Dynamics of Film Exhibition Business

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Against the backdrop of the on-going slowdown in various industries of the country, one sector that has stood out and shone is the Indian filmed entertainment industry, which delivered blockbuster movies in past months of FY20.

Film exhibitors experienced healthy growth in footfalls and occupancy rates, owing to:

- Improved and better content movies:
  Initial three quarters of FY20 were strong in terms of movie line up. A total of 173 movies were released from April to December 2019, of which 15 exceeded Rs. 100 crores in box office collections.

- Fall in GST rates on movie ticket prices:
  Reduction in GST rates on cinema tickets in December 2018 came in as a breather for movie goers, who were earlier subject to high entertainment taxes - as high as 50% in certain states.

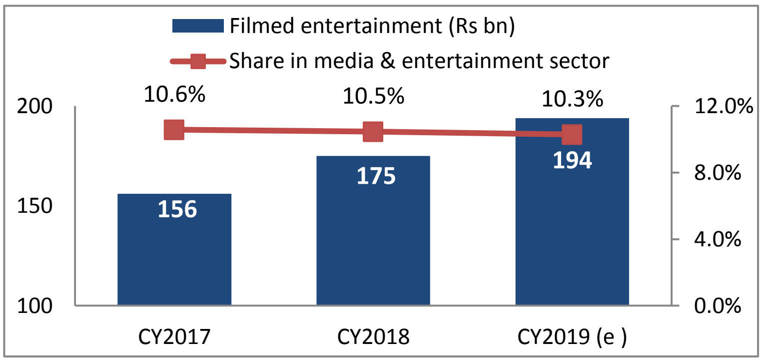
GST rates on cinema tickets

Price of movie tickets	Old rate	New rate
Less than Rs.100	18%	12%
More than Rs.100	28%	18%

- The lipstick effect:
  According to the lipstick effect theory, consumers tend to spend money on small indulgences instead of purchasing big-ticket luxury items at the time of an economic slowdown or when they personally have little cash. For this reason, film exhibition business tends to be resilient and benefits even during economic downturns.

Industry Size and Structure

Filmed entertainment is the third largest segment in the Indian media and entertainment sector in terms of revenue, after television and print. While the industry size has grown over the years, its share in overall media and entertainment sector has declined marginally due to the manifold growth of other segments of the sector such as digital media and online gaming.



Source: Network 18 annual report FY19, (e) = estimated

Film exhibition is a capital intensive business, with heavy investments in opening new screens. Further, large variable costs are incurred on maintenance as they require frequent up gradation of technologies. Movie exhibition has constantly evolved over the years and changed the way audiences consume content, be it in the form of relaxing on a recliner or watching in 3D glasses or indulging in appetizing food dishes. Going to a cinema is not just an object of entertainment, but a pleasurable experience – which film exhibitors are constantly trying to improve.

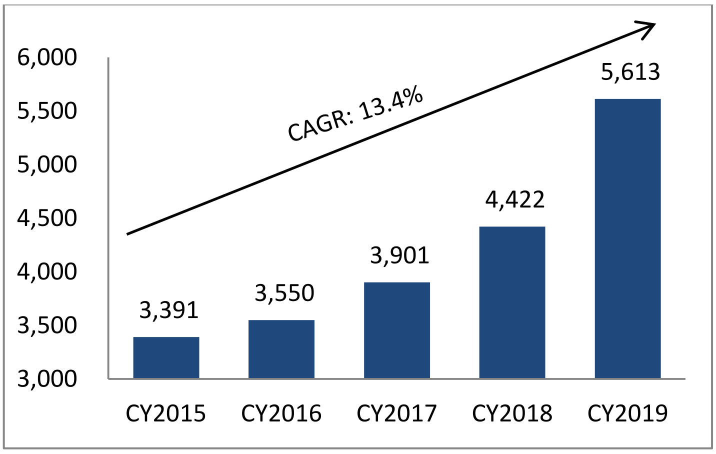
While India is still under penetrated in terms of number of screens with concentration in large metro cities, film exhibitors are now penetrating tier II, III and even IV cities, which are witnessing rapid urbanization and rise in disposable income.

