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The CFO Program

# CFO Perspectives

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# CFO Speaks

**Mr. Nitin Nadkarni**
CFO
Sony Pictures Networks India Pvt. Ltd.

**1. In the current economy, what is your overall view on the prospects of Media and Entertainment industry in the coming years?**

Whilst the Indian economy is growing at 6.5% to 7%, the overall Media and Entertainment industry has been growing at a faster rate of 14% to 15%. The Television industry revenues are also projected to grow at a similar pace over the next 5 years led by a strong growth in advertisement revenues coupled with higher subscription revenues due to digitization.

With television penetration still at around 65% only, there is scope for growth in the paid Cable & Satellite households which will fuel growth in the Television industry. Also, advertisement revenue as a percentage of nominal GDP is still low in India as compared to other economies such as Japan and Australia indicating significant potential for future growth.

Just as an example for our network - Advertisement revenues in November/ December last year were adversely impacted due to demonetization and we were apprehensive about the revenues on IPL. However, the demand picked soon thereafter and for the first time in the history of IPL, we were 100 percent sold out even before the tournament started! This is a great sign that the market is buoyant and is willing to spend.

**"Within the Media and Entertainment industry, digital is expected to be the fastest area of growth in the coming years, growing at over 30%."** The increasing mobile internet and smartphone penetration in the country is fueling the growth in digital ad spends. However, an area of concern is the absence of a credible measurement model which results in advertisers not being able to track their return on digital ad spends.

**2. We are witnessing technology disruption and changing preferences of the viewers. In this current scenario, where do you see opportunities for growth in the coming year**

## for the Media and Entertainment industry?

In my view, technology disruption is yet to impact us in India in a big way. The changes in viewer habits are visible more in urban areas and that too amongst the high-end consumers. This segment is relatively small as compared to the vast Hindi speaking population living in tier-II cities and towns. I do however agree that technology disruption will have an impact on the Television Industry in the long run. In the case of English entertainment segment, we are already witnessing consumers moving away from television to alternative sources of digital entertainment.

To meet the needs of viewers, we at Sony have also made a digital investment in Sony LIV which is our over-the-top (OTT) platform which has original programming apart from existing content of the Network channels.

Within the television space, sports is a genre which will continue to grow as viewers would always want to see sporting action live and that too on a big television screen. Given that sports is a huge driver for advertisement and distribution revenues, we have made substantial investment in this space and recently acquired the TEN Sports Network from Zee to expand our presence in sports. We now have significant broadcasting rights in cricket, football, basketball, tennis, fight sports including boxing, wrestling etc. Cricket however remains the biggest sport in India and therefore commands the highest demand amongst broadcasters. **"There are enough sports broadcasting rights available in the market; we just need to choose judiciously with a clear focus on revenue and returns."**

## 3. As a CFO, how do you balance the increasing portfolio of channels versus managing costs?

We have grown our portfolio in the last 3 years from 12 to 30 channels with a presence is almost all genres. With more channels, we have been able to garner more advertising and distribution revenues. Further, we have been smartly using our existing content for the new channels and positioning them for marketing in select geographies. For example, we have launched free-to-air channels for the rural market wherein we telecast the existing content and generate revenue through advertisements. It has helped us to target new viewers in an untapped market.

Also, whilst we have added more channels, we have not added significantly to our headcount thereby ensuring optimum manpower synergy across the organization. Our people related benchmarks such as employees-per-channel or revenue-per-employee are the best in industry.

### 4. With digital technology growing, how do you manage the risks around content piracy?

Content piracy is a constant threat in today's environment. At Sony, we have been managing this at 3 levels – IT, Digital and Legal.

We have strong IT processes in place for content handling, sharing and storage. We have our safeguards to ensure that content is protected and we have had minimal data leaks from our systems.

