

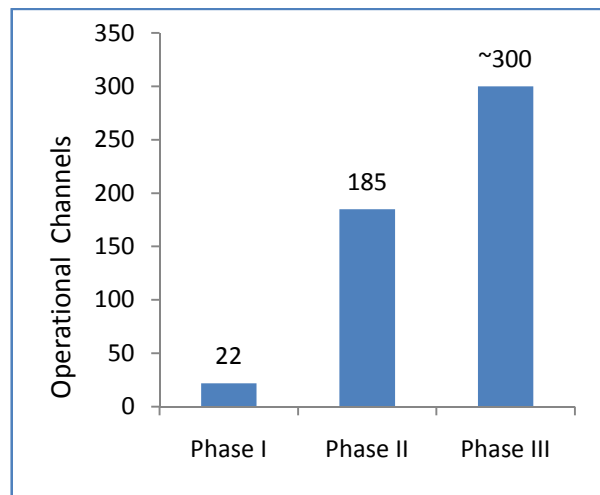
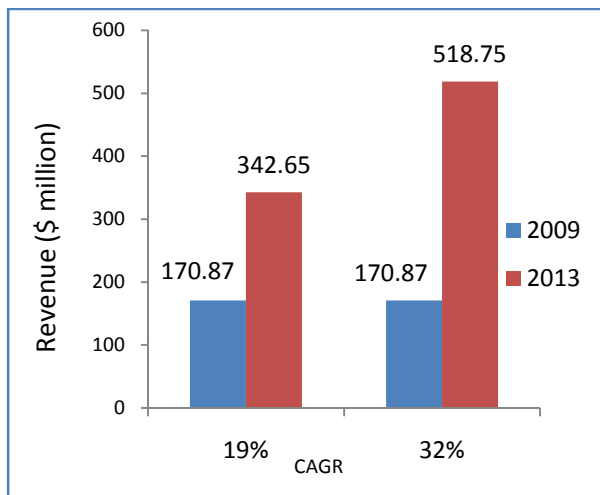
Indian FM Broadcasting Market Opportunities for US Companies

Introduction

Radio broadcasting market in India has experienced a rapid growth during the last decade with radio regaining its primacy in the field of entertainment in addition to providing information and education. This sector promises consistent high growth and hence an ideal India investment opportunity for US firms.

Growth

With a compounded annual growth rate of 19%, the radio broadcasting industry is estimated to double from the current US\$ 170.87 million to US\$ 342.65 million by 2013. Similarly in context of radio industry's share in advertising, the radio advertising industry is expected to witness an increase a 5.2% growth during 2009-13 from the present 3.8%.



Evolution of FM Broadcasting in India

Frequency Modulation (FM) Radio broadcasting is considered as the main medium to provide entertainment, information and education. There has been phase wise development in this sector. FM broadcasting started in India in 1999 with Phase-I where 22 private channels became operational. Based on the popularity of FM Radio among the masses, the Government of India offered 337 new FM radio channels in Phase –II in July 2005 for bidding to private agencies covering additional cities. Based on bidding results, the Government issued Letters of Intent (LOI) for 245 channels out of which 185 channels have become operational. It is expected that FM Broadcasting coverage will soon be extended to cover a total of 92 cities in Phase-II.

Due to exponential growth of FM Radio Industry and demand for further expansion, Government is considering FM Radio Phase-III to cover other cities through private agencies.

Key Regulations

The table below highlights key regulations in FM broadcasting.

1	Monopoly Control	Every applicant cannot have more than one channel in the city.
		Every applicant cannot have more than 15% of the total channels allocated in India including Phase I channel
		Licenseses of Phase-I who have an operational FM channel in a city cannot bid for additional channel in the same city under Phase-II
2	Bid System	Close bid system .One time entry free(OTEF)
3	Annual Fee	Annual fee will be 4% of gross revenue of the permission holder or 10% of the reserved OTEF whichever is higher
4	FDI	Total Foreign Direct Investment will not exceed 20%
5	Content production and lease of equipment	Not more than 25% of the total content shall be outsourced to a single content provider.
		Not more than 50% of the broadcast equipment shall be hired or eased on long-term basis.
		At least 50% of the programmes are to be produced in India

Key Trends

Consolidation of advertising inventory

The Indian radio industry today comprises a large number of players, making it difficult for advertisers to reach the sellers. Consolidation could enable the radio group owners to package radio stations and sell them to advertisers as a group. The consolidated group would then also have the ability to provide the advertiser a national reach and command a higher price for its inventory.

However, consolidation may not be successful owing to regulatory factors, attempts to consolidate advertising inventory could result in stations garnering an effective premium to otherwise falling advertising rates.

Clearinghouse services

A concept tested in US, the emergence of clearinghouse services that sell unused airtime has provided a modest incremental revenue stream to radio companies. The services act in a similar manner to those that sell unused seats on airlines or unused hotel rooms. In effect, participating radio stations auction unsold inventory to the highest bidder. Advertisers get inventory at a discount and radio stations get additional revenue that otherwise could not be made up. Emergence of such clearinghouse services in India, independent of the Indian radio companies or the Indian advertisers, could work well.

