Dispute Resolution Scenario in Cable & Broadcasting Sectors

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This presentation expresses the personal views of the speaker and are not necessarily those of the company.

MSOs and LCOs BAD BOYS

� because : THEY ARE MAINTAINING ***LOW ARPUS.***

� because : THEY ARE GIVING ***MORE AND MORE CHANNELS*** BY ECONOMISING ON THEIR OVER HEADS

� because ; DUE TO LOWER SCALE OF ARPUS BY THEM, DTH OPERATORS ARE NOT ABLE TO INCREASE THEIR SUBSCRIPTION

� because : THEY OPERATE WITH ***BARE MINIMUM OVERHEADS*** AND DONNOT SPEN ON HIGH END ADVTS OF SHARUKH OR AMIR KHANS OR HRITIK

� because ; THEY DO NOT SPEND ON DRESSUP

� because ; THEY GIVE FREE ***PERSONALISED SERVICES*** VIS A VIS FACELESS COSTLY BACKUP SERVICE BY DTH PLAYERS

� because : THEY ARE SERVING ***AAM ADMI*** VIS A VIS HIGH END SOCIETY SERVICED BY DTH

� because : THEY ARE ***BASHED BY BROADCASTERS*** FOR LUMPSUM DEALS UNDER THE COVER OF UNDER DECLARATION, WHERE AS SAME BROADCASTERS ARE ENTERING INTO LONG TERM (3Yrs) LUMPSUM DEALS WITH DTH OPERATORS WHERE THEY CAN EASILY CHARGE ON PER SUB BASES. STILL THAT IS NOT UNDER DECLARATION

.� Because : PAY CHANNEL TARIFF APPLICABLE TO THEM IS DOUBLE TO THAT BEING CHARGED TO DTH PLAYER.

India’s Cable Distribution Industry

Industry Fundamentals

The Indian TV Market Today

India Has a Large Television Market, Dominated by Cable

Millions of Homes Served

- **120 million TV households**
- **85 million cable TV homes**
- **15 million DTH homes.**