Box Office Collections

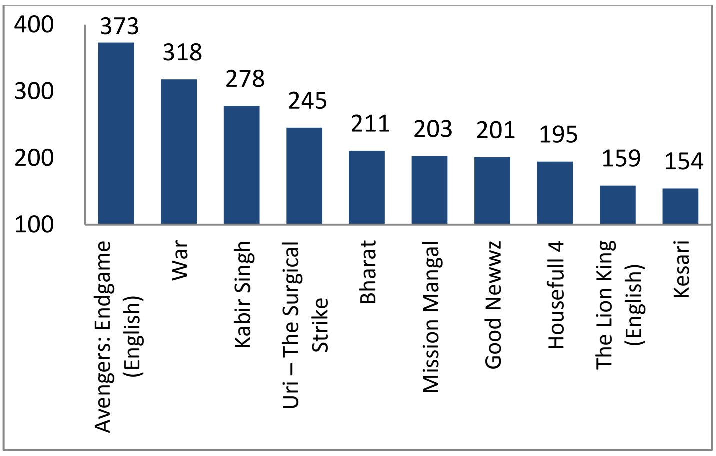
Box office collections in India grew at CAGR of 13.4% in the past 5 years, beginning CY2015. Out of the top 10 all-time high grossers over the years, 7 films were released in the recent 4 years, indicating the impact of content and its effects on box office collections.

In CY2019, net box office collections grew to Rs.5,613 crore registering 27% Y-o-Y growth, while average box office earnings grew 15% Y-o-Y to Rs. 23 crore. In CY2019, top 10 films accounted for 42% share, with Avengers: Endgame being the biggest blockbuster of CY2019 making a business of Rs.373 crore in India.

Net Box office collection in India (Rs crore)

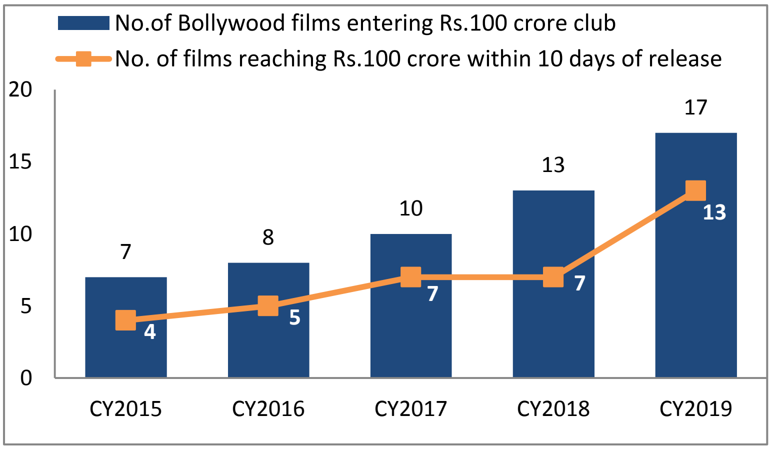


Top 10 grossers in India in CY2019 (Net Rs crore)



Source: Bollywood Hungama, CARE Ratings

Films generating more than Rs.100 crore of box office collections



Source: Bollywood Hungama, CARE Ratings

Analysis of chart on left reveals that the number of films clocking more than Rs.100 crore of revenues has more than doubled in past five years. Also, five years back, there were just 4 films which reached the Rs.100 crores figure within 10 days of its release. However, this number steadily increased over the years and more than tripled in CY2019.