We have also appointed anti-piracy agencies for scanning of content both proactively and reactively and for taking down/blocking of sites and platforms that are found pirating our content. It has worked well for us and we have been quite successful in detecting and taking necessary action to prevent piracy.

Legal has also been playing a pivotal role in the anti-piracy effort by obtaining John Doe orders for blocking websites ahead of critical events. For example, we managed to get more than 100 websites blocked in India which were illegally telecasting the India-Sri Lanka cricket series.

### 5. What is your view on the regulatory framework for the Media and Entertainment industry?

The Telecom Regulatory Authority of India (TRAI) is the Regulator for the carriage side of the Television industry in India. Pricing of Cable & Satellite channels is governed by TRAI's regulations. While the most recent tariff regulation makes a belated attempt to free up channel pricing by removing genre based ceilings, it still puts several hurdles in the way of allowing market forces to operate. In my view, there should be no regulation on the pricing or the packaging of cable TV channels and the commercial negotiations between broadcasters and platform operators, given that such channels are for entertainment and satellite TV is not an essential commodity. It should therefore ideally be left to broadcasters to choose their pricing and packaging strategies for their channels and leave it to market forces to decide fair pricing. Competitive market forces will ensure that the pricing is optimum. Even in the case of motion pictures, there is no regulation related to the pricing of tickets.

Another issue is the proposal to cap advertisements at 12 minutes per clock hour. Broadcasters in any case optimize ad breaks

because longer breaks have an adverse impact on viewership and consequently on ad rates. Moreover, this regulation cannot work in the case of live sports where advertisements have to be run only during the natural breaks in play and one can't advertise in between a live game. The ad breaks also vary from one sport to the other; for example, cricket has an ad break after each over or on a fall of wicket, whereas football has ad breaks in the beginning, during half-time and at the end of play. Finally, it is pertinent to note that sporting telecast rights are extremely expensive and broadcasters need to earn sufficient revenues to offset the cost of acquiring these rights. Capping channel pricing and ad time will together have an adverse effect on the ability of channels to monetise content and invest in innovation. The result will be more mediocrity and less novelty in the content we get to see on television.

### 6. The Media and Entertainment industry is highly fragmented; further it has high fixed costs. Given this, what are the 3 key challenges you face as a CFO?

My main challenge in a largely creative business such as ours, is to bring more focus on profit margins and ROI. Overall, the 3 key challenges for me would be:

i. **Capital allocation.** Whether it is the proposed IPL bidding or the acquisition of any other sporting rights, we need to be careful in deciding the right price to pay. It is extremely important to spend wisely to ensure a good return on investment.

ii. **Business integration.** We acquired TEN sports recently and a lot of the business integration still needs to be done, apart from people, channel and brand. This would have an impact on our costs and revenue.

iii. **Finance transformation.** We work in a business environment where finance has a very critical role to play. In addition to the basic accounting, control and governance functions, we have enhanced our role by becoming effective partners to the business heads thereby helping optimize operational efficiency. We are working closely with business to provide value added support in terms of data and analytics that helps better business decision making.

# Expert Views

## The Indian FinTech behemoth

The Financial sector space in India is experiencing seismic shifts. Technology has been a key enabler in this transformation, but its pace has not been commensurate with its potential, and this has limited the penetration of financial services in the country. FinTech, is overcoming the limitations of Banking and Financial Service companies, by creating new business propositions to extend to new markets. $17 Bn funding globally in this sector in 2016, is indicative of the immense potential of this sector.

India remains one of the largest markets where the structural enablers to setup and incubate FinTech have come together strongly, and at an apt time. India is ranked amongst top ten FinTech markets globally, with funding of over $270 Mn in 2016, and will witness higher investments as FinTech becomes main stream and regulatory guidelines add more credibility to the sector.

Deloitte has analyzed the breakout potential of six broad financial service areas, namely – Payments, Credit, Investment Management, Personal Finance Management, BankTech and InsurTech. The impact of these areas breaking out has been studied on the financial services and insurance markets.

