



## Frame by Frame, Indian Animators Move Up the Value Chain

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The Mumbai studio of Crest Animation is abuzz with activity. A 250-strong team is putting the final touches on the animated feature film *Alpha and Omega*, a love story about two kidnapped wolves trying to get back to their pack. In another few months, the Crest team will hand over the movie to their colleagues at the firm's U.S. subsidiary for post-production work. When *Alpha and Omega* hits the screens in April 2010, it will be a turning point not only for Crest Animation, but for the entire Indian animation industry as well. The box-office fate of the first animated Hollywood film to be produced by an Indian company could well define how the world looks at Indian animators.



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The movie, with a budget of US\$25 million, is being co-produced by the U.S.-based distributor Lionsgate. It is the first production in a three-film contract between the two. While Crest and Lionsgate jointly own the intellectual property, Crest alone is generating the animation.

Crest is credited with another first in Indian animation. It provided production services to Mike Young Productions' *Jakers! The Adventures of Piggley Winks*, the first U.S. television series where work was outsourced to India, in 2003. The show won an Emmy Award as well as a British Academy Television Craft Award for children's programming, giving Crest instant credibility as a high-quality animation services provider. Crest's client roster has since grown to include Nickelodeon, Classic Media and Mark Brown Studios as it has worked on more than 200 half-hours of television and home video titles. Crest's CEO, A.K. Madhavan, is ready to forge partnerships with other distributors, too. "Following the release of *Alpha and Omega*, we want to co-produce and release one animated film every year," he says.

Madhavan is equally enthusiastic about the Indian animation industry. "Over the past few years, as an industry, we have learned to deliver good quality at low cost and on time," he says. "We now need to move up the value chain. I believe that a huge opportunity exists for Indian animation players in the domestic as well as the global market." The National Association of Software and Services Companies (Nasscom) shares the optimism. In November, at its animation and gaming conference in Hyderabad, Nasscom president Som Mittal said: "The world is looking toward India as an animation hub, and we believe that India is well placed to leverage this opportunity. The last few years have seen the industry evolve and mature to deliver high international-standard projects."

According to a report by Nasscom and Ernst & Young released at the conference, the Indian animation industry generates annual revenues of US\$400 million to US\$500 million, and is poised to cross US\$1 billion by 2012. The world has only recently started looking at animation from India, notes Ganesh Natarajan, former chairman of Nasscom and chief executive officer of IT outsourcing firm Zensar Technologies. "This is a very under-penetrated segment with huge potential."

### Reasons for Optimism

The cost-arbitrage advantage is among the reasons for optimism, just as it has been in information technology services and business process outsourcing. Depending on the nature of the work, the cost of outsourcing animation services to India could be as little as one-tenth or even one-twentieth that of services not outsourced, industry players say. Among the other reasons for optimism: a large English-speaking talent pool with a wide base of technical skills, animation studios' maturity, an increasing focus on intellectual property development, and strengthening domestic demand.

Ashok Rajgopal, partner in Ernst & Young's media and entertainment practice, adds a note of caution, however. The Indian animation industry is very fragmented, he says, and for the most part the skill sets are at the lower end of the value chain. "While there are certainly pockets of excellence with a few firms offering world-class capabilities for India to emerge as a global hub, we need to scale these capabilities across a wider section of the industry. Also, Indian players must start focusing on owning the IP. That is where the big money is."

At the Hyderabad-based DQ Entertainment (DQE), one of the leading Indian animation companies with around 4,000 employees, chairman and CEO Tapaas Chakravarti takes Rajgopal's words to heart. Chakravarti focuses on iconic properties and co-production. "We do not want to run a huge risk by producing brand new properties," he says. DQE recently signed with Germany's ZDF Group, TF-1 of France and other global players to co-produce Rudyard Kipling's *The Jungle Book* as a 52-episode television series and a 60-minute TV film. (*The Jungle Book* was earlier produced as a feature film by Walt Disney Animation Studios in 1967.) "This is a major milestone for DQE's homegrown IP initiative and represents a step forward for us in terms of international production, licensing and distribution," Chakravarti notes.

Other recent deals at DQE include co-production with Method Animation of France for Antoine de Saint-Exupéry's *The Little Prince* as a 3-D television series, and a co-production agreement with Moonscoop of France for *Tara Duncan*, a 2-D animated television series based on the book by Sophie Audouin-Mamikonian. Fans of the fantasy series have dubbed Tara "Harry Potter's little French sister." "This deal is a logical progression of our ongoing relationship with DQE," Moonscoop's CEO, Nicolas Atlan, said in a news release. "We have successfully collaborated on *Casper* and the *Fantastic Four* TV series."

Earlier this year, Tata Elxsi, the design services company of the Tata Group, was nominated for the Hollywood-based Visual Effects Society's "Outstanding Animation" award for *Roadside Romeo*. Co-produced by Yash Raj Films of India and Walt Disney Pictures, *Roadside Romeo* is touted as India's first purely entertainment, 3-D animated theatrical feature film. (Earlier Indian animated films have all been based on mythologies.) The animation was done by the Mumbai-based Visual Computing Labs, the animation and visual effects division of Tata Elxsi. Though *Roadside Romeo* didn't win the award, the nomination itself has boosted Tata Elxsi's credibility, especially considering the competition: Walt Disney Pictures' *Bolt*, DreamWorks Animation's *Kung Fu Panda*, Disney-Pixar's *Wall-E* and Sony Pictures Classics' *Waltz with Bashir*. Buoyed by this recognition, Tata Elxsi is looking to perform animation outsourcing for international theatrical releases, bidding against the likes of Crest and DQE.

