



COMPUTER ANIMATION STUDIOS OF ONTARIO

## REPORT FROM CASO DELEGATION – INDIA

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Attendees: Richard Hamel, Andrew Harvey, David Steinberg

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### GOAL

Gain preliminary understanding of the current state of the animation and VFX industry in India and determine whether there are sufficient business opportunities between Canadian and Indian companies to warrant a larger scale CASO trade mission in the future.

### BOTTOM-LINE

Even though working with India's animation and vfx production facilities is expected to have its share of communication and management challenges, **the authors believe that CASO's membership should be investing its time to explore opportunities with their counterparts in India.** Holding the perspective that India is only about servicing outsourced production is not current reality. In our brief exposure with a variety of studios, production management and owners, it is clear that they are interested in partnering and that they have high regard for us. Both parties bring something different and valuable to the table. This report outlines our findings and provides a number of next steps. We look forward to having the opportunity to discuss our findings and conclusion in person with the larger membership group.

### METHODOLOGY

Delegates spent one week exploring animation production in the regions of Mumbai and Pune. The information in this report was gathered from the following:

1. Attendance at the annual FICCI-Frames conference (India's primary media and entertainment business conference) held in Mumbai, the heart of Bollywood.
  - Business-to-business meetings with representatives of Indian production and distribution companies (6-8)
  - Attendance at panels pertaining to digital media (3-5)
  - Networking with other attendees of conference who have experience working with the emerging Indian companies, as well as various players in the local industry (15-20)
2. Numerous discussions with several members of the Canadian consulate offices in India and reference to materials provided by them
3. The Media and Entertainment Industry Report produced yearly by KPMG
4. Numerous studio visits in Mumbai and Pune (8)

5. Meeting with the MCCIA (Chamber of Commerce in Pune) to discuss opportunities and action plan

## OVERVIEW OF CURRENT ANIMATION & VFX INDUSTRY IN INDIA

**Current industry workforce:** Approx 12-14,000 generated about \$440M Canadian in production revenue in 2009.

**Annual growth rate:** In 2009 the animation and VFX industry in India grew at 13.6% and is expected to grow at a CAGR of 18.7% through to 2014. In the animation side, the bulk of the revenues continue to come from service work contracted by foreign companies. The growth rate in 2009 was lower than expected due to the economic slowdown which depressed advertising spending and investments in film and TV series work. This industry is nascent in India and given the appetite for long-form visual story-telling in India, animation and vfx have enormous growth opportunities.

**Clusters:** Studios of various sizes and aspiration are clustered primarily in the cities of Mumbai, Pune, Bangalore, Hyderabad, Chennai, and Delhi. Often the artistic talent is found in the rural areas of the nation. There are about 250 boutique firms working on CGI, although the number of those with long-form animation production capabilities is perhaps less than 10% of that.

### **Primary animation and VFX product:**

- Flash and CG proprietary TV series, features, and commercials for domestic market
- International outsource (or outpost) work for Flash and CG DVD's, series, and VFX
- Limited proprietary and co-production features for international market
- The overall breakdown of production is 20% for theatrical, 25% for direct to DVD, and the rest for TV (KPMG)

### **Strengths of the Demand side:**

- Over 500 TV channels have just come on stream in the last one or two years driving the need for additional content, some of which will be CGI.
- There are 7 children's network all eager to reach India's young demographics (roughly 500 million children)
- More so than anywhere else, Indians love their films. They go to cinema almost twice a month on average. 4-5 new films are released every week.

- While Indian animated feature films are still almost non-existent, animated films such as *Monsters vs. Aliens*, *Kung Fu Panda*, and, more recently, *Avatar*, have done well in India and have even been dubbed into the local dialects
- On the Visual Effects side, even though there is limited talent and experience with high-level VFX, Bollywood directors are starting to incorporate more and higher quality VFX into their films.
- More cinemas are being equipped with digital cinema technologies (over 1000 so far), and certain cinemas are being refurbished to support 3D viewing
- The Indian economy is expected to grow in the high single digits which in turns expand the middle-class, who can afford to buy DVDs and frequent cinemas.