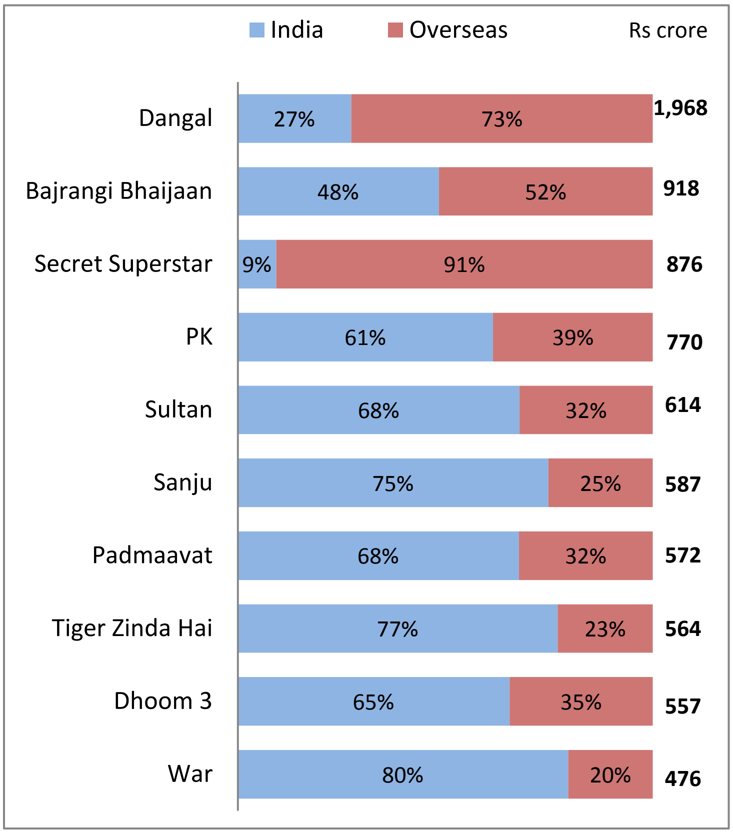
In CY2019, 6 Bollywood films registered more than Rs.200 crore box office collections compared with just 2 films in CY2015.

Bollywood top grossers worldwide

Overseas markets such as China, GCC nations, Taiwan, Malaysia, Hong Kong, UK, etc. have witnessed an increasing appetite for Bollywood movies. Dangal and Secret Superstar released in 2016 and 2017 respectively, registered total business of close to Rs.2,200 crore in overseas markets. In CY2019, top 5 overseas grossers were War, Bharat, Good Newwz, Gully Boy and Uri-The Surgical Strike with cumulative gross collection of Rs.364 crore.

Chart on right depicts 10 Bollywood movies which clocked all-time high worldwide revenues. Analysis of this chart is as below:

- Dangal created the highest ever global box office collection of Rs. 1,968 crore, with about 3/4th of its box office collections sourced from overseas markets. This was also the highest grossing film in China with a collection of about USD 197 mn.
- Top three movies show an interesting trend, where more than half of their box office collections came from overseas markets, instead of India.
- All movies include at least one top Bollywood star.
- Of the top 10 movies, 7 were released recently in past 4 years, which indicates the growth of entertaining content that appeals to movie watchers.



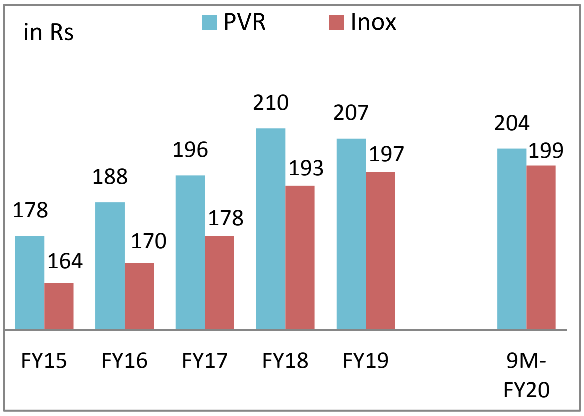
Source: Bollywood Hungama, CARE Ratings

Film exhibitors operating matrix

(This section is based on analysis of two players: PVR & Inox Leisure)

Box office collections are essentially a mix of movie ticket prices and footfall numbers. Ticket prices usually vary based on show timings, brand of cinema, types of technology used in theatre, location of theatre, artists in movie, etc. This section analyses operating matrices of two leading film exhibitors in the country including ticket price, occupancy rates, footfalls, seats, number of screens and properties.

