

Media and Entertainment –

Film segment

July 19, 2018 | Industry Research

Overview

- In CY2017, the global film industry size stood at ~USD 40.6bn, registering a CAGR of ~3.1% during CY13-17.
- India's film industry stands at Rs.156bn or around \$ 2.3 bn.
- The country has the largest film industry in the world, in terms of number of films produced and released every year (1,500 to 2,000 films).
- India is currently an under penetrated market with limited multiplexes, low ticket prices and piracy as the major challenge.
- Digitisation has made distribution of films more economical with reach to a larger audience, increased advertisement revenues, etc.
- The new initiative by Maharashtra government of allowing outside food articles in theatres will significantly hurt revenues of multiplex owners.

Outlook

- The Indian box office could be facing a threat in the medium to long term, with the rise of original content provided by 'Over the Top' (OTT) players. The streaming platforms are gradually eroding the revenues of established production houses.
- We expect a steady shift of audience preferences from commercial movies to content-driven movies, which have a much lower cost of production and high box office collections, leading to higher margins for producers.
- The Indian film industry is expected to grow to Rs.170 bn in CY2018, from Rs.156 bn in CY2017, supported by theatre capacity additions and growth in advertising spends in the industry.

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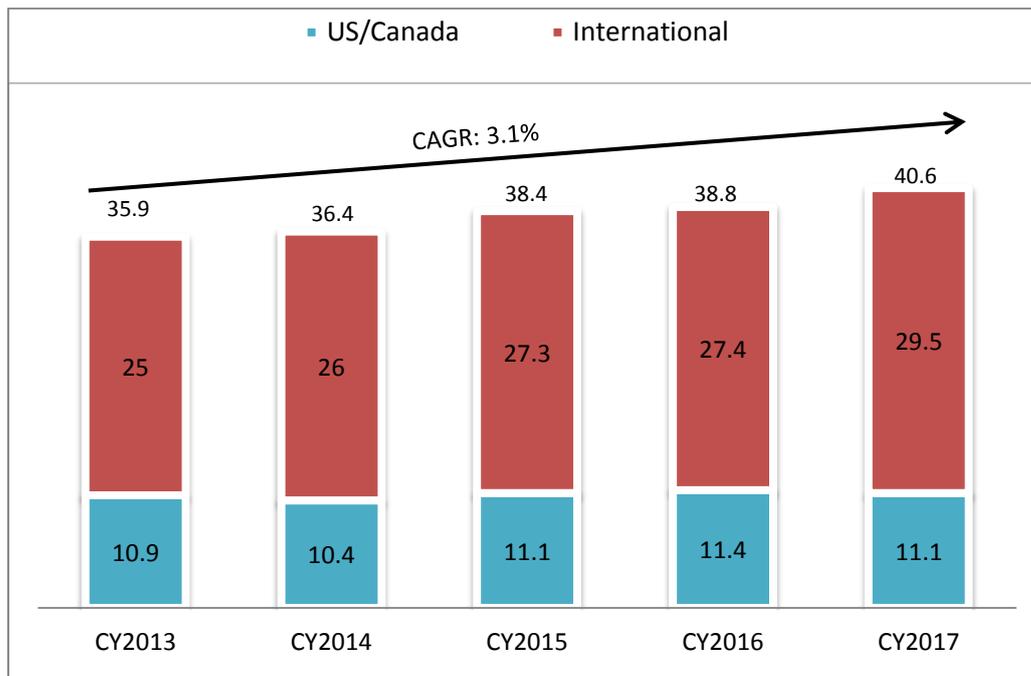
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Film industry: Global scenario

In CY2017, the global film industry size stood at ~USD 40.6bn, up from ~USD 35.9bn in CY2013, registering a CAGR of ~3.1%. In CY2017, there was an ~8% growth in cinema screens globally, reaching close to 1,70,000 theatres. USA and Canada are the largest film markets in the world, in revenue terms, contributing ~27% to the global box office collection in CY2017.

