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Freedom of choice for subscribers, but monthly bills likely to go up by 13-23%

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OVERVIEW

After more than 18 months of regulatory tussle, in October 2018, the Hon'ble Supreme Court cleared the way for the implementation of the Telecommunication (Broadcasting and Cable) Services (Eight) (Addressable Systems) Tariff Order, 2017 - a new framework for the pricing of television (TV) channels as well as for the interconnection agreements among the various industry participants. The Tariff Order aims at giving the subscribers their right to choose, by mandating the broadcasters to declare the nature of channels as free-to-air (FTA) or pay channel as well as declare a-la-carte pricing of all channels. While the Telecom Regulatory Authority of India (TRAI) had also prescribed a cap on the discounts offered by the broadcasters on channel bouquets - restricted to 15% of the a-la-carte channel prices - the same was held as arbitrary by the Madras High Court (in its order dated May 2018) and appeal to review the same was withdrawn by TRAI in January 2019.

The migration of the pay TV subscribers to the new regime is currently underway. TRAI has provided a deadline of March 31, 2019 (extended from earlier deadlines of December 28, 2018 and February 8, 2019) to migrate the subscribers to the new tariff regime. All the broadcasters have declared the a-la-carte prices of channels as well as devised channel bouquets. As per TRAI, there are around 100 million cable TV homes and 67 million direct-to-home (DTH) TV homes in the country; and as on February 12, 2019, approximately 65% of the subscribers of the cable services and 35% subscribers of the DTH services had migrated to the new tariff regime.

Freedom of choice for subscribers, but monthly bills likely to go up!

ICRA has considered various scenarios to evaluate the likely impact of the new tariff regime on the monthly bills of the consumers. As per ICRA's analysis, assuming that the consumer continues to opt for channels (only standard definition (SD)) across genres and broadcasters, as was the case in the pre-tariff order regime, the monthly bill is likely to go up by as high as 44%.

In line with ICRA's expectations, broadcasters have strategically priced their content, with prime and popular channels being largely priced at the highest Rs. 19 per month. Thus, any subscriber who wishes to view two or more of popular general entertainment channels (GEC) and sports channels is likely to either witness an increase in the monthly bill by 13-23% (family of 4/ family of 6 in Exhibit 1) or a substantial reduction in the number of pay channels to be viewed. While earlier, a monthly budget of Rs. 230-240* could give the subscriber access to 250-300 channels, the same budget will now fetch only three GECs and one sports channel, in addition to FTA channels. This, however, would eventually lead to better selection of channels and focus on content quality.

*Basis the weighted average ARPU of some of the major listed DTH / digital cable players for FY2018. ICRA has assumed an average revenue share of 65:35 between LCOs and MSOs

ICRA expects channel bouquets to dominate the subscription patterns, given their continued attractiveness and discounted pricing (by 40-50%) vis-a-vis a-la-carte channel prices. Multi-TV connections are likely to go down as monthly bills for these connections have gone up. The Tariff Order mandates uniform channel pricing across multi-TV connections, though does not prohibit discounts on network capacity fee (NCF). In this respect, most of the distribution platform operators (DPOs) have created a tiered structure for multi-TV connections, basis the amount paid for the first connection, as against single flat charge earlier.

The Tariff Order, however, scores above the previous tariff regime on freedom of choice for the subscribers. Thus, a family of two members, comprising a couple, can lower their monthly bills by upto 15%, if they opt for channels as detailed in Exhibit 1, a choice which was not available in the previous regime. Subscribers can also optimise their total spends on DTH / cable by altering their monthly subscription patterns, which are now expected to be more event-driven. Thus, the upcoming Union General Elections 2019 is expected to lead to a surge in news channel subscriptions in the months of April-May 2019, while the ICC Cricket World Cup 2019 is expected to keep sports channels in demand during June-July 2019. ICRA, however, does not expect any large alterations in monthly subscription charges in the near term, as channel selection on a monthly basis can be a cumbersome process.

The increase in cable / DTH bill for some subscribers is expected to result in an increase in consumption of over-the-top (OTT) services, especially in Tier-I and II cities. Notwithstanding this, television is expected to remain the primary screen for majority of the subscribers, with OTT platforms becoming increasingly supplemental to TV viewing. Even at a tariff of Rs. 346 per month (bouquet price giving consumer access to 104 channels, shown in exhibit 1), TV shall remain attractive to pure OTT viewing, given the former's co-viewing advantage, the relative high cost of wired internet (which has a penetration of only 6% - 18 million households of the 298 million households in India as of September 2018) and high price OTT content vis-a-vis monthly cable / DTH prices in India.