- **Average Ticket Price (ATP)**



Source: Annual reports and investor presentations of PVR & Inox Leisure

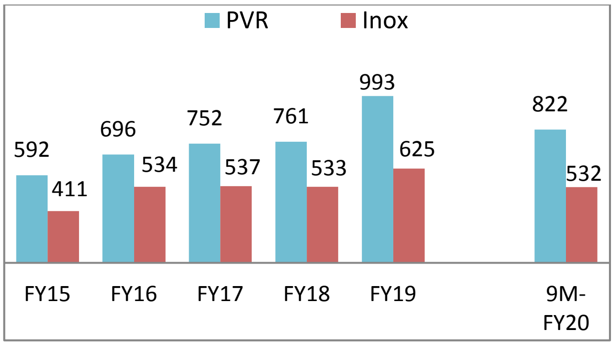
Ticket prices rose by about 5% on an average from FY15-19. However, 9M-FY20 witnessed a fall in ATP largely due to GST rate revisions. Prior to implementation of GST on movie tickets, state governments regulated pricing in their respective states and levied a high entertainment tax, which acted as a major impediment to the growth of film exhibition business and encouraged piracy. Taxes were as high as 50% in key markets such as Maharashtra, Uttar Pradesh, Bihar and Karnataka. Post the implementation of GST in December 2018, tax structure across the country was rationalized and a single rate was introduced across India.

- **Occupancy rates and footfalls**

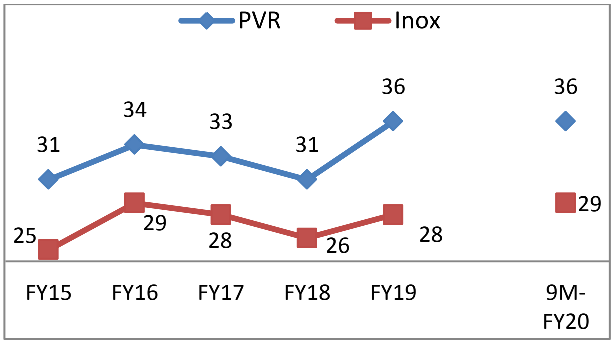
Both players displayed a similar trend of fall in occupancy rates for FY17 and FY18, largely owing to the big economic event that impacted film exhibition business – demonetisation of higher denomination Indian currency notes. This undoubtedly created a cash crunch in the economy leading to decreased spends by consumers on entertainment related expenses like movie watching – which is reflected in the limited growth in footfalls during the period.

Footfalls depend on the number of movie releases and quality of content. Good content movies usually play out by attracting larger audiences to the theatres. 9M-FY20 witnessed a rise in occupancy rates as well as footfalls, owing to better content films and the GST implementation on movie tickets controlled hike in ATP.

Footfalls (lakhs)



Occupancy rates (%)



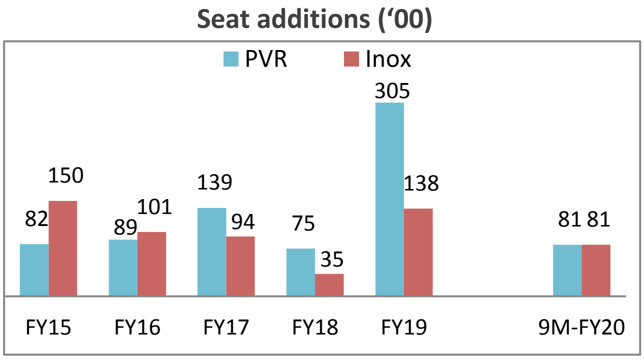
Source: Annual reports and investor presentations of PVR & Inox Leisure

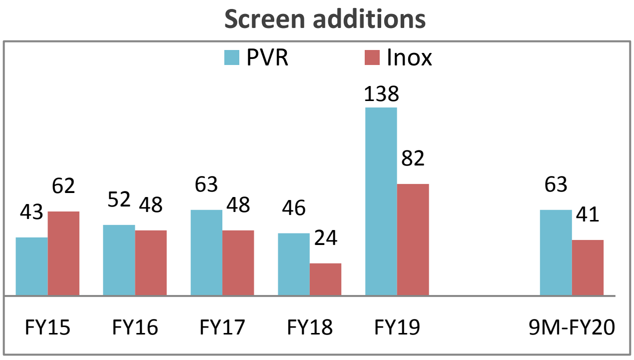
- **Screen openings and seat additions**

  Opening new screens is dependent on several factors such as location, cost structure, property, propensity of people residing in nearby locality, preference of language and genre, etc. New screens usually have a gestation period of about 12 to 24 months, before they can attract large footfalls.