We believe there are six key underlying reasons why the FinTech sector should grow:

- **Combination of steady economic growth with low penetration of financial services –** India is poised to grow between 6-8% for the next decade. There is a huge unbanked & underbanked population with steadily growing disposable incomes, but is unserved by banks. The low penetration of financial services presents a large opportunity to not only existing incumbents, but also to FinTech companies, to fill the gap.
- **A large millennial population –** India has more than 400Mn millennials, rapidly ascending the adoption S-curve of digital financial services, and thus perceiving high friction in services offered by incumbents. Increasing demand and trust in technology from this segment, is leading to a shift in preference for FinTech offerings.
- **Improved prospects for private sector counterparts –** Public sector financial institutions account for 70% of all deposits and credit, although, their private sector counterparts (FinTech companies and private sector banks) are taking advantage of emerging opportunities and gaining market share.
- **Supporting Regulatory policies –** Government and regulatory agencies have been taking a supportive stance when engaging with FinTech players. This has given an opportunity for FinTech startups to thrive without overregulation.
- **Infrastructure support –** The Government has taken a number of positive steps to develop infrastructure conducive to digital financial services. FinTech companies are best poised to take advantage of India stack, by significantly reducing costs of acquisition and servicing. Steps such as Aadhaar card, UPI and BHIM will facilitate adoption of digital financial services.
- **Technological advancement –** A major barrier for companies to enter financial services earlier,

was the high cost of Information Technology (IT). With advanced technologies, cost of IT has reduced drastically, and this has enabled startups with their asset light models and almost zero unit costs, to thrive.

- **Low interest rates in the Indian economy –** Interest rates have decreased returns across traditional asset classes. With real interest rate expected to remain low for the medium term, urban and financially savvy investors will explore new investment ideas, including new asset classes from P2P platforms, low cost money market funds, robo advisory services etc.

We believe that Alternate Lending and Payments have the strongest potential to breakout in the short term, with payments attracting the highest share of capital within FinTech investments. Digital lending across retail and personal lines and MSME segments is to follow in the short term. FinTech companies in other segments such as investment management, BankTech, InsurTech and personal finance management, are currently targeting niche markets, but it is only a matter of time before their breakout moment comes.

- **Alternate Lenders:** Financial returns (from lending) and diversification remain the top most reasons why individual lenders use P2P platforms. Considering that P2P platforms offer new investment avenues, and the prospect of significantly higher financial returns, supply side factors and regulatory clarity can exponentially drive the growth of this segment.
- **Payments:** Within payments, interoperability will increase competition amongst wallets to retain their customer base (as switching cost for customers' decreases), pushing wallets to provide better services and customer experience. It will also drive up transaction volumes, as the same set of customers and merchants need not be acquired/ targeted by each wallet.

Although demonetization provided a boost to the payments sector in the short term, investments in personal finance and wealth management would rise going forward.

- **Investment Management:** While digital investment management and use of algo based trading and advisory is growing, face to face consultative services are likely to grow as RMs and Financial advisors use better tools to identify and service clients. We foresee a hybrid model combining personal and digital components, as the most likely scenario.

FinTech companies in most of the other segments including personal finance management, BankTech and InsurTech have initiated the market making process and currently target specific market niches.

Indian FinTech sector faces challenges that can impact most of the segments. These include: balancing regulation to foster innovation, gain customer trust and increase customer literacy, cyber and data security, and building financial infrastructure. In conclusion, FinTech companies have the ability to address these challenges and will have three major impacts on the financial services industry:

