# Media & Entertainment

## A potential behemoth in the making; Reliance-Disney deal



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**According to media reports, Reliance Industries Limited is close to finalizing a deal to purchase Disney India's business in a cash and stock deal. If the deal were to go through, the Reliance-owned entity would emerge as the largest player in the media industry in the country. The deal can possibly alter the paradigm of the industry, effectively creating a duopoly in the broadcasting segment (at the pan-India level). In the OTT segment, the deal can provide a fillip to Reliance's ambitions, with a well-established library of Disney Hotstar available at its disposal, rather than having to build one from the ground up. The deal's valuation is pegged to be USD7-10bn, a significant discount to its estimated value of Star India of USD15-17bn, when Disney purchased 21st Century Fox in March 2019 (all media report estimates), reflecting the decreasing relevance of broadcasting, the dip in Disney Hotstar's subscriber base in recent quarters, and Disney's (parent) own challenges.**

### A clear leader in the broadcasting industry

In the linear television space, Star India has a portfolio of 77 channels across 9 languages and is the current market leader in the broadcasting industry. On the other hand, Viacom 18 (a subsidiary of TV18) has a portfolio of 38 channels across genres. Both companies also have a film studio. The combined entity may become a dominant player across multiple languages, particularly select language GECs. The overlap among urban viewership would be particularly large and can invite potential CCI scrutiny (detailed below). The larger size can potentially result in enhanced bargaining power with content producers and advertisers. Cost optimization can also be achieved by shutting down tail channels and other scale benefits. With only two potential large pan-India players: Zee-Sony and Disney-Viacom, ad pricing may improve for these players.

### Win-win in the OTT segment

Reliance had made a big bang entry in the OTT space by bidding an exorbitant Rs243bn for the IPL digital rights and subsequently deciding not to charge any subscription fee for the same. It also acquired NBCUniversal and Warner Bros content, offering it for premium subscribers only (Rs999 yearly plan). On the other hand, Disney Hotstar has been under pressure as it has lost paid subscribers for three straight quarters, post losing some of its marquee properties like IPL, Formula One and HBO content. JioCinema has tasted early success in the AVOD segment on account of its free IPL offering, while Disney Hotstar has been the undisputed leader in the SVOD segment (albeit declining in the last few quarters). This possible deal can be beneficial to both parties, helping Reliance accelerate its paid subscriber base. While a larger scale can help contain duplicate costs, huge investments in acquiring cricket rights (JioCinema for IPL and BCCI bilateral rights and Disney Hotstar for ICC events) should limit profitability in the medium term.

### Potential CCI scrutiny possible

CCI had raised anti-competition concerns during Zee-Sony approval process, post which it had agreed to sell three channels – Big Magic (Hindi GEC), Zee Action and Zee Classic (Hindi Films). We believe a proposed deal between Disney and Reliance could potentially attract similar scrutiny, with the CCI likely to evaluate each market separately, before providing its approval. Based on market share data, CCI can possibly raise concerns around GEC channels in a few languages and Hindi films, in our view.

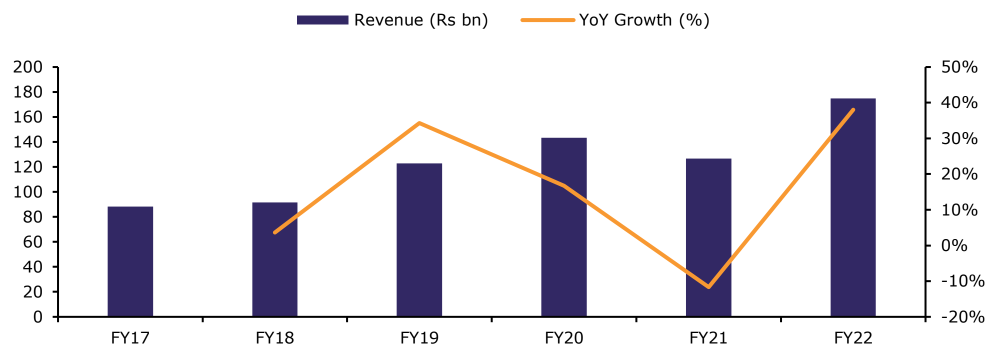
### Outlook

The proposed deal is expected to have a structural impact on the broadcasting industry, with a virtual duopoly (Zee-Sony and Disney-Reliance) and a host of multiple regional channels. We believe the deal should augur well for major players, including Zee-Sony alleviating pricing concerns to a certain extent while also limiting content cost growth. For OTT, Reliance's strategy post this possible deal will be a key determinant of the industry's competitive intensity.