  India has an elaborate regulatory process for approvals of a multiplex that is largely controlled by the local municipal bodies, which can lead to about 6 months or more of delay in obtaining a theatre operating license. In addition to this, new screen openings are highly correlated with commercial real estate development in the country. When demonetisation hit the economy in November 2016, real estate players started facing liquidity constraints, leading to delays in mall constructions which came in the way of screen openings. However, with passage of time, the industry returned to normal in FY19 and new screens became operational across the country. About 600 screens, including 121,000 seats were added cumulatively by the two players between FY15 and FY19. Between April and December 2019, about 100 screens with 16,000 seats were added.

  Cinema chains have started focusing on expansions on tier 2 and 3 cities, where theatre penetration is still at a nascent stage, but is witnessing increased demand due to rapid urbanization and rise in disposable income. Along with this, to improve movie-viewing experience of consumers, high capex is being incurred on infrastructure up gradation. Newer and emerging technologies such as IMAX, MX4D, Samsung Onyx, Insignia and Screen-X are being deployed which provides a holistic out-of-home entertainment experience.





Source: Annual reports and investor presentations of PVR and Inox Leisure, CARE Ratings calculations

Revenue mix

(This section is based on analysis of two players: PVR & Inox Leisure)

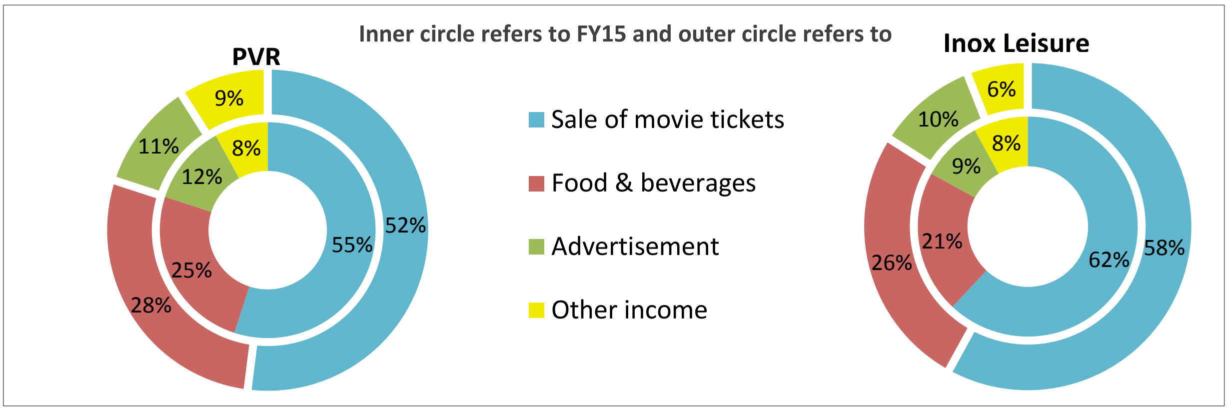
Revenues of film exhibitors are essentially a mix of four components: sale of movie tickets, food and beverages, advertisement and other income. Other income includes virtual print fee, convenience fee and miscellaneous services. It is of utmost importance to have the right revenue mix that maximises revenue per screen for the film exhibitor.

Highest proportion (50-60%) of total revenue is contributed by sale of movie tickets, followed by food and beverages' contributing 20-30%, advertisement with 10-12% share and the balance is 'other income'. Key sectors that advertise in cinemas are automobiles, FMCG, gems and jewellery, telecom, banking and retail. Despite a challenging economic environment, cinemas managed to deliver stable advertising growth in 9M-FY20, as it is a preferred media for advertising with the advantage of captive audience, which is not offered in most other mediums such as TV, print, internet. Advertising income can vary depending on movie line up (blockbuster movies attract larger advertisers), show timings, location of screen, etc.

Revenue breakup of two leading film exhibitors is depicted in below chart. Analysis of the same shows there is a gradual and definite change of revenue mix over the past 5 years. Overall share of income from sales of movie tickets has declined, which is captured by revenue from food and beverages segment. Food and beverages segment, contributing almost a quarter of total revenue is of significant importance to film exhibitors and to increase revenues from this segment, film exhibitors have started offering wide ranging food menus inclusive of various cuisines, clubbed in attractive combos to induce customers and increase spend per head. Also, certain film exhibitors have recently listed themselves on food delivery apps such as Swiggy and Zomato, to offer customers the option of ordering food, even if they do not come to the theatres for movie watching. This acts as an additional source of income for film exhibitors.