### **Strengths of the Supply side:**

- Strong IT base for technology integration (and this generation of artists are very adept with mouse)
- More western experienced professionals willing to do a contract in India
- Strong work ethic and aspiration by artists as well as business owners
- India has an immense pool of mythology to draw upon for story-telling and inspiration
- Pervasive entrepreneurial spirit and long-term business planning
- Availability of regional sources of investment from the high net-worth individuals in addition to well capitalized companies and conglomerates
- Potential for lower-cost labour, although this strength is expected to lessen over time, and is often overstated

- Quickly gaining skill strength in what they can offer creatively
  
- Growing talent pool, due to:
  - o Experience
  - o Multiple animation trade schools churning out students
  
- Growing quality of work, due to:
  - o Experience
  - o Passionate owners pushing quality
  - o On-site training by companies like Disney, Dreamworks, and Rhythm & Hues
  
- Easier scalability to meet quicker turnaround for international company needs
  
- Global delivery model; a potential benefit of time zone difference (while you sleep...)

**Obstacles:**

- 20-year-old animation production industry not as seasoned as the more mature North American scene, particularly in areas of:
  - o Creative vision and leadership
  - o Pre-production design and story
  - o High-end quality control
  - o Production management approach
  
- Significant challenges to companies looking to produce and distribute domestic features, posed by:
  - o Limited domestic box office returns to date for Indian theatrical animation
  - o Particular market disappointment in results of high-profile Indian animated release, Roadside Romeo

- Rampant piracy in DVD market
  - Directors will be used to live action world where they can juggle numerous films at once
  - Higher quality expectations from the international distributors
- Costs, especially for higher quality service work, are not necessarily cheaper than Canada, due to:
    - Limited leadership and top-tier artists currently draw salaries equivalent to west
    - Overall inflation in India—predicting 10% over next year
    - Additional travel and supervision costs may outweigh the savings due to outsourcing
- Communication and cultural challenges
- Travel time and time zone differences
- Cautionary tales of negative experience by Indian outsource vendors due to:
    - Reliability issues stemming from unrealistic bids and production mis-management
    - Certain business owners who have purportedly shown lack of integrity
- Consistency of quality (due to inconsistently trained and transient talent pool)
- India does not yet have co-production treaty with Canada to maximize tax benefits

**Top Animated Film Players** include Prana, Rhythm & Hues, Dreamworks, Paprikaas, Crest, Big Animation, and Toonz.

#### NEW OPPORTUNITIES FOR COLLABORATION OVER OUTSOURCING

As the industry matures at a rapid pace, many companies want to move beyond their initial phase of outsourcing and are looking at phase two—creating original proprietary work. Many have developed IP concepts and are actively pushing in this direction. This is an opportunity for western companies, who need to shift their common perception of India as only an outsource opportunity, and recognize that India now also offers a partnership opportunity.

There is a growing soberness being expressed by many of the companies we spoke with. While it is true that some producers are already making original product for domestic TV, theatrical and DVD,

the challenges of distribution and the limited domestic revenue stream have made them recognize the need to develop product for an international market.

Companies are also more self-aware that they can't do this alone—they need international sensibilities. Many recognize that they are not as strong on pre-production as they are on execution. They want to engage in partnerships with international companies, no longer as outsource facilities, but as collaborators to achieve these goals. In particular, they would welcome partners that bring:

- Access to international distribution
- IP with global appeal
- Development, pre-production and voice recording
- Co-investment

Some Indian animation facilities have access to private investment amassed in other unrelated industries; others are ready to partner by working at cost and investing their margin for a piece of the IP. With the current growth in the Indian economy, big business money is available for investment in animated product. At present, there are no tax credits available in India.