Chart 1: Global box office- all films (USD bn)



Source: Motion Picture Association of America

Film industry: Indian scenario

India has the largest film industry in the world, in terms of number of films produced and released annually (1,500 to 2,000 films). About 50 years ago, film producers were concentrated in Chennai and Bombay. Since then, film makers have spread across the country, with films being produced in more than 20 regional languages today.

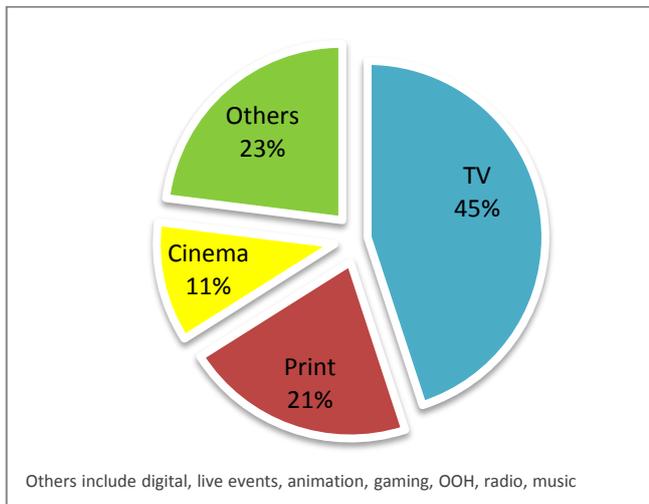
The key growth drivers of the industry are growing middle class with increasing per capita income, demand from tier 2 and 3 cities, spread of multiplexes, consumers with increasing spends on entertainment related expenses, increasing use of animation and VFX in movies, etc. The industry rewards talent and creativity; and lacks any entry barriers making it highly competitive.

Industry size

Film is the 3rd largest segment in the Indian Media and Entertainment (M&E) industry in CY2017, after TV and print, with a revenue generation of ~Rs.156bn and a contribution of ~11% to the total industry size of M&E industry. Chart 2 shows that Indian cinema segment is much smaller in its contribution, compared to TV and print, but all 3 segments cumulatively contribute a mighty ~77% to the total revenue of the Indian M&E industry.

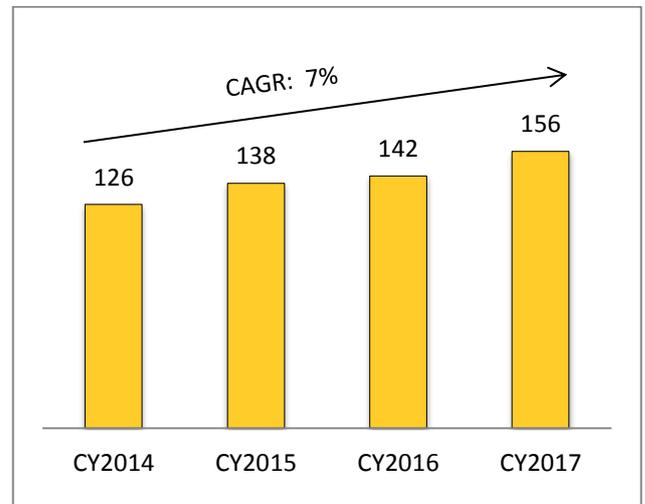
Chart 3 depicts the growth of Indian cinema industry size from CY2014 to CY2017. In CY2017, this segment grew to Rs.156bn, from Rs.126bn in CY2014, registering a CAGR of 7%.

Chart 2: Revenue share of top M&E segments in CY2017



Source: IBEF

Chart 3: Indian cinema segment (Rs. Bn)