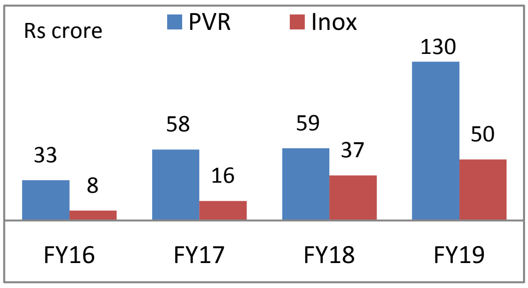
Advertising revenue was impacted by ICC World Cup and elections in Q1-FY20. Along with this, due to an economic slowdown in past few months, industries such as automobiles, real estate, BFSI and others tightened their advertising spends in cinemas.

Revenue mix over past 5 years



Source: Annual reports and investor presentations of PVR and Inox Leisure, CARE Ratings

Convenience Fee



Source: Annual reports and investor presentations of PVR and Inox Leisure, CARE Ratings

Due to convenience, an increasing number of individuals have started preferring making payments digitally. To complement this, film exhibitors have entered into partnerships with online ticketing and payment aggregators such as Paytm and Bookmyshow, along with offering customers the choice to buy movie tickets through the theatre's website/ mobile application. Such services benefit customers by eliminating waiting in long ticket buying queues. Other benefits include discounts available on online bookings, selection of preferred seats, eliminating the need to carry cash, option for ticket cancellation, loyalty rewards, pre-booking of food and beverages, etc. This also benefits the film exhibitors as it provides them with valuable information on customers' behaviour and preferences in terms of movies, actors, offers, timings and food and beverages, which helps in creating customised offerings.

Incrementally, in order to provide unique experiences to viewers, film exhibitors have started screening live sports events such as cricket matches during the world cup season, screening on demand movies, etc. Such add-on services help in filling screens during lean periods.

Has OTT penetration affected film exhibition business?

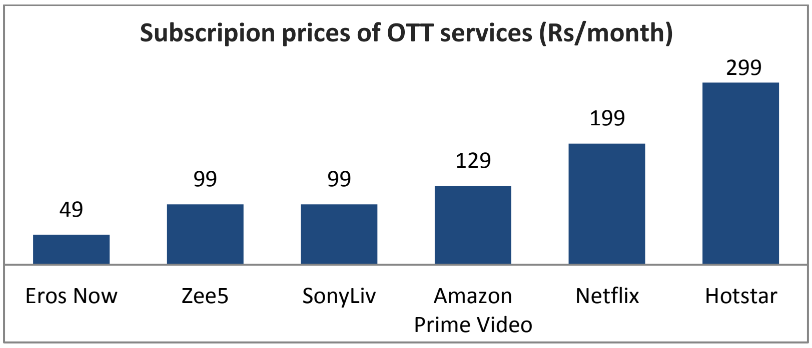
India has a massive appetite for content consumption, though currently this demand is unsatisfied to a large extent. To fill this gap, the Over the Top (OTT) market largely unfolded in the past 2- 3 years with entry of big players such as Netflix, Amazon Prime Video, Hotstar, Voot, Zee5, etc. Undoubtedly, the growing popularity of OTT would have not been possible without the drastic fall in mobile data prices. The previous two years witnessed aggressive investment and capex by OTT players for creation of original and differentiated content. OTT players are reportedly spending as much as Rs. 1- 3 crore on producing a single new episode for a series.

While OTT platforms offer the convenience of consuming content at any place and time, it cannot replicate the experience that a consumer gets while watching the same movie on an enlarged screen with superior technology and high-end sound systems in a theatre. Also, it takes about 8-10 weeks for a movie to release on an OTT platform, after it has released in a theatre screen, which is a sufficient time lag of consuming the same content on the two different mediums.

Movie exhibition players can also benefit with increased penetration of OTT, as film producers are investing in larger quantities in creating better films for content discerning consumers - which in turn helps grow film exhibitors' business. Therefore, OTT may not be a direct replacement of the film exhibition business. However, OTT players are also known for producing impressive original content, which is not available on any other source of media. Therefore, this can act as a direct competition to other media segments such as dish/cable TV and film theatres.