MCCIA (the Maharashtra Chamber of Commerce of Industries and Agriculture)

This chamber of commerce is located in Pune, a city of 6.5 M population, located about 2 hrs drive from Mumbai by way of a modern highway. The MCCIA is a well organized, well represented, and highly influential as an entity. It covers industries and agriculture turnover in the range of \$20B annually. Currently there are 32 committees in place, one of which is on animation/vfx/gaming. This committee which was established in 2005 has set its goal to establish Pune as the major hub for animation/vfx/gaming in India. This is an achievable goal for many reasons, but certainly not least of which are Pune's reputation as the Oxford of the East, its strong art community, its huge base of IT skills, and its attractive quality of life.

The MCCIA is constantly visited by foreign delegations. On the day we met with them, there was another delegation MOU meeting with the same committee. Recently there was a delegation from Markham that signed an MOU with them. Executives of the committee expressed their interest in Toronto and Vancouver in terms of partnerships and collaboration. They respect Canada's mature ecosystem. They also see our multiculturalism as being advantageous when considering the global storytelling product.

They are frustrated that Canada doesn't yet have a co-production treaty in place. They are a group of smart business people with a clear vision. **Equally important, similar to CASO's "container" of animation companies in a relatively concentrated area, this committee also represents a critical mass of companies that facilitates communications, carries integrity, includes schools and government support, etc.** This is a window of opportunity that is recognized by several other regions, and won't likely be available for too much longer.

## CONCLUSION

**Opportunities:** While this preliminary delegation was limited in its time and scope, the perception of the team is that there are a variety of opportunities for member companies of CASO with India. Here are ones we've noted, not necessarily comprehensive:

- Co-production

- Pre-production services
- Creative or management consultation
- Western distribution
- Investment
- Outsourcing – both ways
- Bringing story concepts to be developed

**Risks:** While the perception of the team is that India's animation sector is not yet at the same level as that of the Canadian industry, the meetings where we learned about their understanding and direction and the work we saw showed dramatic improvement. For those members of CASO who are in the business of bidding for series, feature, and VFX production work, they can expect to see continued and increased competition from the Indian studios for that work. With the exception of PIXAR, Dreamworks, and Weta, animation and VFX facilities around the world are experiencing increased competition due to lower barriers to entry, migration of skills, pricing and quality pressures from the clients, government incentives and technology advancements. **CASO must look at every possible way to keep Toronto as competitive as possible and keep an eye on this growing competition.** This will include:

- A need to remove any perceived obstacles in Ontario to stay competitive
- A call for Ontario studios to not rest on their laurels, but continue to raise both the quality and efficiency of their work.

### NEXT STEPS

- ✓ Distribute this briefing to CASO membership and call for a meeting for those interested to discuss both opportunities and risks.
- ✓ Close the loop afterwards in terms of the interest level within the MCCIA group.

- ✓ A delegation of India studios is currently organizing a visit to Canada (Vancouver, Montreal, and Toronto) in May. In advance, recommend CASO to compile individual profiles of our studios for those who wish to engage, including description of business, sample work, and areas of possible interest in India or elsewhere that will help our business.
- ✓ Arrange hospitality, tours and meetings for the Indian delegation with CASO member studios
- ✓ Create an electronic database where CASO can gather and keep up to date profile information of the Indian studios.
- ✓ As the lack of co-production tax treaty between India and Canada is a current impediment, CASO membership should discuss how to either propel that proposal forward or find a creative alternative to achieve similar incentives (maybe from the provincial level?).
- ✓ Pending sufficient interest from the membership, identify specific goals and organize a more robust trade mission to India next year, with intent to travel to include some regions that this delegation was unable to cover.
- ✓ (Discuss whether FICCI Frames is the most advantageous venue, vs. spending more time visiting studios. Also, discuss whether next delegation should be managed in collaboration with other Canadian animation studios (rather than approaching as separate provinces).)
- ✓ At some stage in the not too distant future, assuming sufficient interest from the membership, establish a Memorandum of Understanding (MOU) between Ontario and India to formalize intent of working together.