Digital radio

Globally, many countries are moving towards digital radio with standards ranging from digital audio broadcasting (DAB), digital radio mondiale (DRM) and others. Digital radio not only provides near-CD quality audio, radio stations can also transmit information on songs, artists and sales information to woo advertisers.

In India, digital radio will require the radio companies to install digital broadcasting equipment and for the consumers to purchase receivers. As has been witnessed in other sectors like television distribution, where attempts have been made to move towards digitization, it seems unlikely that the radio industry can move towards digital broadcasting suo moto. As is the case in several countries, regulatory authorities in India will be required to intervene. The regulatory push will be required for not only drawing up the digitization plan but also effectively monitoring the same and examining the possibilities of providing incentives for all stake holders to adopt the digital standards.

Advertising clutter

Advertising avoidance continues to remain the key challenge for all media companies including radio. In India, radio stations not only have to fight competition from other media but also with other radio companies operating in the same network. Securing command over local advertisers is the key focus area for radio stations as they reach local people. However, the emergence of other local media players such as the out-of-home segment, cable television, local film theatres and local print media, is providing a further challenge to radio.

Some radio stations, especially in America, have attempted to reduce the advertising inventory with the hope that it will be appreciated by the listener, increasing the listenership and enabling them to command a higher advertising rate and reduce the inventory. Though this attempt has succeeded in some cases for limited periods, the challenge remains that all radio stations in the network do not adopt this mode, leaving a gap for the advertiser to tap into. Targeted advertiser-driven programming formats, niche programming such as sports updates, celebrity hosts etc are some of the ways that radio stations globally are combating this challenge.

Conclusion

Indian Radio industry has exhibited rapid growth and is expected to continue growing at high pace. It offers a great investment opportunity for US firms. Important mandatory technical regulations such as co-location of transmitter and sharing of AIR/Doordarshan towers necessitate use of high precision technology as well as implementation expertise. Foreign investors can look forward to investing directly through FDI route and can also leverage the growing market of high quality equipment manufacturing viz. directional antenna, high fidelity transmitter/receiver and digitization equipment through technical partnerships, JV and M&A.

About Us

IMaCS Virtus Global Partners, Inc. is a New York based advisory firm that offers services to North American companies and funds seeking India related growth and investment opportunities. The firm is a joint venture between Virtus Global Partners and ICRA Management Consulting Services Limited, which is a fully-owned subsidiary of ICRA Limited, one of India's leading credit rating agencies.

Our mission is to enable our clients to transform their business by adding India as a key part of their global footprint. Our clients benefit from our local presence, strong relationships, knowledge of local business practice, experience, and financial expertise.

Our Professionals

Our team possesses a deep understanding of the business environment, both in the US and India and is well connected with companies, financial institutions, governmental agencies, and private equity firms in both markets. We have an established track record of over 15 years and 1,000 engagements providing advisory services to a diversified client base across energy, manufacturing, infrastructure, and retail. We also work with multilateral and bilateral government agencies, banks and financial institutions, and regulators. We are headquartered in New York with eight offices in India.

Our Services

India Strategy & Roadmap

- Strategy Recommendations
- Investment Strategy
- Implementation Roadmap
- Market Strategy

Partner / Target Search

- Joint Ventures
- Outsourcing
- Strategic Alliances
- Distribution and Licensing Agreements

M&A Advisory

- Target Identification
- Price Negotiations
- Synergy Valuation
- Deal Structuring

Project / Bid Advisory

- Techno-Economic Analysis
- Concession Agreements
- Financial Modeling
- Contract Preparation

Operations Setup and Support

- Location Assessment
- Organization Design
- Business Structure Setup
- Risk Management

Market Assessment

- Demand Assessment
- Industry Landscape Analysis
- Competition Assessment
- Customer Acquisition Strategy

Representative Experience

Below is a partial list of our engagements in India for North American and European companies:

- Preparation of India entry strategy for a leading international EPC contractor.
- Business feasibility and India entry strategy for a leading North American Bank for the mortgage finance business in India
- Market analysis and Product pricing strategy for launch of commercial vehicles in India by a global OEM.
- Financial evaluation of vendors for an international automobile company setting up a joint venture in India.
- Formulating an India entry strategy and business plan for a global monoline insurance company.
- Market study and Commercial viability assessment for setting up a 150 MW Lignite Based Power Project in India for an international developer of power projects.
- Formulating an India entry strategy for a leading global bank.
- Assessment and Due diligence of joint venture partner for an international power project investor
- Market Assessment of commercial vehicles gearbox and seatbelts in India for a leading international auto-component manufacturer.
- Financial assessment and valuation of India based utility companies for an international strategic investor seeking acquisition of stake in a State Owned Public Sector Utility

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