

ASSOCHAM FINANCIAL PULSE Study

**“India Entertainment Sector – A
Financial Stock-Taking”**

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Introduction

Time Period

The data collected was pertaining to the period FY 2002-03 to FY 2007-08.

Sample Size

The average sample size for the entertainment companies was 117, for the entire services sector it was 2253 and 4975 manufacturing companies were used for the purpose of the analysis.

Data Source

The Economic Intelligence Service of the database provider CMIE was utilized for conducting the study. The current study is based on the availability of the audited unabridged annual accounts of companies.

Parameters

The financial parameters were used to analyze the performance of the entertainment sector.

List of the financial parameters

Performance Analysis

1. Sales Growth
2. Profit Before Depreciation, Interest, tax and Amortisation (PBDITA)
3. Profit After Tax (PAT)

Cost Structure Analysis

1. Growth in total expenses
2. Ratio of salary expenses to total expenses
3. Ratio of advertising expenses to total expenses

Financial Stability

1. Debt ratio
2. Pace of Asset Creation

Background of the entertainment industry

The recreation sector is in its growth phase in India though the market is still not fully explored. It include segments such as film, television, advertising, print media and music among others India is one of the most media-exposed countries when compared to its Asian counterparts due to its size and consequently a large consumer base.

Factors responsible for the growth

The key factors which have contributed to the exponential growth witnessed by the entertainment sector includes -

1) GDP growth – The high growth trajectory witnessed by the Indian economy played a key role in rise of entertainment sector as a significant contributor to the services sector. High GDP growth which transpired into high per capita income led to increase in demand for the entertainment related services.

2) Demographics –India is a young country with 57 per cent of its population in the age group below 50 years. The median age in India in 2000 was 24, compared to 30 in China, 38 in Europe and 41 in Japan.

3) Expanding middle class – The Indian middle class has the strength of 50 million, which is expected to grow to increase almost 12-fold from its present size to over 583 million accounting for 41% of the population.

4) Shift in cultural attitude – The cultural attitude in India is undergoing a change with greater orientation towards modern source of entertainment sought.

5) Domestic Investments on the rise – Around Rs. 3450 crore have been pegged for investment in the entertainment sector for the next three to four years.

The above listed factors have given an edge to the entertainment industry in India which is continue to move with a rapid pace in views of the bright economic and demographic outlook of the country seen.

Performance Analysis

Size of the industry

The present size of the recreation sector is estimated to be more than Rs. 12,530 crore with continuous rise in the contribution to services. The entertainment sector at organized level contributes around 2.2 per cent to the services in terms of the turnover.

The top line growth in the sector has taken place at a phenomenal growth rate of 39 per cent in the last three years. It has not only surpassed the average growth rate of services sector but has also appeared amongst the fastest growing sectors.

Net Profit

The profit before depreciation, interest and amortization (**PBDITA**) grew at the rate of 85 per cent in the last two years. However, the net profit growth was comparatively less at 34 per cent due to high interest paid which accounts for 4.2 per cent of the total expenses. As the entertainment sector has been expanding rapidly, large borrowings have been used to fund the expansion. The interest cost has risen by 82 per cent in the FY 2008-09 on top of the 50 per cent rise in the previous year.

Financial Stability

Debt

Total borrowings in the entertainment sector have increased by 68 per cent in the financial year 2007-08.

Asset Creation

The asset creation in the recreation industry has consistently been higher than the services sector in past four years rising at an average rate of 24 per cent while the overall service sector witnessed 19 per cent growth in assets.

Cost Structure Analysis

Total expenses

The expenses of the entertainment companies have been rising at an average growth rate of 32 per cent during the last two years. This was higher than the average rate of increase in the expense structure of service sector which was around 20 per cent.

Compensation to employees

The entertainment sector has witnessed one of the fastest rise in the salaries amongst the service sectors. While for the overall industry the employee compensation rose by average 25 per cent during the last two years, the wages in entertainment industry has risen by as much as 40 per cent.

Selling and distribution expenses

The entertainment industry has been on of the highest spenders on selling and distribution. Their expenditure on selling and distribution has been rising at an average growth rate of 58.2 per cent.

Advertising expenses

As the sector is set for an unprecedented growth, the Entertainment companies have become the highest spenders on advertising in the last two years. The recreation companies spend 4.1 per cent of their total expenses on advertising in the FY 2007-08, the highest amongst the services as well as manufacturing companies; they have also recorded one of the highest growth rate of 47 per cent.

The average ratio of advertising expenses to total cost for service sector is 0.9 per cent while for the manufacturing sector it is 0.5 per cent.

In the year 2005-06, entertainment sector was the third highest advertisers with the maximum expenditure on advertising being done by consumer durables (3.3 per cent) and liquor companies (2.9 per cent). However, with 38 per cent rise in the advertising expenses, the entertainment sector rose to top advertiser position in 2006-07.

Outlook

The Study concludes that in view of the overall macroeconomic and sectoral trend indicates towards the healthy growth prospects for the entertainment industry. The recreation sector is expected to remain a high growth sector for next five years to come, with its share in services set to rise further.