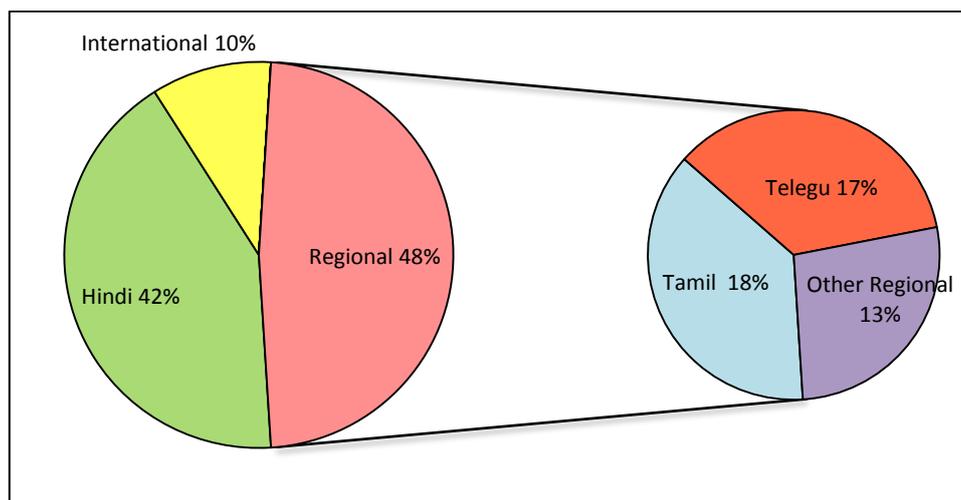


Source: PVR Ltd.

Box office contribution

Out of the total films produced in India annually (1,500-2,000), Hindi language accounts for about 350-500. The rest are in regional languages like Tamil, Telugu, Malayalam, Kannada, Bengali, Punjabi, Marathi, Malayalam, Gujarati, etc.

Chart 4: Indian box office contribution by language



Source: Eros International investor PPT – May 2018

Telugu films are posing a challenge to Bollywood’s leadership in overseas markets today. ‘Bahubali 2-the conclusion’ is the highest grossing Indian film in USA (USD20mn), much higher than Bollywood film-Dangal (USD12mn). Large Indo-American population, including Telugu speaking, in US and Canada are supporting this large revenue generation. Tickets of some Telugu films sell at higher rates (USD 15-20) in USA and Canada, compared with Bollywood movies (USD 8-10).

Digitisation and its impact on Indian cinema

Indian film industry has undergone a sea change in the past decade with the advent of digital technologies in India. Digitisation has helped change the face of the industry. While 2005 saw some initial signs of digital distribution in India, it was only in 2009 when it has picked up momentum noticeably. The impact of digitisation on Indian cinema is as follows:

- **Distribution is economical:** The cost of one copy of digital print is ~Rs.5,000, whereas, that of physical print is ~Rs.70,000, making distribution of films very economical.
- **Larger audience:** Digitisation helps distribution of films through satellite technology to remote areas and thus increase reach to a larger audience. Before digitisation, films would release in small villages after a gap of 4-5 weeks, but now, one can watch the film on the 1st day in any theatre in the country.
- **Reduction in piracy:** With digital distribution, movies release on same day in all places, thus reducing the scope of piracy.
- **Faster returns:** With films releasing on the same day at multiple locations, box office collections increase in the initial days after movie release, leading to faster recovery of investments for film producers. Greater reach of films and higher revenues per film, also increases financial viability for producers with small budget films.
- **Increase in advertising revenues:** Majority of the single screens in India are largely owned by small individuals, rather than large corporates. Before digitisation, if an advertiser wished to advertise in say 1,000 theatres, he would have to meet all 1,000 theatre owners individually. But, with digitisation, the digital cinema companies like Real Image and UFO Moviez, get advertising rights in the deal, when they digitise a theatre, and centrally perform the selling, display and serving of ads to their respective networks. Thus, digitisation has acted positive for theatre advertisers, by minimising their hassle of meeting individual screen owners and reaching a large audience and this has eventually increased advertising revenues for the Indian film industry.

