the complete switchover date for the country as a whole set for 2014.

MARKET UPDATE

MARKET UPDATE: INDIA

Mobile Towers

The telecommunications sector has been central to India's growth story, contributing 1.2% of GDP growth. Mobile Towers are a key infrastructure to support this growth and the 950million mobile subscribers in India. Three areas of activity that are of significance in recent times are:

1. Reduction of radiation;
2. Green towers and the resulting opportunities; and
3. The planned billion dollar IPO by Bharti Infratel, Airtel’s tower company.

Reduction of Radiation

Across the world, mobile towers are controversial due to the radiation they emit. While there hasn’t been any medical evidence that this radiation causes cancer, growing concern has prompted the Indian government to take a stringent stand. A couple of months ago, the Government of India ordered all mobile companies to reduce their tower radiation limits to one tenth of the currently permissible unit by September 1 2012. Most telecom companies claim that they already adhere to these norms and the 5% who did not were identified by the Department of Telecommunication (DoT) and given notice to follow orders.

Opportunities around Green Towers

India has close to 300,000 mobile phone towers. With the unreliable electricity situation in the country, many of these towers consume over 530million gallons of diesel a year, which is one of the biggest running costs for the towers and an ecological problem. The Ministry of New and Renewable Energy is looking to convert these into “green towers”, using alternate and renewable energy. India’s Department of Telecom has introduced new rules that call for 50% of all mobile towers in the country to use some kind of renewable energy power by 2015. In perhaps an even more ambitious target, the new rules also call for at least 20% of urban cell sites to use some form of renewable power source in addition to the conventional grid power.

Every one of the large mobile phone operators have projects for conversion to green towers. Bharti Infratel’s “Green Towers P7 program” for instance, has received industry wide recognition for its innovation. Enabling the conversion of the mobile towers to green energy is an area that Indian mobile phone operators are always keen to get new ideas on.

Billion dollar IPO by Airtel’s mobile tower company, Bharti Infratel

Bharti Infratel was set up as the mobile tower company for Bharti Airtel in July 2007. It has over 33,000 towers in 18 states and 11 Telecom circles. In November 2007, Bharti Infratel took a 42% stake in Indus Towers, the world’s largest mobile tower company that has over 110,000 towers. Bharti Infratel has filed for an initial public offering (IPO) worth around 1 Billion USD, which is expected to launch in January 2013. This will be India’s largest IPO since 2010 when Coal India raised 3.5 Billion USD. Tower companies get their revenue from leasing infrastructure to network operators but they are going through a tough time in India as a Supreme Court order to revoke the regional licences of eight mobile phone companies in the 15-player market has weighed on demand.

Digital Advertising

The Google’s SME partnership in India

Google India launched a small and medium enterprise (SME) partner programme to maximize its reach to small businesses across the country and provide them specialised services to grow through digital advertising. "India is a hotbed of small medium sized businesses and digital advertising lends itself well to help these businesses grow and compete at equal footing with large established players online," said Rajan Anandan, managing director and vice-president, sales, Google India. Google’s thrust on enabling SMEs to access digital advertising should give a significant boost to the internet usage in India as these organisations take to creating an online presence.

Ecommerce growth

Indian e-commerce currently generates revenues of around $1.6 billion but is expected to touch $8.8 billion by 2016. A joint study conducted by Assocham and Forrester predicts that Indian e-commerce revenue is set to grow by 350% in the current festive season (Diwali being the biggest festival). There are 137 million Internet users in India, and half of them shop online. This festive season clothing, electronics, consumer gadgets, mobile phones, furnishing, home décor, and jewellery are expected to account for the bulk of revenues from e-commerce. While current e-commerce revenues in India are not very high, the compound annual growth rate is. Indian e-commerce has been growing at an annual rate of 250% for some time now. This is attributed to the fact that many Indians find online shopping convenient. The free shipping and 24/7 availability are appreciated by Indian consumers. The consumers are able to save time and money on transport and can complete their purchases when they are free by accessing a wide variety of goods and comparing products easily.

MARKET UPDATE: UK

Games Jam World Record

A games jam is a gathering of video game developers who are put into teams and challenged to build games in a specified time frame. Organised by Microsoft and an online training service Train2Game, and held at Bedfordshire University in Luton, 329 students attended a 48 hour games jam and broke the world record for the number of people taking part in a games jam. Interest being created in this manner serves to increase the number of students who look at gaming as a career.

