



### **Key Highlights of the NASSCOM Animation and Gaming Report 2008**

Over the past two years, the domestic market for animation has grown significantly, and so has the quality of production. Though initially taking the mythological story route like Hanuman, animation companies are expanding into contemporary themes like Roadside Romeo, Toonpur Ka Superhero and Sultan the Warrior. There are a total of 85 domestic animation movies that have been announced over the last year and 28 are in different stages of production. 15 animation movies are expected to be released over the next two years. Animation companies have also started focusing on building original IP, which they can leverage in terms of merchandising and TV broadcast revenues.

In absolute terms, custom content development is the largest segment as of today, with an estimated industry size of USD 187.5 million, followed by animation entertainment at USD 120 million. Multimedia/ web design contributes another USD 100 million, and education is at USD 53 million. In 2012, custom content development is expected remain the largest segment, though its percentage share will come down from 41% to 33%. This decrease is almost completely due to a corresponding increase in the share of animation education market, which is growing at a CAGR of 40% from 2008 to 2012. The share of education segment is expected to increase from 11.5% to 17.5% from 2008 to 2012. There is immense demand among students to enroll in long-term, skill development courses to pursue a career in animation. Also, as new technologies keep emerging, there is a constant need for skills upgradation courses.

**By the end of 2008, the gaming industry in India is expected to value at USD 212 million expected to reach USD1060 million by 2012 at a CAGR of 50%.** The Indian gaming industry is on the threshold of a takeoff, with the groundwork being done by the players nearly over. The new genres of games and the development of a gaming ecosystem and culture will result in increased sustainability. The entry of big players will help in growing awareness and expand the market due to the rise in promotional spending.

Unlike the global gaming market where the four platforms came into being at different stages, in India all four gaming segments are taking off at the same time and are competing for consumer's time and share of wallet. The gaming consumer market in India has clearly graduated to the next level -from infancy to growth. India poised to grow as a gaming destination due to local demand, cost arbitrage and cultural synergies

### **CHALLENGES TO BE ADDRESSED**

While the players in the animation and gaming sectors are optimistic about the future, there are some challenges that need to be address for the sector to maintain growth. Some of the critical issues identified by the respondents are:

- *Lack of original IP:* Domestic demand for animation is restricted to select animation movies that have achieved box office success and use in advertising. The Indian population is not acclimatized to gaming as much as other countries.
- *Manpower:* Lack of quality resources, limited training institutions and high attrition rates.
- *Infrastructure – related issues:* High cost of consoles, lack of sufficient bandwidth, etc have been issues in the gaming industry



- *Dependence on outsourcing:* Heavy dependence on low-end elements of the production process which limits scope for moving towards the higher value end of the production value chain.
- *Lack of content variety:* Domestic demand has suffered from the mythological baggage which has reduced its exportability and appeal beyond India.

## WAY FORWARD

Going forward, animation and gaming sectors are poised to grow. Some of the trends that will be witnessed are as follows:

- **Increase in budgets:** The production budget for animated movie will increase from USD2million-USD2.5million to USD5 million-USD7.5million. The average realizations for a good animation movie will increase to USD7.5million - USD12.5 million.
- **International releases:** Indian animation movies will release in the international markets. Due to this, the split of revenues will change. Currently, India box office accounts for 60%-75% of revenues, satellite TV rights 15%, merchandising 15% and home video is 5%. In the next 2-3 years, India box office will account for 40% of the total revenues, 20% from satellite TV rights, 15% from foreign consumption, 10% from merchandising and 5% from home video sales.
- **Improvement in skill sets:** In India, the skill sets will develop to produce high quality work. The animation companies will produce 3D animation and provide services across the value chain.
- **Set up of captive units:** Due to cost advantage, adequate skill sets and domestic market growth, international studios will set up captive centers in India.
- **Change in IP ownership:** Rights of animation will be retained by the developer instead of the TV channel. The developer will be able to exploit alternate revenue streams such as merchandising and sale on digital platforms.
- **Digital animation advertising:** Animation will be used in digital advertising. Increasing use of animated content will be witnessed in advertisements on internet and mobile.
- **Consolidation:** The industry is expected to go through consolidation with smaller players being acquired by the bigger companies.
- **Emergence of new and upgraded courses:** Courses on skill updation will be launched. These courses will be targeted at professional that have already spend 2-3 years in the industry. Also there will be a rise in the post diploma courses for specialization. Standalone management courses in animation will be launched. There will be special courses for mid- level and top level management.
- **Foreign demand:** The custom content companies will increasingly service the foreign market. They may undertake acquisitions or enter into alliances in order to establish presence in the foreign countries.



- A reduction of duties on consoles is expected resulting in reduced prices. With lower prices, the legitimate installed base will increase. Console manufacturers will focus on dedicated retail outlets to attract customers. Piracy of console games is expected to decline. Localized console games are also expected to be released to cater to the domestic demand in the near future.
- Mobile companies will undergo structural changes to address production slippages, falling revenues (USD0.5 and USD0.125 price points) and the higher revenue shares retained by telecom operators (up to 65%). Better quality mobile games and enhanced skill sets will result in a rise in mobile game outsourcing deals. Higher revenue shares, third-party contracts and end-to-end development of mobile games will lead to better revenue realization for mobile game developers. The release of locally developed games with international appeal will open up new target markets for Indian mobile gaming companies.
- MMORPGs (Massive multi order role playing games) and casual games are expected to become very popular, causing bipolarization of online gamers into casual gamers and MMOG players. This will open up additional revenue streams such as games on demand, piece meal retailing of games, etc. Online commerce from the sale of virtual items is expected to pick up due to the growth of MMORPGs. More stickiness in the case of MMOG and MMORPG due to players becoming more attached to the characters and communities developed around such games.
- Development of domestic localized PC games is expected to pick up. Due to stringent antipiracy measures and a reduction in the affordability gap, the sale of legitimate PC games is expected to increase. Outsourcing deals, especially in the end to end production domain, is expected to rise significantly.