OTT players have taken various steps to increase subscriber base, one of which is entering into long term revenue sharing agreements with telcos, thereby providing a trial period to users ranging from 1 month to 1 year. Post the trail period, interested users can opt for a subscription plan, most of which are priced economically in India, compared with global counterparts, to support the price sensitive behaviour of Indians.

The rising box office collections and increasing footfalls in theatres, along with rising subscriber base of OTT players in recent months, gives us a reason to believe that OTT viewing and cinemas can co-exist and are complementing each other.



Source: Websites of respective companies, Note: Prices are of basic packs (as on 12th Feb, 2020)

Concluding remarks

- FY20 (till date) stood out as a positive year for the film exhibition industry, with improved footfalls and occupancy rates owing to good content movies that were much appreciated by the audiences and was reflected in the high box office collections during the year. This was amidst a depressed economic environment, which in a way benefited this industry, as consumers spent money on small indulgences instead of purchasing big-ticket luxury items.

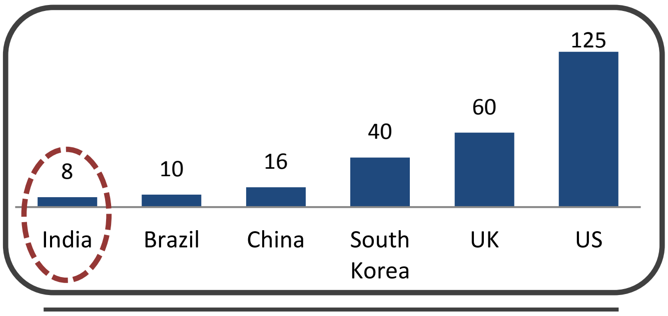
- Reduction in GST rates on movie ticket prices (in Dec-19) came in as a breather for theatre goers and Indian film industry as a whole, which was earlier pressurized with high tax rates as high as 50% in key markets such as Maharashtra.

- Box office collections in India grew at CAGR of 13.4% in the past 5 years. Out of the top 10 all-time high grossers over the years, 7 films were released in the recent 4 years, showing the impact of content and its effects on box office collections.

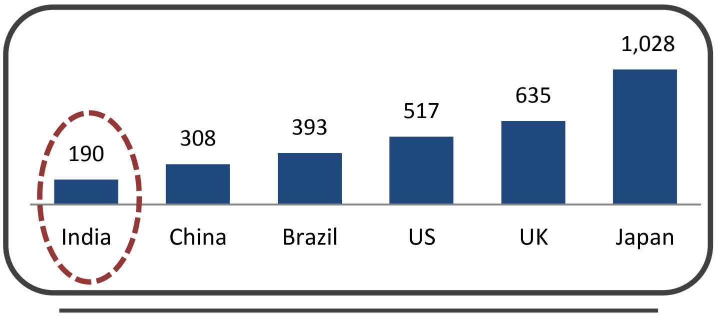
- Ticket prices rose by about 5% on an average in past 5 years. However, 9M-FY20 witnessed a fall in ATP largely due to GST rate revisions. Also, India has one of the lowest ticket prices globally with ATP of about Rs. 190.

- Lack of movie screens continues to be one of the biggest impediments to the growth of Indian film industry. The country is heavily underpenetrated with just about 8 screens per million population. The low number of screens negatively impacts box office collections of movies released on the same day. China, with a similar population as ours, has an average ticket price of about Rs. 300 and double screens compared with India. This is why when Indian movies release in foreign markets, they tend to create a higher box office collection compared with Indian market.

Screens per million population



Average Ticket Price (Rs)



Source: Eros International Media investor PPT June 2019

- FY20 has remained a challenging year for corporates due to subdued demand, which led to most companies tightening their advertising outlays. Industries such as automobiles, real estate, retail and BFSI are the top advertisers in cinemas and have been affected by the current slowdown in the economy. Advertising income for film exhibitors is expected to grow at a sedate pace in myopic future, however long term outlook remains positive

- While there is a strong pipeline of screen openings for coming months, the on-going liquidity crunch may impact mall openings which could further delay screen openings.

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