### Combined entity to have the highest market share

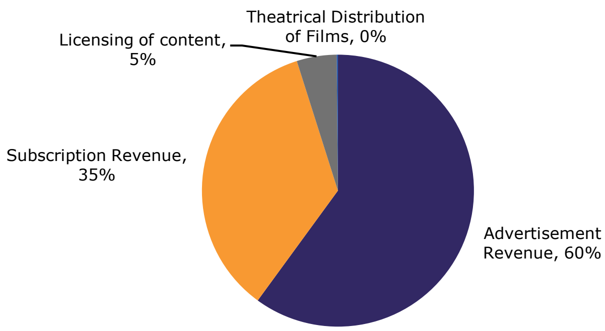
Star India has been the leading broadcaster over the last several years, with 77 channels across 9 languages. It has reported revenue growth of ~15% over the last five years. The company derives a majority of its revenue from advertisements (60%), followed by subscriptions (35%). Revenue from theatrical distribution has been muted in the last couple of years due to the pandemic. The company reported a profit of Rs14.2bn in FY22, up 74% YoY.

**Exhibit 1: Star India Revenue Growth**




*Source: MCA, Company, Emkay Research*

**Exhibit 2: Revenue split for Star India (FY22)**




*Source: MCA, Company, Emkay Research*

**Exhibit 3: Star India – Genre-wise channel count**

| Language | GEC | Movies | Sports | Music/ Youth | Kids | Lifestyle/ Entertainment | Total |
|---|---|---|---|---|---|---|---|
| Hindi | 5 | 9 | 3 | 1 | 2 | | **20** |
| English | 1 | 4 | 9 | | 3 | 6 | **23** |
| Tamil | 2 | 2 | 2 | 1 | | | **7** |
| Telugu | 2 | 3 | 2 | 1 | | | **8** |
| Kannada | 2 | 1 | 1 | | | | **4** |
| Malayalam | 3 | 2 | | | | | **5** |
| Bengali | 2 | 2 | | | | | **4** |
| Marathi | 2 | 2 | | | | | **4** |
| Odia | 2 | | | | | | **2** |
| **Total** | **21** | **25** | **17** | **3** | | | **77** |

*Source: DreamDTH, Emkay Research*

Reliance's Viacom 18 operates 38 channels across 8 languages across multiple genres with Colors, MTV, VH1 and Nickelodeon being the more popular channels.

The Disney-Reliance combined entity will become a clear leader in the linear broadcasting segment with a sizeable presence across all genres. Its combined market share will be significantly high in several languages and genres and can possibly attract CCI's scrutiny if the deal were to materialize.

**Exhibit 4: Market share of top players in Hindi GEC**

| | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|
| Sony | 20-25 | 20-25 | 20-25 | 20-25 |
| Zee | 25-30 | 20-25 | 20-25 | 15-20 |
| Disney Star | 25-30 | 20-25 | 25-30 | 25-30 |
| Viacom 18 | 15-20 | 10-15 | 10-15 | 15-20 |

*Source: CCI, Emkay Research*

**Exhibit 5: Market share of top players in Hindi movies**

| | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|
| Sony | 20-25 | 15-20 | 15-20 | 10-15 |
| Zee | 25-30 | 20-25 | 25-30 | 20-25 |
| Disney Star | 30-35 | 20-25 | 20-25 | 20-25 |
| Viacom 18 | 5-10 | 5-10 | 5-10 | 10-15 |

*Source: CCI, Emkay Research*

**Exhibit 6: Market share of top players in Marathi GEC**

| | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|
| Sony | 0-5 | 5-10 | 5-10 | 5-10 |
| Zee | 55-60 | 55-60 | 35-40 | 20-25 |
| Disney Star | 15-20 | 15-20 | 35-40 | 45-50 |
| Viacom 18 | 15-20 | 20-25 | 15-20 | 15-20 |

*Source: CCI, Emkay Research*

**Exhibit 7: Market share of top players in Bengali GEC**

| | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|
| Sony | 5-10 | 5-10 | 5-10 | 5-10 |
| Zee | 40-45 | 40-45 | 30-35 | 35-40 |
| Disney Star | 35-40 | 35-40 | 35-40 | 40-45 |
| Viacom 18 | 5-10 | 5-10 | 5-10 | 0-5 |

*Source: CCI, Emkay Research*

The combined entity will also hold the television broadcast rights for IPL and BCCI bilateral matches. Disney Star had sold its television rights for the ICC Men's and U-19 matches (2024-27) to Zee for an undisclosed sum, and we await to see the progress on the same.