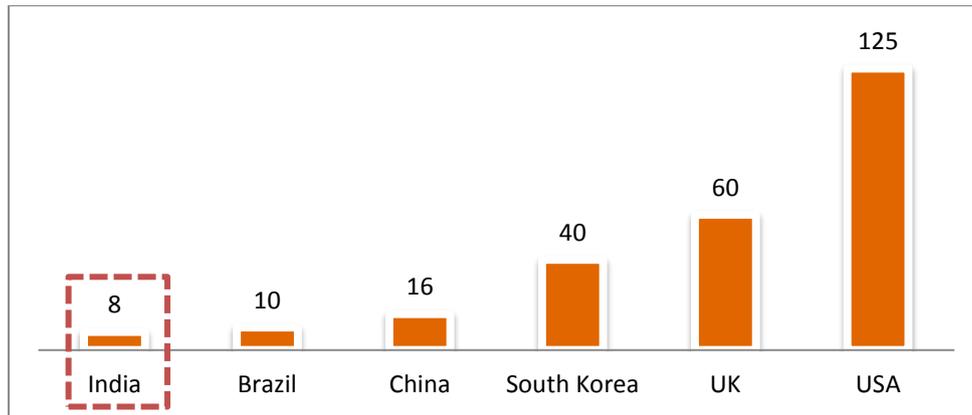
India: an underpenetrated film market

Despite producing the largest number of films in the world, in more than 20 languages, India's film industry size of Rs.156 bn is only a fraction of other nations', which produce much lesser films and are lesser populated than India. The challenges faced by the industry in the country are:

1. India - an under- screened market:

India has a total of ~10,000 screens, compared to USA (~40,000 screens), with 1/4th of India's population size and China with ~23,000 screens for similar population as India, making our country an under- screened market. Higher capacity additions are required, especially in semi- urban and rural areas. Screen infrastructure is fundamental to boost growth in ticket sales and prices. Due to less number of theatres in the country, this industry faces great difficulty in simultaneously releasing two big- budget films same day, which also affects box-office collections.

Chart 5: No. of screens (per million population) - India an under-screened market

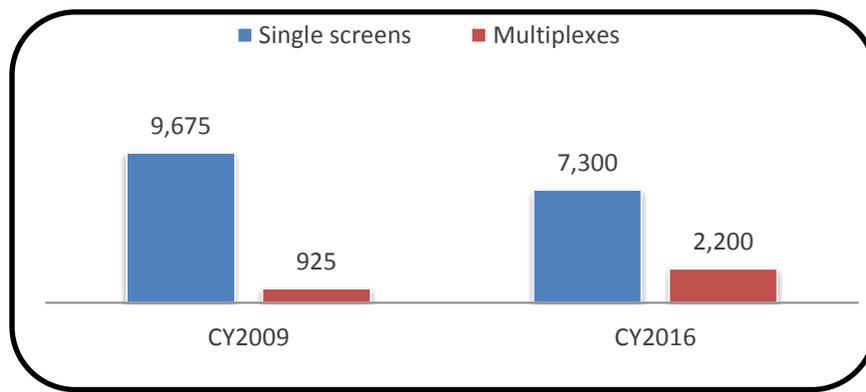


Source: Eros International investor PPT- June 2018

2. Lack of multiplexes:

In CY2016, only ~23% of the total screens in India were multiplexes. Modern multiplexes are in a position to charge premium ticket prices, almost double the single- screen cinemas ticket prices, generating much higher revenues per seat. India needs more multiplexes to boost growth in ticket prices.

Chart 6: Number of screens in India

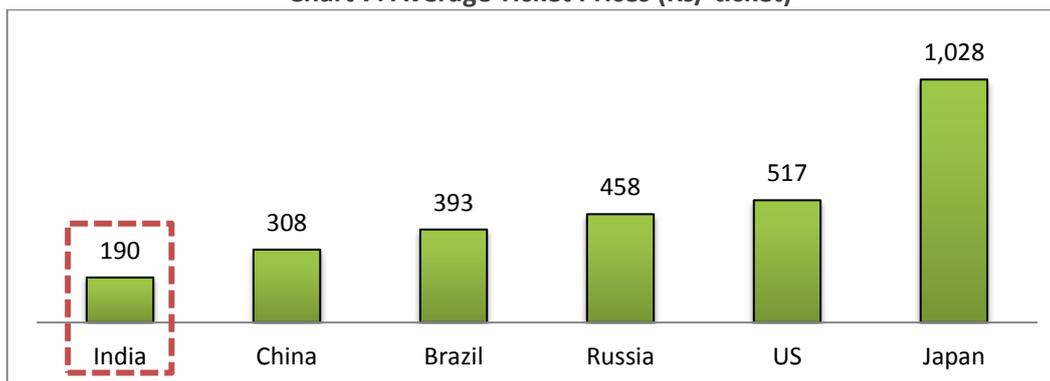


Source: PVR Ltd. investor PPT – June 2017

3. Low ticket prices:

Movie ticket prices in Indian multiplexes are amongst the lowest globally, at ~Rs190, whereas in China at ~Rs.308 and US at ~Rs.517. Chart 7 shows the average ticket prices in India from FY13 to FY17. An increase in ticket prices is required so as to boost revenues for the film industry.

