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**INDUSTRY ANALYSIS - DTH INDUSTRY IN INDIA**

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**TABLE OF CONTENTS**

**INTRODUCTION ............................................................................................. 3**

**HISTORY OF INDIAN BROADCASTING .......................................................3**

**CURRENT PLAYERS ..................................................................................... 5**

**ENVIRONMENT ANALYSIS – PORTER’S MODEL .......................................5**

**Threat of Substitutes .............................................................................................................................. 6**

**Bargaining Power of Suppliers.............................................................................................................. 7**

**Bargaining Power of Buyers.................................................................................................................. 8**

**Inter Firm Rivalry.................................................................................................................................. 8**

**Threat of New entrants ........................................................................................................................ 10**

**CHALLENGES FACED BY THE INDUSTRY ............................................... 10**

**Policy and Regulation .......................................................................................................................... 10**

**Non-availability of Transponders ....................................................................................................... 12**

**Weak Financials ................................................................................................................................... 12**

**Quality of Service Issues ...................................................................................................................... 14**

**RECOMMENDATIONS ................................................................................. 14**

**Friendlier policy ................................................................................................................................... 14**

**Accelerated Subscriber and Revenue Growth ................................................................................... 15**

**Better Quality of Service...................................................................................................................... 16**

**CONCLUSION...............................................................................................16**

2

|  |
| --- |
|  |

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**Introduction**

With the Indian economy booming at a GDP growth rate of 9.4%, there is a sense of growth prevailing everywhere. The average Indian’s disposable income and purchasing power has risen to never before levels. The Indian Entertainment & Media industry is also not far behind. It is currently estimated at a worth of Rs. 450 billion with a CAGR of 18% over the next 5 years. Terms which were alien to Indians like DTH, Digital Cable, IPTV are suddenly finding presence in the country’s journals.

A report1 predicts that India would overtake Japan as Asia’s largest DTH by next year and be the Asia's leading cable market by 2010 and the most profitable pay-TV market by 2015. This growth presents a lot of interesting scenarios. In this paper, we shall analyze the challenges and opportunities present for the DTH industry within the Indian context. We would look at the history of Indian broadcasting followed by looking at the current DTH market. An environment analysis would be done using the porter’s five forces model and the various challenges faced by the industry would be identified. Finally we would look at the possible suggestions taking a long term view.

**History of Indian Broadcasting**

The history of Indian Television dates back to the launch of Doordarshan, the country’s national television network in 1959. Television was then seen as a luxury item that could be afforded only by a chosen few. The transmission was in Black & White. The 9th Asian games which were held in 1982 in the country’s capital New Delhi heralded the mark of color television broadcast in India.

In 1991, Indian economy was liberalized from the License Raj and major initiatives like inviting foreign direct investment, deregulation of domestic businesses emerged. This lead to the influx of foreign channels like Star TV and creation of domestic satellite channels like Sun TV and Zee TV. This virtually destroyed the monopoly held by Doordarshan.

In 1992, the Cable TV industry started. If one could list down the revolutions that happened in Indian entertainment industry, Cable TV would top the list. It has literally changed the way the average Indian watches the Television. The number of channels increased suddenly from 2 and the real entertainment started. Every city in India had a complex web of co-axial cables running through the streets with a new breed of entrepreneurs called as cablewallahs or Local Cable Operator (LCO) taking in charge of distribution. The film industry was shocked by this sudden growth and there were even organized protests for calling off the Cable TV industry. The industry survived but the sudden onset of growth made it as a disorganized sector. There were simply too many cable operators in the country. Carrying new channels on the existing

1 Aseambankers research report, Press Trust of India, Apr 20, 2007

3

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infrastructure required new investments which the operators were reluctant to make. Also the Channels had a difficult time in getting its returns as the existing system was a non-addressable and the operators could simply give a reduced number of subscribers to amass profit.

This lead to the emergence of a new breed of firms called as Multi System Operators (MSO) who had heavy financial muscles to make capital investments. They liaised between the cable operator and the Channels. MSOs provide the feed to the local operators for a fee. Soon the industry consolidated with each city having one or two MSOs operating. Most of the channels are carried by all the MSOs but sometimes certain channels are shown only on a specific MSO network. The MSO industry has become highly monopolistic which warrants government participation

2

to ensure competition. Current estimates show that there are 6000 MSOs operating in the country feeding 60000 LCOs.