**Exhibit 8: Broadcasting rights of major cricket events**

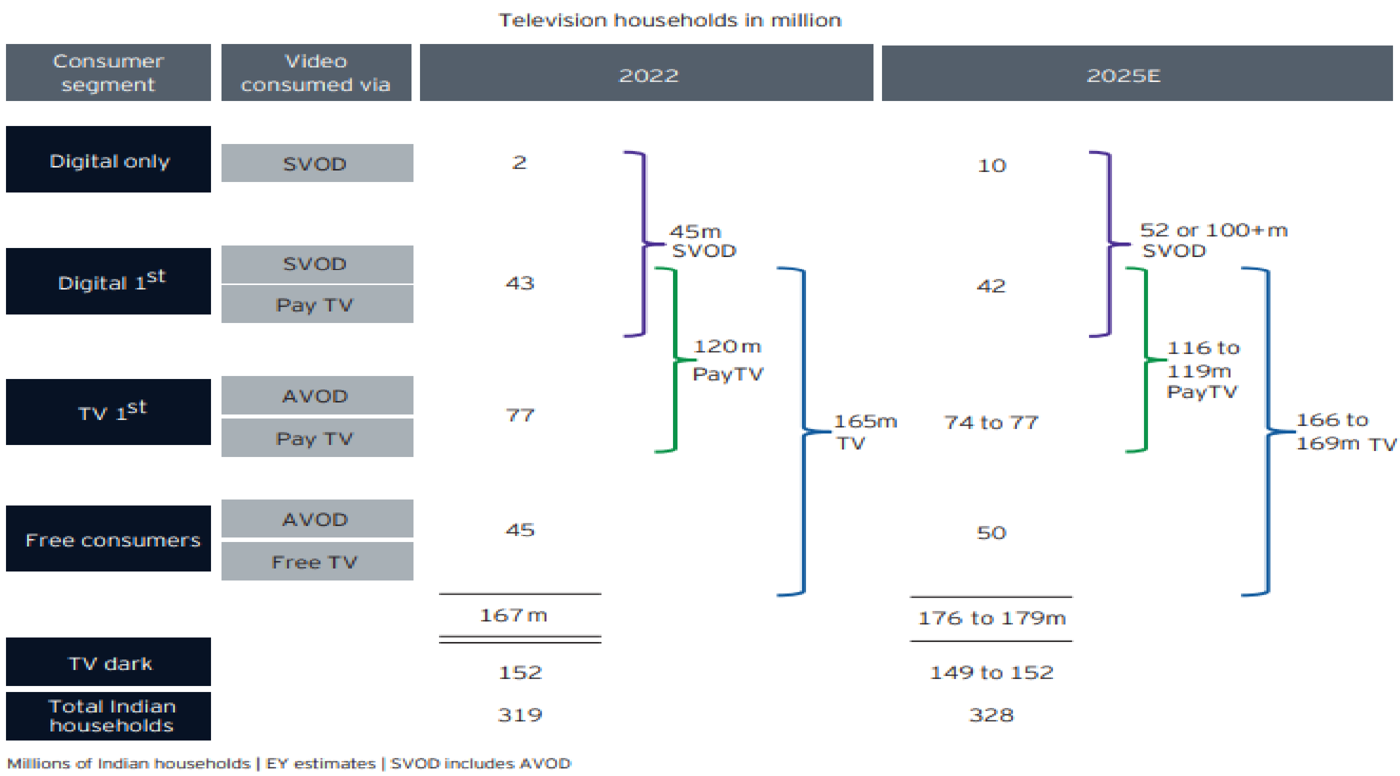
| | Television | Digital |
|---|---|---|
| IPL | Disney Star | Viacom 18 |
| ICC Events | Zee | Disney Star |
| BCCI Bilateral Rights | Viacom 18 | Viacom 18 |

*Source: Emkay Research*

### OTT – Consolidation of two strong players

While linear television has remained under pressure over the last few years, the OTT industry has flourished. Growth in the number of paid subscribers has been rapid over the last couple of years, having grown 1.5x in the last two years. This is still only over a quarter more than the overall households of the total addressable market, resulting in room for further growth. SVOD penetration continues to remain low and is dominated by a few large players.