Chart 7: Average Ticket Prices (Rs/ ticket)



Source: Eros International investor PPT-June 2018

India ticket price represents average ticket price at two leading multiplex chains as on March 2017

4. High taxes

Government considers cinema as a luxury in India and is taxed at GST rate of 28% for film tickets above Rs.100, and 18% for tickets below Rs.100. Tax rates in India are steep, in comparison to other countries and not conducive to the development of this industry.

5. Piracy

Piracy is rampant in Indian films. It usually takes less than a week for a newly released movie print to be available on the internet for free. It is estimated that Indian film industry loses huge sum of money and ~60,000 jobs every year because of piracy. Private screenings of films in slums of cities and rural areas is another major source of piracy, where illegal screening in community rooms is very prevalent.

Production houses entering the OTT entertainment space

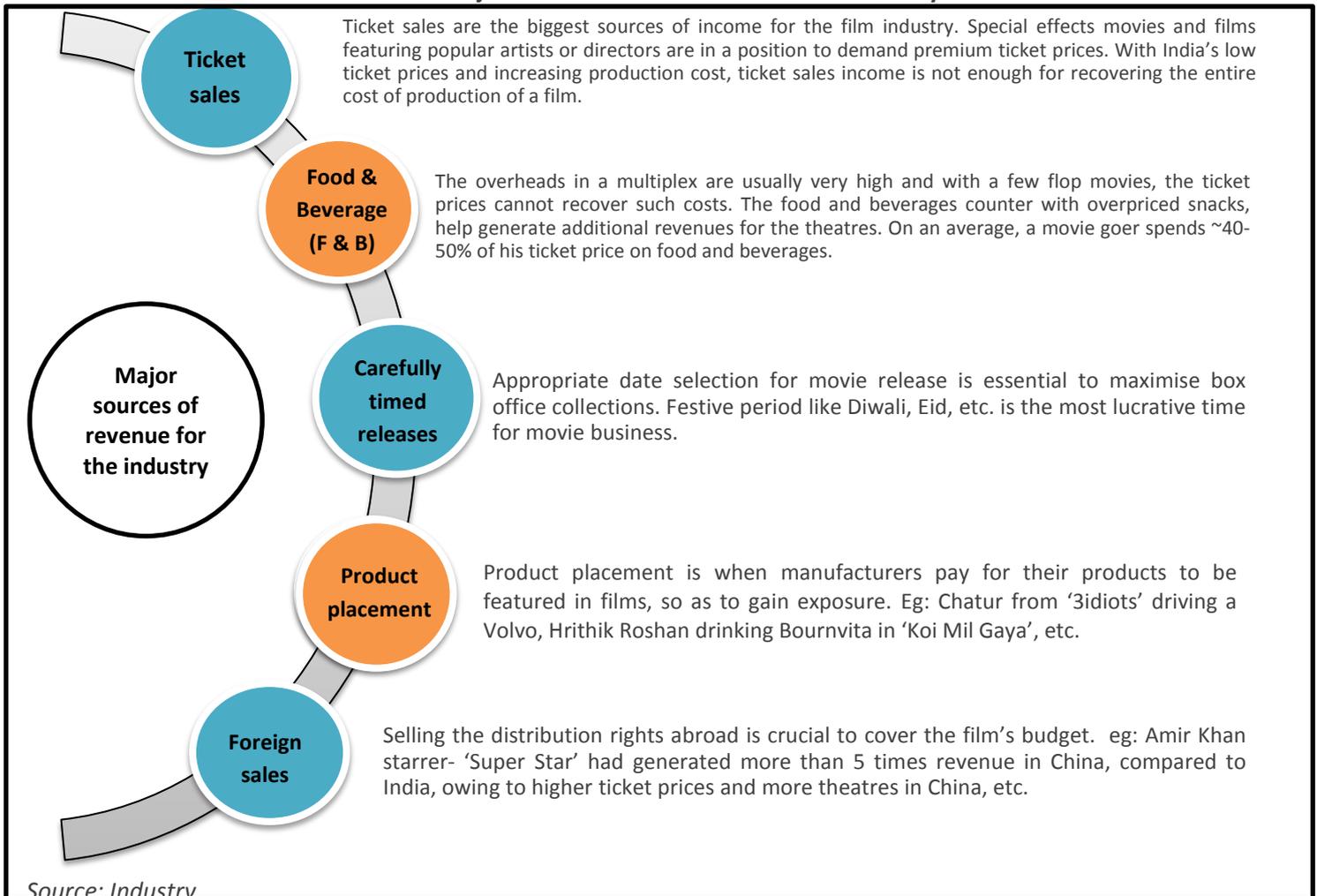
Production houses are investing in their own OTT platforms, in addition to selling their movies to other OTT players. These act as an additional revenue sources, after box office collections for the existing players.