A Thriving Consumer Driven Market

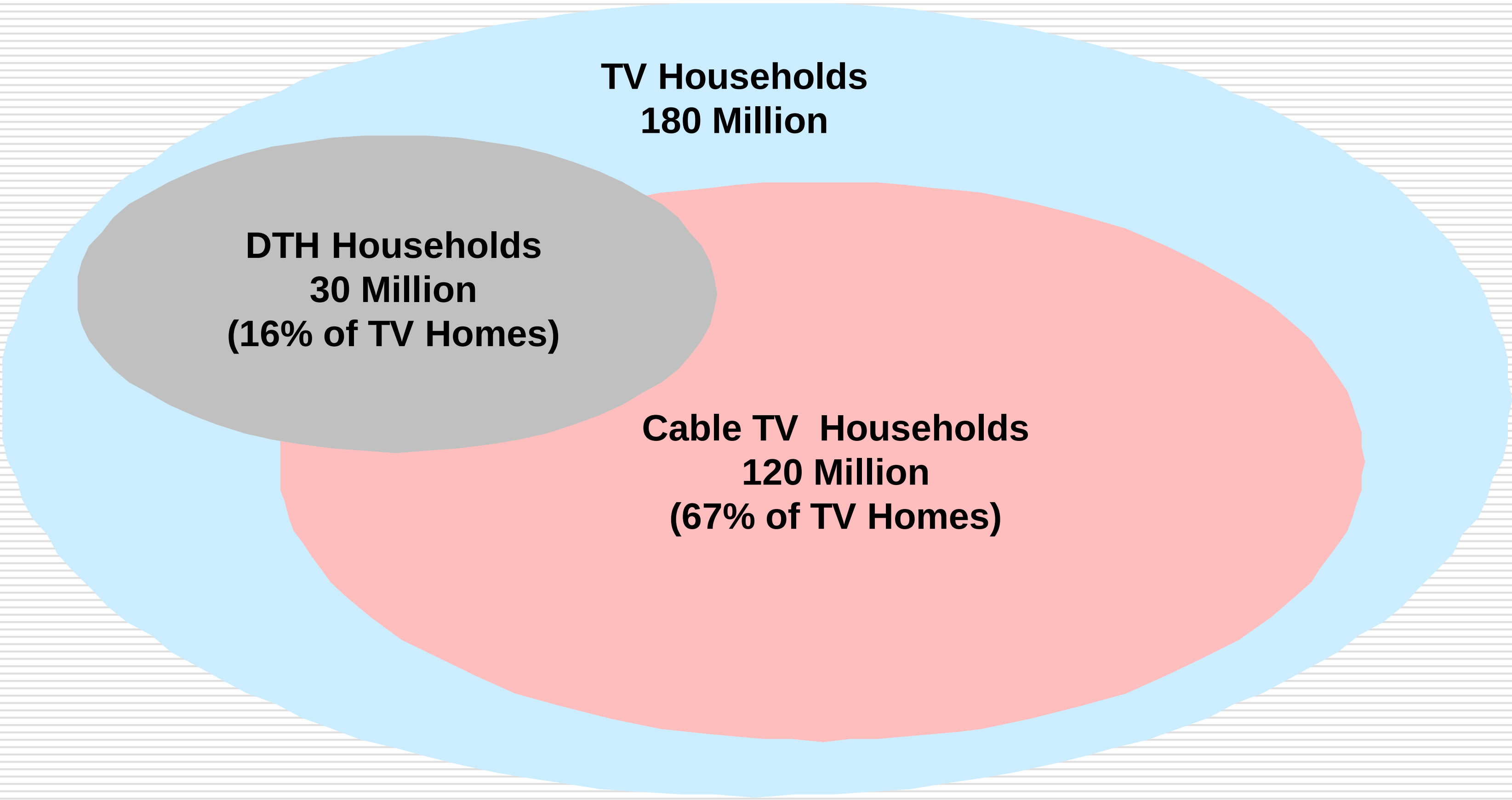
Great Service at Nominal Cost

- **450 TV channels**