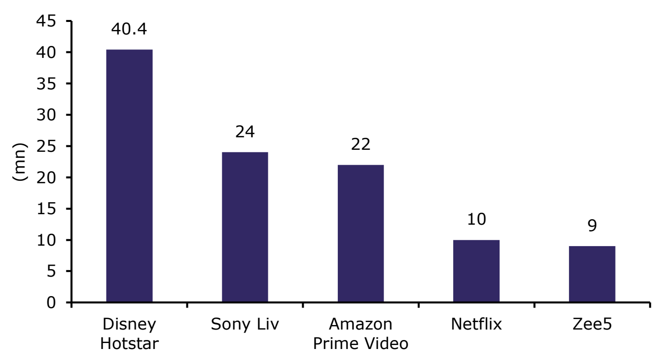
**Exhibit 9: Indian Television Households- Change in media consumption**




*Source: EY FICCI Report 2023, Emkay Research*

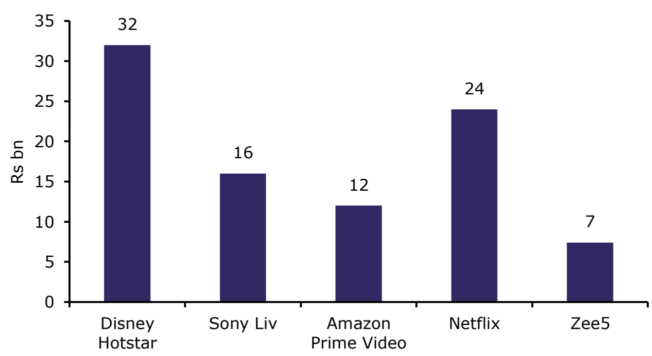
Disney Hotstar has been the most successful OTT platform having amassed the highest number of paid subscribers over the last few years. This can largely be attributed to its robust content library with a mixture of global and local content, coupled with a strong sports offering. However, the loss of some marquee properties including IPL, Formula One and HBO shows has resulted in a rapid decline in the paid subscriber base. This has aided JioCinema, which has managed to grab a high number of eyeballs by offering free IPL, while also adding premium international content. Disney Hotstar also has the added advantage of having a superior recall value, at par with the likes of Amazon Prime Video and Netflix and well above domestic players like Sony Liv and Zee5.