Production houses are also entering into partnerships with manufacturers of smart TV, for offering richer experiences on bigger screens, giving all users access to a bouquet of as much as ~10,000+ Bollywood and regional language films, entertainment shows, music videos and original content shows at a monthly subscription, as low as Rs.49 per month.

Sources of revenue

Movie making is an extremely risky investment, even with a film starring popular actors. Gone are the days when vast majority of revenues were via ticket sales. Industry players are now looking for further sources of income, as ticket sales are not enough to recover the production cost. Marketing costs of a film can sometimes be much higher than the actual production cost. This is possible for films with actors/ directors, that don't have a stable audience.

Chart 8: Major sources of revenue for the film industry



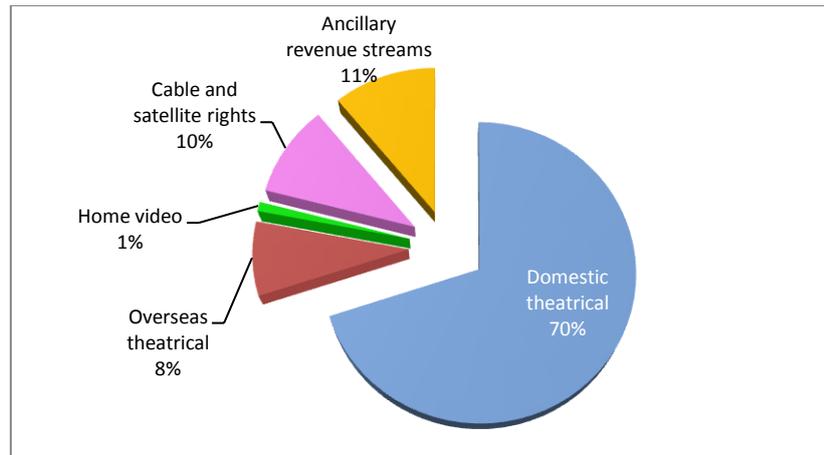
Maharashtra government allows outside food articles in theatres

In order to diversify revenue sources, film exhibitors have been focussing on sources such as F&B sales, advertisement and convenience fee. The F&B segment is a high margin business, accounting for ~30-40% of revenues for a multiplex.

From August 1st, 2018 onwards, Maharashtra government has decided to allow bringing in outside food articles to multiplexes and consuming them. Also, F&B should be sold at the MRP and not be overpriced. If this new initiative is implemented, it will be welcomed by movie-goers, but at the same time, significantly hurt revenues of multiplex owners.

Box office collections from the domestic market have the highest contribution to the total revenue generated. Apart from this, the other contributors to revenue growth are overseas theatricals, cable and satellite broadcast, ancillary revenue streams, etc.