- **Average payments per household:**

  Rs. 150/-

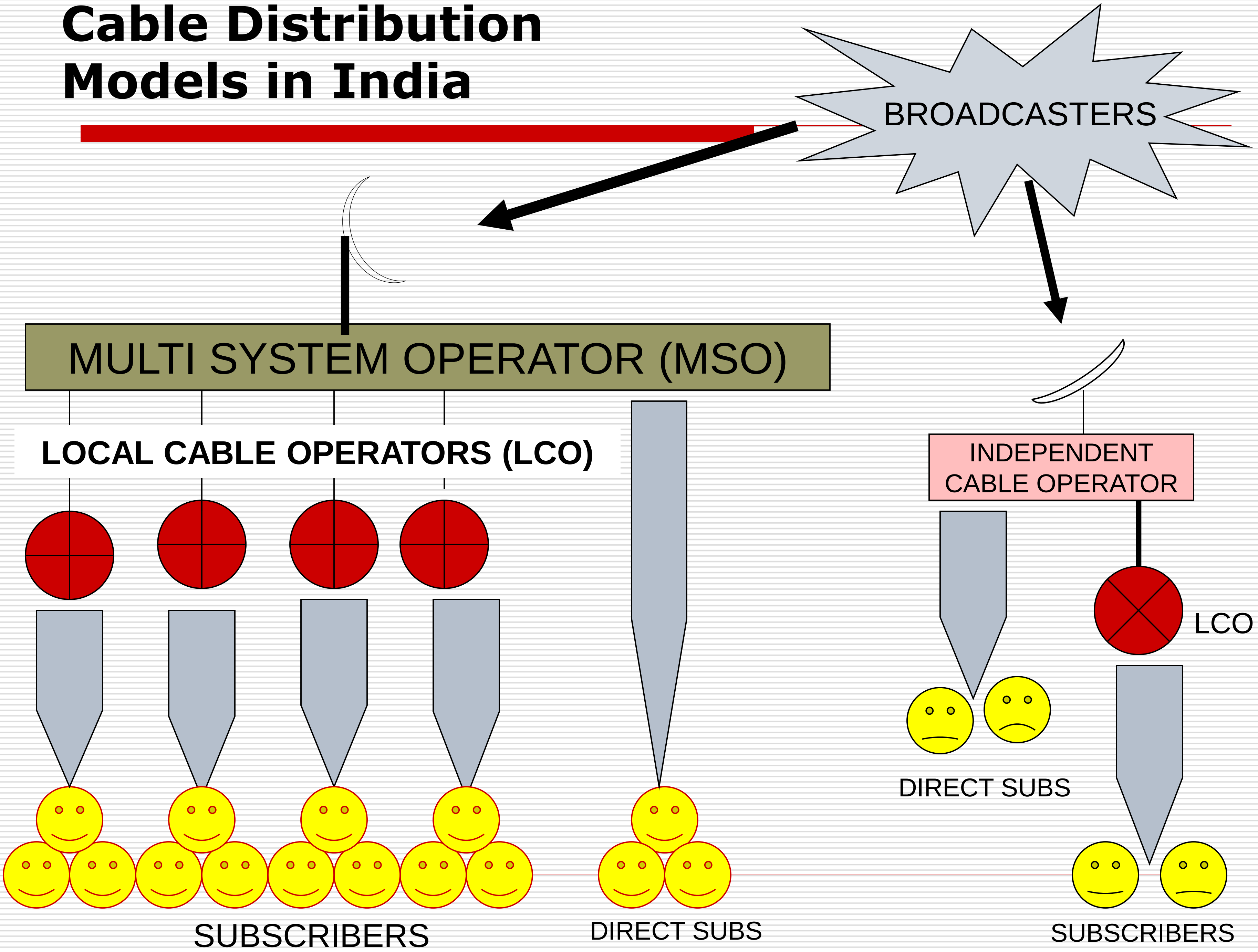
Estimates for the Indian TV Market in 2014

