

SECTOR FOCUS: RESURGING FM RADIO

- Phase-II of FM Radio: 338 frequencies for radio stations 91 cities were on block
- The government awards 280 licenses for a total sum of \$205 million
- Sun, Adlabs, HT Music, ENIL emerge as the leaders with nationwide footprint
- Government introduces new revenue-sharing model

Radio, once perceived as a dying medium, got a new life with the emergence of FM Radio. The public broadcaster All India Radio took the lead in introducing FM radio stations in February 1995. In 1999, the government opened up the industry to private companies. While they established themselves in India's major cities, they couldn't build a profitable business because of the high license fee structure.

The government has now changed the fee structure to make FM radio a more viable business. And it has authorized the set up of FM radio in 91 cities across the country in a "Phase II" rollout.

As a result, companies ranging from the obvious media ones to unlikely real estate firms, have bid and won Phase II licences.

FM Radio Phase-II: Radio Revived

FM Radio, so far restricted to a few cities in India, is set to become a nationwide industry. The Government of India has just concluded the five rounds of bidding for 10-year licenses in 91 cities across the country. The Phase-II bidding process attracted greater interest compared with the first phase in 1999. Phase I participants, such as New Delhi-based Living Media India Limited and Mumbai-based Midday Multimedia Limited popularized FM in large metropolitan cities and paved the way for Phase II.

With the relaxing of the licensing regime, the winners of new licences under Phase II, are looking to get a slice of the FM market predicted by The IndusView to grow to 125 million in 2010 from \$25 million last year.

FM Radio Phase-II: The Bidding Process

The government had put total 338 frequencies in 91 cities on the block as part of phase-II compared to 21 licenses (currently operational) allotted in the first phase in 1999, and all the 91 cities were classified in A-plus, A, B, C and D categories. The private FM Radio companies bidding for these licenses won 280 out of these 338 frequencies offered for a total sum of \$205 million (Rs. 907 crore) of one time entry fee (OTEF). There were no takers for the remaining 60 frequencies. The government is expected to get \$51.3 million (Rs. 227 crore) more from the migration fee also from the existing players to shift their 21 licenses of first phase in to Phase II.

A total of 85 private players, not only media companies but also some real estate developers, were shortlisted for bidding, based on the pre-qualification bids invited in September 2005 by the Information and Broadcasting Ministry. After the all five rounds of bidding, south India's television network Sun Group bidding through its two companies—Kal Radio Private Limited and South Asia FM Private Limited has managed to win total 67 frequencies. It already has four operating stations taking the total tally to 71. It will, however, have to give up a good number of these frequencies due to the maximum 15% restriction. Government norms stipulate that no individual company should own more than 15% of the total radio stations. That works out to no more than 45 radio station.

Similarly, Adlabs Films, a part of ADAE Group formed by Anil Ambani who broke away from the largest private Indian company Reliance Industries, will have to surrender some of their 56 station licences won following the Phase II awards.

Category	Total Cities	Frequencies for Bidding	Frequencies Allotted	Amount (\$ mln)	Amount (Rs. Cr)
A-Plus & A Cities	13	64	54	121.67	538.39
North India	21	76	63	18.93	83.75
East India	17	66	48	4.68	20.7

West India	21	68	62	19.67	87.06
South India	19	64	53	40.00	177.56
Total	91	338	280	205.08	907.46

Round-I of Phase-II: The Big Cities on the Block

58 radio stations spread across 13 cities, including the four metros—Delhi, Mumbai, Kolkata, Chennai, and other big cities like Bangalore and Hyderabad were on the block in the round one of the phase-II bidding. 25 companies including HT Music, Adlabs, Radio City and Radio Today, won 53 stations for \$121.5 million (Rs 538 crore). HT Music won frequencies in Mumbai (\$6.3 mln or Rs. 28 crore), Delhi (\$7.9 mln or Rs. 35 crore), Kolkata (\$1.3 mln or Rs. 6 crore) and Bangalore (\$1.3 mln or Rs. 6 crore). The Mumbai bid by HT Music was the highest amount for any city in the phase-II. ENIL operating under brand name “Radio Mirchi” bagged licenses for all the seven FM stations that it had bid for in the first round of the Phase II FM radio bidding held by the I&B ministry on Friday. Adlabs won 7 frequencies including all the four metros.

Round-II: Northern India

There was fierce competition for licenses in North India. In this round of the bidding, 76 frequencies in 21 cities across seven state - Haryana, Jammu & Kashmir, Uttar Pradesh, Rajasthan, Uttaranchal, Himachal Pradesh and Punjab, and the union territory of Chandigarh were on the block. The government earned almost \$18.9 million (Rs. 83.75 crore) for 63 successful bids in this zone. Adlab was ahead of others as it won 19 of the 21 cities for which it had bid. In the Northern India, Chandigarh attracted highest bidding at \$3.5 million (Rs. 15.61 crore) by Adlab Films. BAG films and Bhaskar Group (Synergy Media) emerged leaders in this zone as they won frequencies in most of the cities. Synergy media won frequencies in six cities, while BAG films won four cities.