### 'Global Cultural Sensibilities'

Like Chakravarti of DQE, Pankaj Khandpur, creative director at Visual Computing Labs, is looking to create intellectual property. "Currently, we are playing the role of vendors to our global and Indian customers and are specialists in delivery. We believe that two years from now, as we gain more experience and expertise along with doing outsourced work, we will also be creating our own content. This could be for any or all of the formats like television series, direct-to-DVD or full-length films both for the domestic as well as the global market," he says.

Typically in the animation industry, clients outsource production, which primarily requires technical skills, to low-cost destinations such as India. Pre-production (including concepts, designs, pre-visualization) and post-production (music, sound mixing, final editing) are considered to require "global cultural sensibilities," and are either handled in-house or outsourced to firms in Western markets. Khandpur is not fazed by the oft-mentioned challenge of India lacking the capabilities to create original content for the global market. "Working with international theatricals will help us gain the experience and expertise in honing global cultural sensibilities to produce content for any part of the world."

Madhavan of Crest shares that view. "It's a learning curve, and over a period of time, understanding the global sensibilities will not be so complex," he says. Crest has taken the acquisition route to add this capability. The company began as a television commercial production house in 1989 and was among the pioneers in using computer graphics for advertisements in India. It started looking at the global market for long-format animation in the late 1990s. In 2000, in line with its ambitions to service the global market,

Crest acquired Rich Animation, a Los Angeles-based studio founded by Richard Rich in 1991. Prior to setting up his own studio, Rich had worked with Walt Disney Animation Studios for more than 15 years.

"We still don't create [a project's] look and feel in India," Madhavan says, "but what we do create here is a fantastic product out of the inputs that we get from the U.S." He expects that team members from India working at Crest's U.S. studio who are involved in pre-production work will, over time, gain invaluable expertise. Crest has a staff of 600 in India and 50 in the United States.

At the Bangalore-based Paprikaas, CEO Nandish Domlur is confident that his 600-strong team is ready to handle parts of pre-production work such as character and set designs, props and storyboarding. Paprikaas, which Domlur set up in 2001, shot into prominence when French technology services firm Thomson took a majority stake through its Technicolor Content Services business in February 2007. Paprikaas got a further boost later that year when Technicolor allied with DreamWorks Animation, the major U.S. animator, to set up a dedicated studio for DreamWorks through Paprikaas in India. The studio has a team of 100 from India and 20 professionals who have relocated from DreamWorks USA. The alliance includes training and developing world-class talent at Paprikaas. "What DreamWorks brings to the table for us is very high-end training, high-end creative supervision, their processes and the knowledge of the industry," Domlur says. Paprikaas' recent projects include Nickelodeon's *Back at the Barnyard*, Seasons One, Two and Three, and *Penguins of Madagascar*, Seasons One and Two. Paprikaas is also working on its first film for a U.S. company, scheduled to be delivered this year. (Domlur won't discuss the details.)

### **New Opportunities for Captives**

Captives of global firms are also moving up the value chain. The Los Angeles-based production studio Rhythm & Hues set up a captive center in Mumbai in 2001. In the last 18 months, Rhythm & Hues India has added a second center in Hyderabad and nearly doubled its workforce in India, from 160 to 300. It is also putting together a small pre-visualization team in India. "Initially, we took a lot of baby steps with basic production work like compositing, wire removal, match moving and camera tracking," says A.R. Seshaprasad, digital production manager for Rhythm & Hues India. "We invested time and resources in training and developing our team, and by 2004, 2005, started doing the complete range of production work from here. Currently we do around 30% of any project from the India facilities and over time we hope to do a bigger share from here."

Seshaprasad points out one key drawback for India in animation: lack of adequate training and education. "The education ... here is primarily on the tools and not on the fundamentals of the art form of animation," he says. "In the U.S. and other parts of the world, there is a long history of animation culture. India is very young in this art form and so the exposure is limited." S. Sadagopan, a professor and director of the International Institute of Information Technology, Bangalore, notes that the education system needs to place more emphasis on the development of creative capabilities. "Though India has a thriving entertainment industry, arts as a profession has not got its due importance in the social structure. So while [Indians] have high skills when it comes to animation technology, we are found lacking in the fundamental creative aspects." Sadagopan, however, is optimistic about the future. "One of the key drivers of the next-generation animation industry is the next-generation technology. If India invests adequately in world-class arts and animation education, we can leverage our strengths in technology to carve out a significant role for ourselves."

Industry players also expect that an increased focus on the domestic market will help develop skill sets. Until now, Indian players have not focused on creating original content for the domestic market. Most of the programs have been based on mythological stories, and the quality has been basic. Overseas TV shows and films have been the most popular among Indian audiences. Says Khandpur of Tata Elxsi's Visual Computing Labs: "Revenues from merchandising, games and publishing play an important role in an animated property, but none of these are mature in India. It therefore becomes extremely difficult for an Indian animation company to develop a profitable animated property. Now, with big players like Yash Raj Films, Walt Disney and others taking an interest in the Indian market, we expect things will be different."

Meanwhile, contrary to popular perception, industry players don't expect a major adverse impact from the economic slowdown. Says DQE's Chakravarti, who also heads the animation and gaming forum of the

Federation of Indian Chambers of Commerce and Industry: "Given the current economic environment, we do expect players to be a lot more selective about identifying properties, but we also expect that the current downturn could make the large global production houses outsource more of their operations to destinations like India which offer a sound value proposition."

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