



The Indian Media Mela

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By Vidya Ram

If the words "print" and "media" conjure up images of plummeting profits, shrinking readership and editors tearing their hair out as they attempt to staunch the exodus to the online universe, you clearly aren't thinking of India.

As the country celebrates the 60th anniversary of its independence from Britain, newspapers are flourishing, with growth projections that would impress even the savviest of investors. And unlike rival market favorite China, the world's largest democracy can boast a free press that is truly able to speak its mind, and the largest English-language speaking audience in Asia.

Fueled by rising consumer spending and literacy rates, the Indian print media is expected to grow by 13% a year over the next five years, according to a study by PricewaterhouseCooper. Set against the average 2.5% growth rate internationally, this is quite a remarkable figure. The total entertainment and media industry, including film, broadcast, online and print media, will be worth an estimated 1 trillion rupees (\$24 billion) by 2011.

"The Indian media and entertainment industry, yet again, continues to out-perform the Indian economy and, yet again, is one of the fastest-growing sectors in India," said PwC.

While foreign investors have had access to India's entertainment industry for over a decade, until 2002 they were only able to salivate at anything that had news or current affairs content. Thanks to laws introduced just after independence--purportedly to protect national sovereignty--foreign investors were strictly forbidden from owning even a small slice of the news-industry pie.

However, the news industry has been swept up in the wave of liberalization that has washed over the country since the 1990s. For the past five years, foreign investors have been permitted to hold up to a 26% equity stake in news organizations and have full ownership of non-news media.

With the gates to the mela (festival)- open, investors have been quick to move in. One of the first to go to print in India was the International Herald Tribune. Through a privately held subsidiary, Conde Nast publishes an Indian version of Vogue, while the Pearson Group's Financial Times has teamed up with the Business Standard newspaper.

Rupert Murdoch's Star TV and India's Ananda Bazaar group jointly own the television channel Star News India, while Walt Disney (nyse: DIS - news - people) owns its own kids television channel. Fortune and Newsweek are also publishing Indian editions through local tie-ups. Private equity players such as Blackstone, 3i, and Matrix Partners have also waded in, lured by the prospect of easy money in a burgeoning market.

Given the restrictions on investing in news, you might have expected most investors to dive into the entertainment industry. But according to PwC, eight out of the 13 proposals for foreign direct investment that went before the government for approval in 2006 were for news ventures.

While the entertainment industry is certainly attractive and growing, it is news that sparkles like the Kohinoor diamond. The numbers--Indian newspapers and magazines have a total readership of 222 million--are made all the more tantalizing by the tattered state of newspapers in the West, which have been losing customers, and those ever-so-crucial advertising revenues, to the Internet.

No wonder Indian newspapers, such as the Hindi-language daily Dainik Jagran, with a circulation of over 22 million, look as tempting to investors as candy to a five-year-old.

Even with India's higher-than-average rate of illiteracy, there is huge room for growth, particularly outside the cities. It is estimated that there are as many as 359 million literate Indians who currently do not read any publications. Just like the Indian software industry a decade ago, the print media is poised for exponential growth.

Harjinder Singh-Heer, managing director of London-based media consultancy Heernet Ventures, believes that the greatest potential lies not so much in the top national dailies as in India's regional press and local language papers. In line with this assessment, The Independent of Britain has tied up with Dainik Jagran in the north, while Blackstone has put its money into the southern Telugu-language Eenadu Group, whose flagship newspaper has the third-largest readership among all Indian dailies.

"Blackstone's investment is a vote of confidence in the excellent growth prospects for India's local language media," says Singh-Heer.

Other good opportunities lie in radio, which is just opening up to private investment, and the Internet, where advertising revenues are nearly doubling every year, albeit from a low base.

But even private equity companies, which Singh-Heer expects will dominate the foreign-investor scene, have so far been ponying up only limited amounts of cash. Blackstone, which is one of the largest investors in the market so far, has invested just \$275 million. Indeed, total foreign investment since 2000 adds up to approximately \$2 billion, according to London-based media consultancy, Heernet.

Shekhar Gupta, editor in chief of English-language daily The Indian Express, argues that tight government regulation is partly to blame for the hesitancy. In addition to limits on their equity stake, foreign companies are allowed virtually no management or editorial control over their Indian investment. "They have to rely on the good will and performance of the Indian editors and employees," says Gupta.

Another concern for foreign investors is the rock-bottom cover price that newspapers are charging, a necessity in a market where there is strong competition. Top English-language dailies can sell for as little as 1.50 rupees (4 cents), for example. Additionally, there are likely to be concerns about the financial soundness of some groups, which have been in private or family hands for decades. A lack of competition, until recently, has meant that some publications have been able to take their market position for granted.

As a result, foreign investors are testing the waters often only gingerly, argues Singh-Heer, who adds that most "have a long term perspective." He sees the radio market as a case in point. "There has been a tidal wave of new licenses in the past five years, but the challenge for any investor is to make sure he backs the right horse."

But some of the wariness on the part of foreign investors is a product of the Indian media groups themselves. A bullish stock market has meant those that have chosen to go down the IPO route are getting higher valuations than even private equity would be willing to pay.

There is also a certain amount of concern within the government over the political influence that foreign investors could wield. It is this same concern that seems to drive the government's determination to keep the equity cap at 26%, at least for the moment.

Aveek Sarkar, chairman of Ananda Bazaar Patrika group, which owns a major Bengali-language daily and the joint venture with Murdoch, views this as "ideological paranoia."

"We are presuming that the world has nothing better to do than acquire the Indian print media and sabotage it," said Sarkar, pointing out that raising the foreign investment cap to 40% wouldn't destroy Indian control of the media, but would make things more attractive to overseas investors.

Both Gupta and Sarkar believe that eventually, most newspaper groups will recognize that they cannot afford to give up the coveted capital that foreign investment can bring.

"By and large, there has been a broad acceptance that foreign investment has been beneficial," says Sarkar.

T.N. Ninan, editor and publisher of the Business Standard, argues that in addition to the capital investment, the Financial Times' investment in the company has brought with it other advantages, including staff exchange programs and access to the newspaper group's professional expertise.

Even in its early stages, foreign investment seems to be changing the media landscape.

Take the case of Henderson Global Investors, whose 1.2 billion rupees (\$26.8 million) investment in the Hindustan Times enabled the paper to launch a Mumbai edition, and take on the granddaddy of all Indian newspapers, the Times of India. Currently, the Daily Mail of Britain is considering setting up a newspaper with Living Media, which owns the popular weekly magazine India Today. This new venture, which is expected to launch in October, will take on New Delhi's heavyweights, such as the Hindustan Times, which also has foreign investment, from the Henderson Group.

The media industry is one place where India and China--so often lumped together--part company. It is one area where having a genuine democratic system and a press not structured by the state makes a huge difference to investors.

"Money may go into the Chinese entertainment industry in the short-term, but if you look at the media businesses in the two countries, there should be no competition," said Gupta.