Round-III: Eastern India

The government had received 58 bids in eastern zone for 66 frequencies (stations) in 17 cities including Patna (capital of Bihar), Ranchi (Capital of Jharkhand), Jamshedpur (known as steel city), Guwahati (the biggest city of Assam famous as The Gateway to the Northeast India), Gangtok (capital of Sikkim), Shillong (capital of Meghalaya) and Itanagar (Capital of Arunachal Pradesh). Out of the total 58 bids, only 48 bids were successful while 10 frequencies remained vacant. This zone yielded only \$4.7 million (Rs. 20.70 crore) that was 96% less from the highest license fee of \$121.5 million (Rs 538 crore) earned from the A-plus & A cities. Entertainment Network India (ENIL) that operates under the ‘Radio Mirchi’ brand was the sole winner for Patna as the other 4 bidders out of the total 5 bids were disqualified. Adlabs continued to win most of the cities in the eastern zone by winning 15 cities here. South Asia FM also grabbed 15 licenses in this zone, while BAG Films won only two cities.

Round-IV: Western India

The bidding for the western India comprising five states and one Union Territory saw three major players emerging as leaders in this region. The government earned revenues of \$19.7 million (Rs 87.15 crore) as One Time Entry Fee (OTEF) from 62 successful bids out of 68 frequencies available in this region. The western region saw Adlabs as the highest bidder with a bid amount of \$1.2 million (Rs 5.21 crore) for Indore. South Asia FM, a Sun Group company, succeeded in 18 out of its 21 bids. Adlabs Films, a part of ADAE Group formed by Anil Ambani, won 8 frequencies out of 14 it had bid for. The company claims it is happy with the number because it won the bids in the major cities. Radio Mirchi (ENIL) of Times Group won in all the nine cities it had bid for. Radio City (MBPL) could win seven frequencies out of the 11 it had attempted for. Bhaskar promoted Synergy also won six stations out of eight. Other key players were BAG Info, which won four frequencies out of 12, Pan India, which won three frequencies out of 11, and Century Communication, which won two frequencies out of 15 it had bid for. Western India saw the least number of unoccupied frequencies (six), as out of the 68 frequencies up for bid, only 6 remained vacant. In the A-plus & A category cities 10 frequencies remained vacant, while in the Eastern India the government had to keep 18

frequencies unallotted.

Round-V: Southern India

The last round of bidding for the 64 radio stations in 19 cities in 5 South Indian states including Kerala, Tamil Nadu, Andhra Pradesh, Karnataka and Pondicherry generated \$40 million (Rs. 177 crore) as one time entry fee (OTEF) for the government. The highest bid in this region was for Kochi, where Adlabs paid \$2.3 million (Rs. 10.1 crore). The city-wise highest contribution of \$4.3 million (Rs 19.15 crore) came from the total 3 bids for Coimbatore. Adlabs won eight out of 19 frequencies in this region.

The Government and the Industry Learnt from Phase-I:

Strict government policies, unviable high license fee and lower advertisement flow led many companies to leave the FM radio industry after the initial euphoria in 1999. Fewer than 3% of the Indian ad-spend goes to radio. When 108 frequencies across 40 cities were auctioned in May 2000, the bids went through the roof as the loopholes in the tender document allowed people to make bids without any significant obligation to fulfill their promise. The exorbitant bid amounts and the high annual license fee resulted in only 22 stations getting off the ground across 12 cities in the Phase-I.

To learn from this experience, the government formed a committee to look in to the issue. Dr. Amit Mitra, the Secretary General of the prominent industry chamber FICCI (what's this?), was appointed the head of the committee. The industry participation in the policy-making exercise ensured a policy that was good for the government as well as the industry and that its recommendations would be acceptable to the FM Radio companies. The committee and the broadcast industry regulator, the Telecom Regulatory Authority of India (TRAI), favored a shift to a revenue-share license fee regime.

With the change of the policy, government earned more than \$200 million (Rs. 900 crore) for licenses in the Phase-II. In contrast, Phase-I had fetched only \$35 million (Rs. 155 crore). Out of 101 bids that won in the first phase, only 37 could deposit the fee and only 22 licenses came into operation. Almost all Phase-I participants incurred losses until 2005.

The Phase II licenses, were granted on the basis of one time entry fee (OTEF) along with annual revenue sharing (against the earlier license fee structure) at the rate of 4% of gross revenue for the year or 10% of the reserved OTEF for the concerned city. The reserved OTEF is limited to 25% of the highest bid in that city. Every applicant is allowed to run only one channel at one city. Foreign Direct Investment (FDI) is permitted up to 20% of paid up equity of the company holding a license for radio channel. The government has permitted automatic migration to operational Phase-I players if they clear all the previous dues and pay OTEF equal to the average of all successful bids under Phase-II in that city.