A Large Market Where Cable Will Continue to Serve 2/3rds of India's Homes



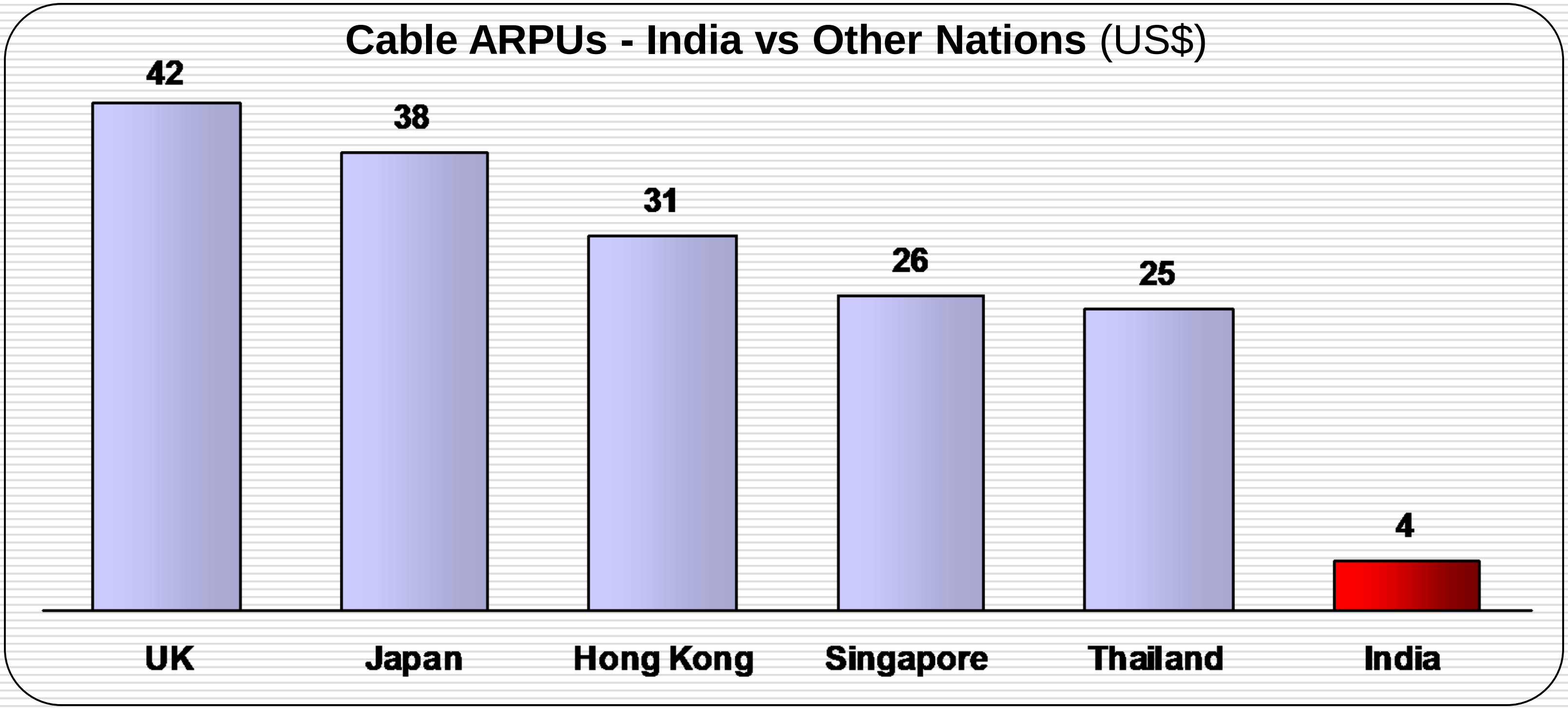
Source: MPA Report, 2008

Cable Distribution Models in India



The World's Cheapest Cable Service

No of TV Channels has Gone from 2 in 1991 to over 100 in 2009…



…Yet, The Household Cable Bill Has Remained Rs 100 – 150 per month

Note: There are over 450 TV channels licensed to downlink in India, but an average analog home receives about 100 channels

Cable: A Large Employment Generator

- **Early Cable Operators needed staff to grow and support their operations, creating a massive employment boom**
- **Over 6 – 7 lakh people across the country were employed in the initial phase alone, as technicians, collection agents, etc.**
- **Today, there are an estimated 60,000 Local Cable Operators (LCOs); 6,000 Independent Cable Operators; 100 Multi System Operators (MSOs)**

The Cable Distribution Industry Employs Several Lakhs Across India Today

Cable: An Essential Service

Cable/ Satellite TV is An Everyday Utility for the Common Man in Today's India

"Cable broadcasting may not be an essential commodity in the sense that it is not an item of food without which one cannot survive, yet looking to the figures of TV viewership in this country its importance cannot be underestimated. Available figures suggest a TV viewership of 68 million for the whole country. This shows that television viewing has almost attained the status of an essential service in this country."

Hon'ble TDSAT in its judgment dt. 27/02/2007 in Case of Set Discovery Vs. TRAI & Others

The Major Issues Facing Indian Cable

- Demand from consumers to provide world class Cable TV services at a fair price
- Need for a fair distribution of revenue to all parts of the value chain
- Effective regulation of the monopolistic advantages of content providers (broadcasters)
- Equal opportunities and a fair competitive environment

Consumer Demands

Best Service…

- **World Class Quality – Digital, etc.**
- **Unlimited choice of channels**
- **No interruption in cable TV services**
- **Consumer redressal system**

… At Cheap Prices

- **Want monthly bills to be low**
- **No price discrimination**
- **More value for money**

Consumers are demanding more from their cable provider: But at low rates

MSOs and Economies of Scale

An MSO Shoulders the High Investment Required for Cable Distribution…

Economics of the Cable Business

- **A single cable operator needs a head-end with facility for 100 channels**
- **Given the average no. of homes each operator reaches, his ARPUs would need to be above Rs 700 p.m. to break-even**

Enter MSOs Economies of Scale

- **The MSO sets up head-ends and other infrastructure at this own expense**
- **Small operators can then avail of this service without large Investment**
- **ARPUs remain low & the consumer benefits**

…Brings about Economies of Scale in the Cable Industry

MSOs in a Lose-Lose Situation

MSOs Spend Vast Amounts on Cable Infrastructure, But Has No Returns on Investment

Allocation of Subscription Collected from Households

Broadcasters

Corner 50-60% of Subscription

Other Leaks

30% is Lost in the Value Chain

MSO Bleeds With Disproportionately Low Revenues

Cable Spectrum & Right of Way

Spectrum Loss

- Govt. auctioning cable spectrum: monetising a cable resource
- Double Downside for Cable: Loses spectrum + No share of sale proceeds

Right of Way

- No clarity on Right of Way
- Cable Operators effectively denied a Right of Way
- Only IPTV license holders have right of fibre access