In 1995, Government felt the need of regulation in Cable TV and passed the Cable TV networks (Regulation) Act. This was also the time when the state owned Doordarshan and All India Radio came under a new holding called as Prasar Bharati to give them enough autonomy.

Even with the basic regulation in place, there were lots of distribution issues with Cable TV. The LCOs reported a lower number of connections where as the broadcasters demanded a higher rate. MSOs were finding it difficult to operate under these conditions. This lead to an amendment of the Cable TV networks (Regulation) Act in 2002 to provide Conditional Access System (CAS). With CAS, the last mile distribution could be addressable with accuracy and digitalization of broadcast was also possible. CAS was rolled out in 2003 starting from Chennai and later to parts of Delhi, Mumbai and Kolkata.

On the DTH front, the United Front government had issued a ban on use of Ku band transmission. After a change of government, the ban got lifted finally in 2001 and TRAI issued the guidelines for operating DTH. Country’s first private DTH license was awarded to Dish TV in 2003 which started operations in 2004. Prasar Bharati also started its product DD-Direct+.

In 2007, TRAI proposed a new initiative by name “Headend-In-The-Sky (HITS)”

3

model as an alternative to the existing cable distribution. Instead of the MSOs providing the bundle, there will be a single HITS operator who will prepare the bundle of channels and beam it to the Headend in the satellite. The LCOs can receive this digitalized bundle and deliver to the individual homes. With HITS, country wide implementation of CAS becomes instantaneous and cost-effective. This benefits both the broadcasters and the customers by ensuring Addressability, Better quality of

2 For example, Government of Tamilnadu has decided to float a state owned MSO to ensure competition. 3 Consultation paper on Headend-In-The-Sky(HITS), TRAI, Jul 24 2007

4

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service and increased number of channels. Another emerging trend is the IPTV which is yet to be regulated and one can expect lot of action in this sector.

**Current Players**

The current players in DTH industry are

1. DD-Direct+ of Prasar Bharati, comprising of 33 FTA channels and 12 All

India Radio channels 2. Dish TV of ZEE group 3. Tata Sky – the Joint venture between Tata and Rupert murdoch’s Sky TV

A recent survey done using the Television Audience Measurement (TAM) puts DD- Direct+ with 3.5 million homes at top with Dish TV having 2.1 million homes and Tata Sky capturing1 million homes.

**DTH - Market Share**

32%

15%

5

Dish TV Tata Sky

53%

DD-Direct+

**Figure 1 DTH Market Share. source: TAM Peoplemeter survey**

The following companies have either the license/Letter of Intent or applied for the license to operate DTH services

1. Sun Direct of Sun Network 2. Reliance Blue Magic from Reliance ADAG 3. Bharti Telemedia 4. Videocon Industries

**Environment Analysis – Porter’s model**

Let us apply the Porter’s five forces model in the context of DTH industry. Our observations are categorized into the five forces as below.

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*Threat of Substitutes*

DTH faces stiff competition from the Terrestrial, Cable and IPTV. As per the industry estimates, there are 120 million TV homes, of which 71 million are served by cable and around 6 million served by DTH with the remaining taken by terrestrial transmission. As IPTV is a new entrant, there is not much data on its subscriber base.

**Indian Broadcasting**

6%

35%

Cable Terrestrial

59%

DTH

**Figure 2 Indian Broadcasting Pie**

**Terrestrial Television**

Doordarshan is the world’s largest terrestrial broadcaster with over 1400 terrestrial TV transmitters. The reach provided by this route is phenomenal with Doordarshan covering 88% of India’s geographical area. Covering the remaining 12% area required substantial capital investments which does not outweigh the benefits. The transmission was done originally in Analog mode but beginning from 2002, Doordarshan has partnered with BBC resources – the consulting wing of BBC, in offering digital terrestrial television. The transmission could be received using a low cost Yagi antenna.

Even with the wide reach and low cost approach that is possible with this technology, due to the lack of attractive content, we do not see it as a formidable threat.

**Cable TV**

Cable TV currently operates in 2 modes viz. Through CAS covering cities such as Chennai, Parts of Delhi, Mumbai and Kolkata, and through Non-addressable system in the rest of the country. As seen in Fig 2, Cable TV enjoys a big share in comparison with other mediums.