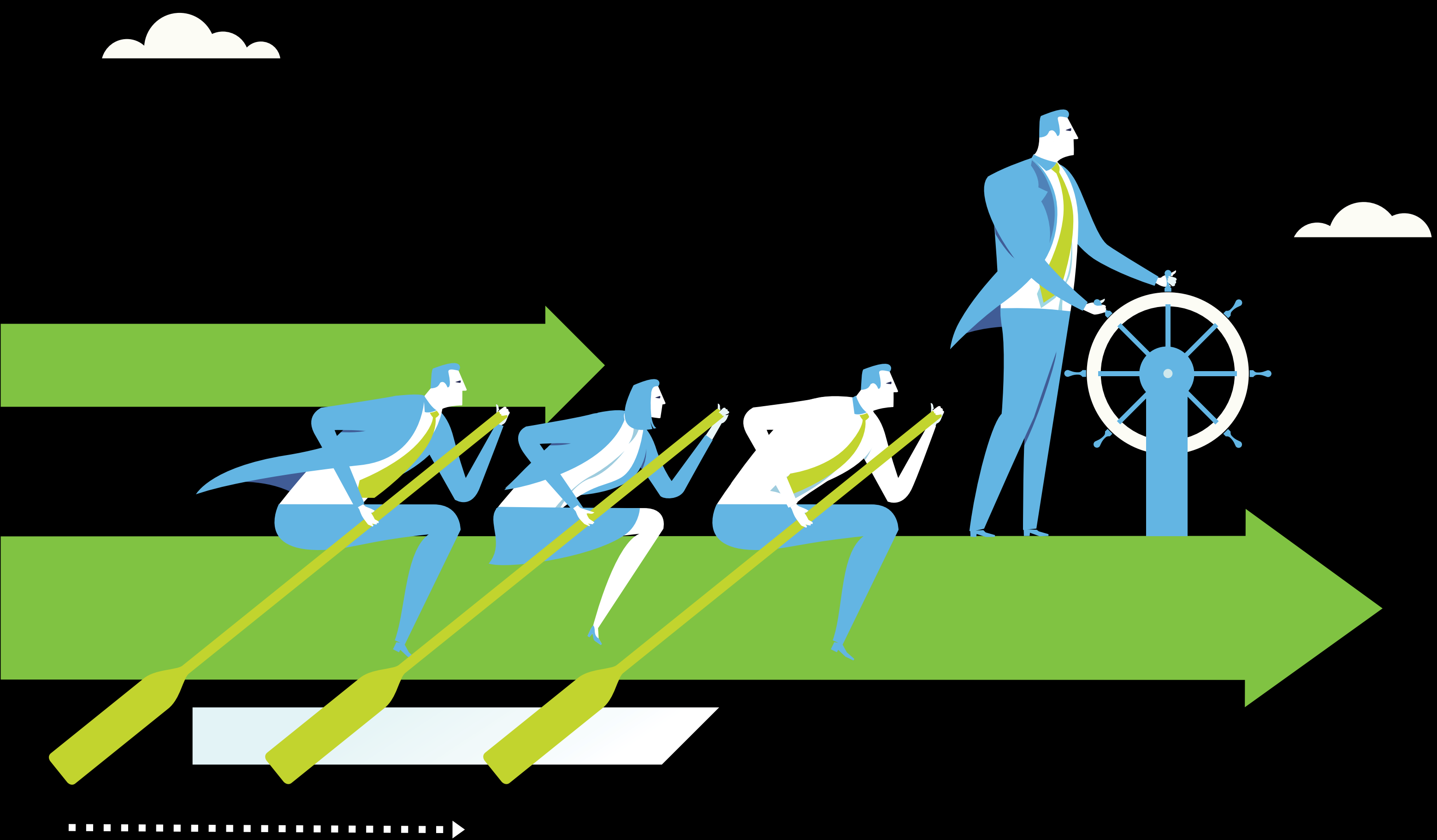
- Reduce costs and improve quality of financial services
- Develop unique and innovative models of assessing risks
- Create a more diverse, secured and stable financial services landscape

**For more information and to download the complete report "FinTech in India: Ready for breakout", click here**

# About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For more information feedback or suggestions, please write to us at: incfo@deloitte.com



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