Some shift in bargaining power from broadcasters to DPOs, though large broadcasters are expected to benefit

The Tariff Order necessitated renewed efforts on the part of the broadcasters towards channel pricing and bouquet composition. ICRA, in its earlier report, had stressed on the importance of appropriate channel pricing and bouquet creation to minimise any adverse impact on the broadcaster's profitability. Most of the broadcasters have priced their popular GEC and sports channels at the ceiling rate of Rs. 19 per month. This could benefit large broadcasters who enjoy high ratings for their channels. Bundling of lesser-known / newer channels with popular ones is still prevalent and channel bouquets continue to remain attractive to a-la-carte channels, though the discounting has reduced to 40%-50% of the a-la-carte channel prices vis-a-vis upto 90% discounting prevalent earlier. Furthermore, as the

Tariff Order prohibits inclusion of FTA channels in channel bouquets, around 17 channels have been converted to pay channels (at nominal prices) during the period March 2018-February 16, 2019.

The Tariff Order has reduced the bargaining power of broadcasters vis-a-vis the DPOs by virtue of uniform channel pricing across DPOs. Furthermore, as the structure of broadcasting industry has now changed to business-to consumer (B2C) from business-to-business (B2B) earlier, non-popular channels of lesser-known broadcasters are expected to be at a disadvantage in the current regime. This could result in many channels shutting down, thereby leading to consolidation in the industry. As regards the large broadcasters, they are expected to continue to push their non-popular channels to the subscribers by way of discounted channel bouquets. Notwithstanding this, since the cost per channel has now increased for the subscriber (vis-a-vis the pre-tariff order regime) and all the broadcasters are vying for the same share of the consumer wallet, thrust on creating quality content has now increased. Furthermore, with greater transparency across the value chain, under-reporting of the subscriber base by the local cable operators (LCOs) is expected to reduce. This, in turn, will facilitate formalisation of the sector and help plug tax leakages.

The Tariff Order is positive for DPOs as it provides an opportunity to monetise the FTA channels with a fixed minimum average revenue per user (ARPU) of Rs. 130 (exclusive of GST). In addition, the content cost has become a pass through, which augurs well for the profitability of the DPOs. With parity in channel pricing across DPOs, competition is set to intensify further. In such a scenario, the quality of service becomes paramount from the point of view of the subscriber and hence a key differentiator among the DPOs. Many subscribers have been facing issues with the LCOs compelling them to take pre-defined bouquets. Value-added services (video on demand, active services, among others) also provide an important source of differentiation to DPOs, especially since these have been kept out of the ambit of the Tariff Order. ICRA also expects the DPOs to provide bundled services, including broadband and DTH / cable (as is the case in the West) over the medium term, with a view to offer greater value for money to the subscribers and improve ARPU per household, especially in the backdrop of increasing consumer preferences towards OTT platforms.

Exhibit 1: Monthly bills under various scenarios

	Family of 2		Family of 4		Family of 6 or More			
	A-la-carte		A-la-carte		A-la-carte		Bouquet	
Genre	# of channels	Price (Rs.)	# of channels	Price (Rs.)	# of channels	Price (Rs.)	# of channels	Price (Rs.)
GEC	-	-	2	29-38	3	48-57	Star	49.0
Sports	2	32-36	2	32-38	2	32-36	TV 18	22.0
News	2	1-2	2	1-2	2	1-2	Sony	31.0
Movies	2	16-30	2	16-30	2	16-30	Zee	39.0
Kids	-	-	1	6-8	2	10-14	Disney	10.0
							Times Network	5.0
							NDTV	3.0
							TV today	0.5
							Turner	4.3
Monthly Bill								
Network Capacity Fee		130.0		130.0		130.0		150.0
Add: Pay Channel Costs		49-68		84-114		107-139		163.8
Add: GST @18%		31-36		37-44		41-48		56.5
Less: Discount @15%		6-10		11-17		15-21		24.6
Total (Rs. per month)	6 Pay + FTA	204-223	9 Pay + FTA	240-271	11 Pay + FTA	254-296	79 Pay + 25 FTA	346
% Change (vis-a-vis Rs. 240 in the previous tariff regime)		Reduction in bill by 7-15%		Increase in bill by upto 13%		Increase in bill by 10-23%		Increase in bill by 44%

Source: ICRA research; Within a particular genre, top five pay channels are considered basis the All India genre-wise BARC viewership ratings for the period November 2018-January 2019, with the subscriber assumed to subscribe to at least the top rated pay channel (Channels which have been recently converted from FTA to pay are not considered in the above analysis. These channels are targeted towards cost-conscious subscribers and ICRA expects these subscribers to continue with DD Freedish). MRP of pay-channels as on March 13, 2019 has been considered. Monthly bill calculation (ala-carte) assumes that the total number of channels (including FTA) does not exceed 100

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ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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