

Walt Disney, UTV and the quest for size

IT seems to be a great year for partnerships in the media business. It started with the Star-Zee distribution joint venture. Next came the news of the Sony-ETV deal (as yet reported) and the latest is the Disney-UTV deal. Last week the \$38-billion Walt Disney Co offered to pay close to Rs 2,000 crore to buy out UTV. Walt Disney Co already owns about 50.6 per cent of the Rs 930-crore company. Ronnie Screwvala, co-founder and CEO of UTV, will become the managing director of Walt Disney India (WDI) — the current WDI chief, Mahesh Samat, will report to Mr Screwvala.

Each of the three deals - Star-Zee, Sony-ETV and Disney-UTV - is a high-ticket partnership with a long-term impact on both industry growth and profitability. The Star-Zee deal could change the structure of the market in its bid to tackle the subscription revenue problem. The Sony-ETV deal creates one of the biggest national broadcasters in the country after Zee. Remember that Star is not a big player in non-Hindi programming yet and the other biggie, Sun, has no presence in Hindi.

Does all this action mean the problems that have dogged investors in the Indian media and entertainment business are now over? That scale can finally become a reality in this business.

Here's a quick recap. The Indian media industry has long tantalised investors with the promise of over 600 million television viewers, 350 million

newspaper readers, 100 million Web surfers and other such numbers. But in spite of the volumes, scale and profitability have remained elusive. That is because of extreme fragmentation and, therefore, hyper-competition in almost every major segment — print, television, radio and films.

In films, for instance, there are thousands of one-man shops churning out one or two films a year. More than 8,000 of India's 11,000-odd theatre screens are owned by individuals. This makes it impossible, if not difficult, to do anything like a "national" release for any of the 1,000-odd films we make in a year. There are 60,000 cable operators making it a nightmare on the ground to distribute a channel. Each genre, from entertainment to news, has scores of channels competing with each other. This fragmentation, on both the content creation and the content distribution side, makes it difficult to leverage any of the strengths of the market — the volumes, a rich content industry and growing purchasing power.

As investment started flowing in, in the mid-nineties, it was hoped that consolidation would lead to scale and profitability. Though the industry has



MEDIA SCOPE

VANITA
KOHLI-KHANDEKAR

grown, scale still eludes it. The Indian media industry seems puny, difficult and not-worth-the-trouble, not just globally, but also compared to other domestic sectors such as IT or telecom. In films, even after 10 years of corporatisation, there are only three studios worth mentioning: UTV, Eros and Yash Raj. Together, they released 138 films in 2010 which fetched them 10

per cent of the total revenues of the industry. Just four studios - Fox, Paramount, Warner and Disney - released over 50 films accounting for over 70 per cent of the total revenues of Hollywood.

At \$ 17 billion, the entire media and entertainment industry in India is less than half the size of the country's largest telecom company, Bharti Airtel. It is only recently that the two biggest companies - the Zee group and Times Group - hit the billion-dollar mark. Most of the largish companies are within Rs 1,000 crore. This is because much of the investment has funded organic growth. There has been very little merger and acquisition (M&A) activity. Print has not seen many M&As because regional barons do not like giving up their little fiefdoms of influence

over local politics. In broadcasting, valuations have remained a moot point because the industry structure makes it difficult to predict revenues. In cable, according to an estimate, more than half the networks are owned by local politicians. These, bankers say, are cash machines used to fund local elections, so nobody wants to sell them. That leaves precious little to acquire.

So, there might be the odd network (Asianet to Star) or channel (Channel 8 to Sony) sale but these are too few and far between to make any dent in an industry that is already splintered. Therefore, the three big moves this year have rekindled hopes of consolidation — at least in television.

However, investment bankers are still in the "one swallow does not a summer make" mood. Besides, like any other partnership, each of these three is fraught with implementation-related risks. For instance, Walt Disney's extremely process-oriented, bordering-on-the-bureaucratic culture contrasts sharply with UTV's wear-still-in-the-start-up-mode. So one wonders whether Mr Screwvala will be able to hold the fort for long. Star and Zee have been bitter rivals for such a long time that it is difficult to say whether the new-found warmth between their CEOs will last long enough for the joint venture to make a difference.

We will wait before singing hal-lalujah.

vanitakohli@hotmail.com