In case of CAS controlled areas, the subscriber has to either buy or rent the Set Top Box (STB) to see the pay channels. Of course, he can also do without that and see the

6

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70 odd Free-to-Air (FTA) Channels. On the other hand, in areas where non- addressable system is used, all the channels are available without the necessity of any separate receiver. Irrespective of whether CAS or not, the subscriber can comfortably see the channels by paying anywhere between Rs.100 to Rs.300 per month depending on the place where he lives.

Due to the phenomenal reach of the Cable TV, it poses a serious threat to the growth of DTH industry. Also there would be resistance from the LCOs lobby as DTH totally displaces them.

**Internet Protocol Television (IPTV)**

IPTV is a service where television signals are digitally sent over the telecommunications line. It is often presented as a bouquet of Video (IPTV), Audio (Telephone) and Data (Broadband Internet) services. With widespread adoption of Broadband in the country and the growing techno savvy population, IPTV has a potential to become a huge success. Telecom companies such as BSNL and MTNL have spotted these earnings potential and have already started with trial implementation in cities like Bangalore and Kolkata. Companies like Reliance Communications and Bharti Airtel are also planning to follow soon.

IPTV takes the interactivity to a newer level. In regular mediums, all the channels are pushed to the consumer regardless of his preference. IPTV encourages a two-way request-response model where the consumer chooses the program he wants to view. Right now this medium is totally unregulated and hence there is a chance for customers being taken for a ride. Cable companies are urging the TRAI to issue a consultation paper process to include IPTV under the aegis of Cable TV act.

Even if strict regulations are enforced on, we see IPTV as a considerable threat to DTH in Urban and Semi Urban areas where broadband has made its mark.

*Bargaining Power of Suppliers*

DTH industry relies on three major supplies: Customer premise equipment (CPE) comprising of the Satellite Dish, Set Top Box with the necessary Access Card, the Ku4 band transponders in the orbiting satellites and content. With India set to overtake Japan as Asia’s largest DTH by next year5, the bargaining power of Indian DTH operators with CPE suppliers have been steadily increasing.

However, the availability of transponders is increasingly becoming difficult. The KU band transponder is generally provided by Astrix, the commercial wing of ISRO

4 Kurtz-under band, Electromagnetic spectrum in the Microwave frequencies ranging from 12 to 18 GHz 5 Aseambankers research report, Press Trust of India, Apr 20, 2007

7

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either through its own satellites or by leasing transponders from suppliers like Panamsat, LMI ABS and Singapore’s ST1. With only two domestic satellite launches between 2007 and 2010 and increasing DTH players, Astrix is in a better position to use DTH as its cash cow for the next 5 to 10 years

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. Also the crash of INSAT 4C

7

last year and Dutch SES New skies’ NSS-88 in the beginning of this year has worsened the situation of DTH players.

As there is not much of regulation particularly in terms of channel pricing, acquiring content from the broadcasters is also difficult. DTH vendors are at the mercy of the broadcasters.

*Bargaining Power of Buyers*

We would take the entire broadcasting industry for analyzing the bargaining power of the buyers. With enough options to choose both from the point of alternate mediums like Cable, IPTV and Terrestrial broadcast and from the point of increasing DTH operators, the consumer is at his will to decide.

Customers will continue to have a high bargaining power until DTH platforms try to differentiate them as superior players with better content and clarity.

*Inter Firm Rivalry*

With 3 operational players and 4 players in the queue, the Inter firm rivalry is quite high. The competition from state owned DD-Direct to private players is negligible from the content point of view as the number of channels offered by DD-Direct is very limited. However, DD-Direct does not charge any monthly subscription fee which poses a threat to the private players who charge monthly subscription charges.

Between Dish TV and Tata Sky there is an intense rivalry exhibited by price wars and discount schemes offered to new connections. Being the First mover, Dish TV had price advantage in both the STB as well as in procuring the transponders. On the other hand, Tata Sky claims its STB offers superior DVD quality video due to its advanced STB.

While Dish TV is planning to spend Rs. 850 crores9 over the next 3 years, the rival Tata Sky is willing to spend Rs.2000 crores10 over the medium term. The companies have also set ambitious targets with Dish TV aiming to reach 4.5 million subscribers in the next 18 to 20 months while Tata Sky aiming for 8 million subscribers by 2012.