Digital Fiction soars in the UK

Digital Digital book sales have soared enormously in the UK with a 188% increase in the first half of 2012 when compared to the same period in 2011. "The huge increase in digital sales shows how rapidly readers and publishers are embracing e-book reading," said Richard Mollet, the chief executive of the trade organisation, the Publishers Association (PA). The figures show impressive increases across the board in a year where e-book popularity - in particular the likes of Fifty Shades of Grey - hit the headlines for racking up massive sales. Finally, it seems digital fiction is really taking off and this in turn results in a whole industry of the e-book readers as well which is currently completely dominated by Amazon.

Cambridge-India Technology Hothouse launched

The new Bangalore-Cambridge Innovation Network launched on September 13 will according to Cambridge University, provide “a platform to exchange ideas, build research and business collaborations, commercialise technology and provide access to new markets.”

The Bangalore–Cambridge Innovation Network is an initiative led by the British Deputy High Commission (DHC) in Bangalore, which aims to foster links between academics, businesses, researchers and entrepreneurs from both cities, leveraging upon each other’s ecosystems for mutual benefit.

Entitled “Science, Innovation and Entrepreneurship”, the launch event brought together academics, business leaders, entrepreneurs, investors and policy makers from Cambridge and Bangalore, as well as Cambridge alumni, to provide a platform to exchange ideas, build research and business collaborations, commercialise technology and provide access to new markets.

INVESTMENT UPDATE

Bangalore

Bangalore will have the country's first Information Technology Investment Region (ITIR) for knowledge-based industries, including software and hardware firms with entire supply chain. "The integrated region will be built under the PPP (public-private partnership) model with joint investment by the central and state governments near the international airport," said Industry Secretary M N Vidyashankar. According to government officials, the ITIR is projected to attract global investments to the tune of Rs.2 trillion and create a million direct jobs over the next 10 years.

Kochi Startup Village to have 2,000 IT firms

Startup village in Kochi (Kerala state) is the first public private partnership model technology business incubator in India. The Village is equipped with 4G network, telecom labs, innovation zones, legal and intellectual property services, fully furnished offices and video conference rooms. The Village provides a slew of incentives, such as a three-year service tax holiday and funding opportunities for tech start-ups. The Kerala government hopes to have 2,000 IT firms in Startup Village in the next 3 years.

Investment in UK Technology at a 10 year high

With nearly £600M being put into early stage businesses, investment into UK technology start-ups reached a 10-year high in the first half of 2012. The last time there was a boom, 2008, the level of funding was only £550Million in the first half of the year. The favourite sectors currently seem to be internet, mobile and digital media companies, as well as new clean tech businesses.

CASE STUDY - MSBC GROUP, A UK-GUJARAT IT COMPANY

Gujarat is an unusual destination for IT companies from outside India. However, the MSBC Group is an IT company based in the UK with a software development centre in Ahmedabad. MSBC Group began its operations in 2003, when its founder Kumar Varsani set up the company with operations in the UK and India simultaneously. Today, the MBSC Group employs over 70 software developers and they focus on two key sectors – financial services and healthcare.

MSBC has managed a successful growth in the last 8 years having now become a multi-million turnover operation. MSBC are suppliers to the NHS and have worked with multiple hospitals. The work with hospitals in the UK has taken them into the Middle East as well.

Kumar's family is from Kutch, Gujarat and one might assume that this was the primary reason for him choosing Ahmedabad as his base. But, Kumar had an interesting perspective on why he chose Gujarat as his base in India. When Kumar visited some of the other typical IT destinations in India, he realised that retaining employees is a big challenge in the larger cities because there is a much greater demand than supply. As a result, employees tend to be short term in their view of the organisations that hire them, quite happy to move onto a more lucrative opportunity as soon as one comes by. According to Kumar, Gujarat is a very family oriented state and believe in values of loyalty and therefore are much more reliable. Also, as Ahmedabad is a Tier 2 City, the costs are significantly lower for employees and employers.

Kumar Varsani stated that his goal for the next year is to increase his strength to around 110 employees and break into the Indian healthcare market.