Government Should Pass Share of Spectrum Sale & Provide Explicit Right of Way to Cable Players

Cable Value Chain Destruction

Broadcasters: Heavy Handed Tactics

Broadcasters: Unreasonable Conduct in Dealings with MSOs

Subscription at All Costs

- Operators losing subscribers – but broadcasters demand increases in subscription payout
- Higher subscription for Digital: Although subscribers & service areas are the same the same
- Bundling to extract money for niche/ low viewership channels
- Unfair, contradictory, and often illegal methods to increase subscriptions

Rampant Arm-Twisting

- Promotes competition in the area while demanding renewal of service agreements
- Interruption of services at their own will
- No action against Piracy in the service area
- Add and subtract the channels or bouquets as per own convenience

Each Party Should Receive their Legitimate Share from the Collections from Subscribers

Broadcasters' Unfair Demands: An Illustration

C&S Universe
85 mn Homes

Cable (Total)
70 mn Homes

Pay: 60 mn Homes
(ARPU @ Rs 150 – 170)

FTA: 10 mn Homes
(ARPU @ Rs 80)

DTH
15 mn Homes

Total Pay Revenues:
Rs 6000 cr

Broadcasters' Legitimate Share@ 30%-40%
Rs 1800- 2400 cr

Broadcasters' Actual Pay Incomes
Rs 3000 cr +

Broadcasters Already Taking More than Fair Share of Revenues: So Where is the Room for Increase ?

Broadcasters & DTH

Broadcasters Stance on Pay Revenues Illogical…

- **Broadcasters demand per-sub payments from cable operators & allege under-declaration as basis for hikes**
- **DTH is supposed to be a fully addressable and transparent system where no. of subscribers is known**
- **Still, Broadcasters are entering into fixed fee deals – Not on Per Sub basis!**
- **Such deals with DTH are long term in nature – meaning DTH may take subscribers away from cable, but broadcasters will receive the same amount from DTH**

…As DTH subscribers go up, Subscription Payout by Cable Should Fall, Not Rise as is Currently the Case

Broadcasters Bouquet Extortion

Broadcaster Pay Model: Cable

- **Only 1 or 2 main channels per broadcaster**
- **The large broadcasters have built bouquets around this**
- **They then push small/ niche channels into the bouquet and demand hikes**
- **Cable operators not in a position to hike ARPUs**

DTH Model for Small Channels

- **DTH takes up niche channels for far lower amounts**
- **Charge subscribers much higher rates for these small channels**

The Road Ahead

What Reforms Can Strengthen the Industry

Ensure A Level Playing Field

Let Platforms Choose Delivery Format

- MSOs should have freedom to choose appropriate format for their signals
- No separate licensing requirements should be imposed on this front

Regulate Broadcasters

- Broadcaster price freezes should be true in spirit & substance
- No separate hikes in subscription just for digitalization

Reforms will ensure that the industry is strong

Consumers will be the ultimate beneficiaries

Quality

- Effectively monitoring on QoS Implementation
- Policy framework for long term franchisee agreements to protect the MSO-LCO chain

Other Reforms

- Right of Way mechanism empowering Cable TV should be formulated
- Government positive initiatives for Digitalization

Need for a Dispute Resolution Mechanism

Main Cause of Disputes

Interconnection Issues

Possible Modes of Resolution

- **Transparency**
- **Capacity augmentation**
- **Piracy checks**
- **Strict regulation of broadcasters**

All India Policy Consistency: Taxation & Expectations

Current Regime: Double Taxation/ Uncertainty

Central Level:

- Service Tax

State Level:

- VAT
- Entertainment Tax
- Different States have different expectations from operators

- Create a Single Tax for the Cable Industry
- Align Policy so expectations from the Cable Industry are Consistent Across the Country

Cable: Only Industry Governed by an Act

Cable Operators Subject to Prosecution for Content Violations

- As per the Cable Act, the operator gets prosecuted for content transmitted
- Over 450 channels on air
- Provisions of the act unfair burden on operators to monitor all content
- Onus should be on broadcasters

No Act Governing/ Regulating Broadcasters & DTH

Laws & Regulations Should Put Everyone on a Level Playing Field

Thank You