6 Transponder shortage looms over DTH biz, Hindu Business Line, Jul 27, 2007 7 INSAT-4C LOSS, Hindu Business Line, Jul 12, 2006 8 Satellite crash hits DTH Rollout, Financial Express. Feb 24, 2007 9 Dish TV to invest Rs 800 Crore in 3 Years, Economic Times. Aug 13, 2007 10 Tatas aim for sky in DTH war, plan Rs 2,000 cr spend, Hindustan Times, Aug 08, 2007

8

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Tata Sky has been quite aggressive in the past by giving 1 million connections within 12 months where as Dish TV nearly took 20 months to reach the same.

**Table 1 DTH vendors - Prices charged11**

# Provider Initial Charges

(In Rs)

9

Monthly Charges (In Rs.)

Number of Channels

1 DD-Direct+ 3000 0 33 TV + 12 Radio 2 Dish TV 3150 100 85 TV 3 Tata Sky 3999 160 41 TV + 8 Radio

Other than the price wars and intense competition in increasing customer base, there is also a competition at acquiring the content. Dish TV, Tata Sky and Sun Direct are part of big groups that also have popular bouquet of channels like Zee, Star and Sun respectively. The current set of litigations can be grouped into two categories: The channels indirectly refuse content for DTH operators by charging exorbitantly or mandating that all the channels of their bouquet to be transmitted when the vendor is already capacity constrained.

The Telecom Disputes Settlement and Appellate Tribunal (TDSAT) is the legal body which administers such claims. Some of the interesting litigations are presented in the below table.

**Table 2 Litigations before TDSAT12**

Parties Verdict M/s ASC Enterprises Vs. M/s Star India Pvt Limited (Dish TV Vs Tata Sky)

50 % of the rates being charged for cable platform be made applicable to DTH platform M/S Tata Sky Ltd Vs Zee Turner Ltd (Tata Sky Vs Dish TV)

Same as above; But subsequent failure in payment by Tata Sky may lead to potential blackout13 of Zee channels in Tata Sky platform M/s Tata Sky Ltd Vs Sun TV Ltd (Tata Sky Vs Sun Direct)

Out of court settlement where Star and Sun channels would be traded for each other’s DTH platform

These kind of interconnection issues affect the expansion plans of DTH providers. For example, while Tata Sky acquires 2,600 subscribers per day, the contribution from South India accounts only for 200 subscribers. This is mainly attributed to the non availability of popular regional content of Sun TV channels under Tata Sky platform.

Unfortunately TRAI neither regulates the pricing of channels nor the channels that must be carried for DTH platform. However, TRAI has recently started a consultation process which would address these concerns in the near future.

11 Prices and Channels have been taken only for Basic package from vendor’s website. 12 Consultation Paper on Issues relating to DTH, TRAI, Mar 02, 2007 13 Zee TV may be blacked out for Tata Sky subscribers, Business Standard, Jul 28, 2007

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*Threat of New entrants*

With already 7 players in the DTH space, threat of new entrants is relatively low. There is already enough competition which will discourage new firms to enter this business. While getting a license is relatively easy, the barriers to entry are high when it comes to pricing of CPE and getting the required transponders. There is a definite First mover advantage which can be inferred from Table 1, by comparing prices of Dish TV vs. Tata Sky. So any new entrant will face a high cost when it comes to equipment and transponders.

**Threat of new entrants Low**

**DTH market is already croweded with 7 firms**

**Bargaining power of suppliers Very High**

**Transponders - Very High CPE suppliers - Low Content - Very High**

**10 Inter Firm Rivalry**

**Bargaining power of buyers Very High**

**High**

**Price wars**

**Lots of options & Substitutes Litigations**

**Price sensitive Buyer**

**Threat of substitutes Very High**

**Cable TV - Very High IPTV - High Terrestrial - Low**

**Figure 3 DTH Industry – Five Forces Model**

**Challenges Faced by the Industry**

*Policy and Regulation*

Being a nascent industry, there are lots of teething issues with the current policy framework and the way it is regulated in reality. Some of the notable challenges faced are as below:

**Lack of exclusive content**