**Exhibit 10: Indian OTT platform's estimated subscribers**



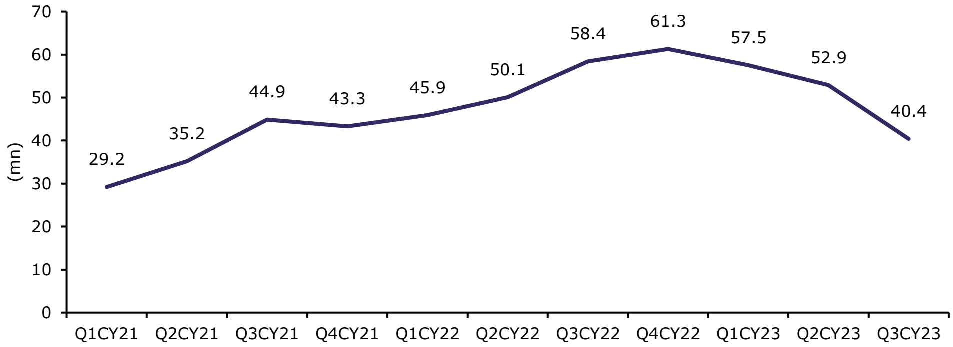

*Source: Industry Estimates, Company, Emkay Research*

**Exhibit 11: Indian OTT platform's estimated revenue**



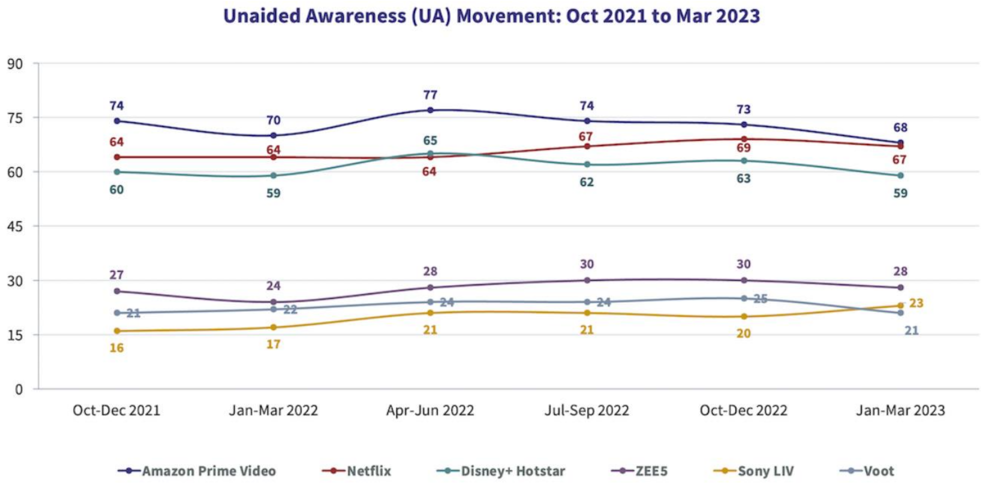

*Source: Industry Estimates, Company, Emkay Research*

**Exhibit 12: Disney Hotstar's paid subscriber base has seen a decline in the last few quarters**




*Source: Company, Emkay Research*

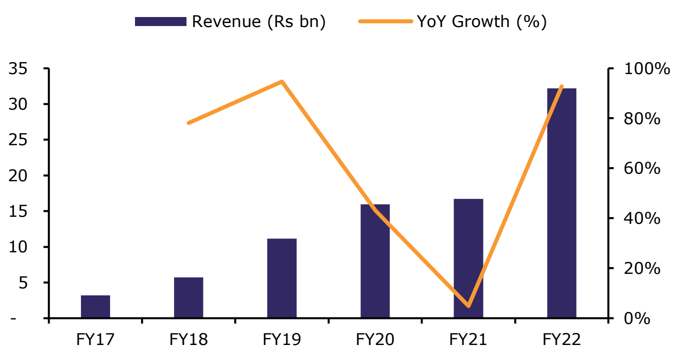
**Exhibit 13: Unaided awareness is superior for foreign OTT platforms**




*Source: Ormax, Emkay Research*

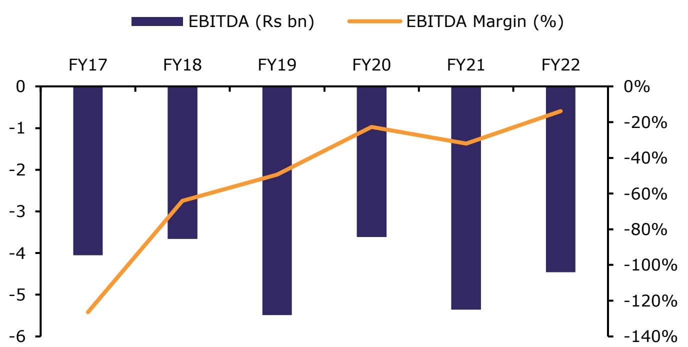
Novi Digital Entertainment, which houses Disney Hotstar, has grown rapidly (59% revenue growth over the last five years), led by higher subscriber addition and increased relevance of the digital medium. High investment in purchasing content, marketing, advertisements and technology has resulted in elevated losses during this period. FY23 should see a dip in revenue with the loss of some marquee properties resulting in a sharp subscriber decline over the last three quarters, along with a muted advertising environment.

**Exhibit 14: Revenue growth is strong for Disney Hotstar**




*Source: MCA, Emkay Research, Company*

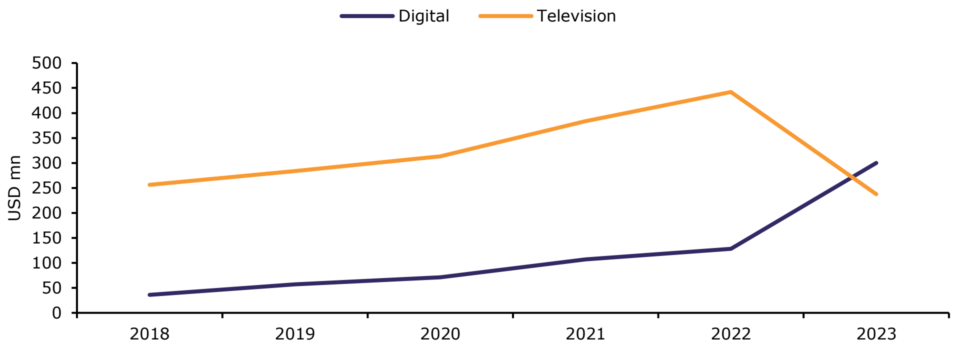
**Exhibit 15: EBITDA losses due to high investment costs**




*Source: MCA, Emkay Research, Company*

JioCinema has been the new kid on the block in the OTT segment, with the IPL broadcast being its first big bet. By offering IPL free of cost, on its platform, JioCinema has already ruffled a few feathers and has managed to grab a higher share of the IPL advertisement market for the first time ever. Currently, only premium international content is behind the paid wall, for which the audience is likely to be limited. It is currently offering free Hindi content on its platform.

**Exhibit 16: IPL – Digital and Television advertising revenue**




*Source: Media Partners Asia, Industry, Emkay Research*

We believe a potential deal can help Reliance build its paid subscriber base, capitalizing on the strong library of Disney's global and local content. While the elimination of duplicate costs can aid in some cost savings, higher investments in purchasing content are likely to keep profitability under pressure.

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