Chart 9: Revenue contribution



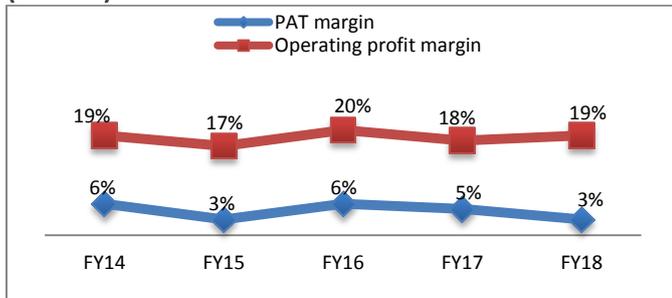
Source: PVR Ltd. investor PPT- June 2017

Financials

PAT and operating profit margins for a sample of 51 companies is presented in Chart 10, where margins were low in FY17 and FY18, as the number of movie releases dropped in these 2 years, with a cash crunch due to demonetisation and low liquidity in hands of consumers for entertainment related expenses.

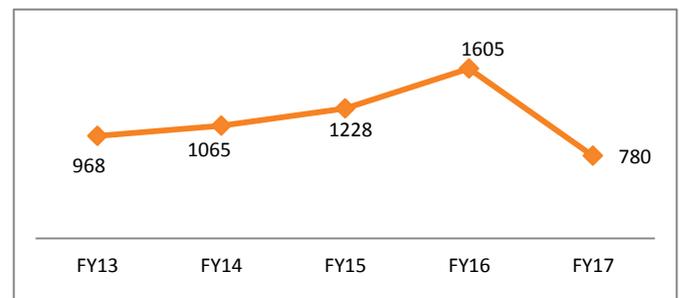
Chart 11 shows a drop in operating cash flows for a sample of 57 companies in FY17. Because of a cash crunch in FY17, receivables for the industry’s players got prolonged, making the cash cycle longer, leading to the lowest operating cash flows in FY17, in the past 5 years.

Chart 10: PAT and operating profit margins (51 cos.) (57 Cos.)



Source: AceEquity

Chart 11: Operating cash flows in Rs. Crores



Source: AceEquity

Government initiatives for Indian M&E industry

- Government introduced a new category of visas to be issued to foreign film makers to come and ‘Make in India’ for a period of one year with multiple entries.
- National Film Heritage Mission (NFHM): This project involves collection of film prints for assessment of their residual life; preventive conservation of 1,32,000 film reels; picture and sound restoration of 1,145 films and 1,108 short films; digitization of 1200 feature films and 1660 short films and construction of archival and preservation facilities. The total outlay for the projects is Rs.597 crores and is spread over a period of 7 years from FY15 to FY21.

- During April 2014-Feb 2017, a total of USD 2.6bn has been received as FDI equity inflows in information broadcasting. FDI equity inflow, grew by 52% in during 2014- 16 (USD 1.26 billion) compared with 2012-14 (USD 0.83 billion).
- FDI limit has been increased from 74% to 100%.
- Indian Institute of Mass Communication under Ministry of Information and Broadcasting is setting up a National Centre of Excellence (NCoE) for Animation, Visual Effects, Gaming and Comics (AVGC) with a vision to develop highly skilled talent. This is to be setup in Mumbai with a vision to develop training capacity for animation and gaming industry in India, etc.

Outlook

- ~1,500 screens are expected to be added in India by 2020. Currently the number of screens is very low at ~10,000 all over India. Increasing digital screens and 3D films will help in growing industry size, by screening films in more cinemas and thereby generating more ticket sales.
- The Indian box office could be facing a threat in the medium to long term, with the rise of original content provided by Over the Top (OTT) players. The streaming platforms are gradually eroding the revenues of established production houses.
- Based on industry discussions, we expect a steady shift of audience preferences from commercial movies towards content-driven movies, which have a much lower cost of production and high box office collections, leading to higher margins for producers.
- We estimate the Indian film industry to grow to Rs.170bn in CY2018, from Rs.156bn in CY2017, supported blockbuster movie releases during the year, with theatre capacity additions and growth in advertising spends in the industry.

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