

Is the filmed entertainment industry ready for a comeback?

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The Indian filmed entertainment industry is better poised now, as after nearly 7 months the central government has allowed the film exhibitors to reopen. The film exhibition industry was among the first ones to stop operating across the country even before the nationwide lockdown began in March-end and also among the last industries in the country to restart operations as unlocking gradually unfolds. Besides huge revenues losses, the closure of film exhibitors impacted the livelihood of thousands associated with the film industry.

As cinemas open to audiences 15th October onwards, film exhibitors shall be required to follow strict Standard Operating Procedures (SOPs) prepared by the Ministry of Information and Broadcasting, which are listed below:

- No operation in containment zones
- Physical distancing of > 6 feet outside auditoriums, common areas and waiting areas
- Availability of hand sanitizers in entry, exit points and common areas
- Sufficient time interval between successive screenings on a single screen as well as on various screens in a multiplex, to ensure row-wise staggered entry and exit of the audience
- The show commencement time, intermission period and finish time of a show at any screen shall not overlap with the commencement time, intermission period or finish time of a show at any other screen in a multiplex
- Cap of 50% on total seating capacity
- The “not to be occupied” seats inside screens to be taped or marked
- Allow longer intermissions to let audience move in and out of the hall in a staggered manner
- Encourage digital payments
- Sanitization after every screening
- AC temperature in the range of 24-30°C
- Multiple sale counters for food and beverages
- Only packaged food and beverages to be allowed, etc.

Though the industry hails the central government’s decision to allow resumption of operations, the SOPs to be followed are quite stringent and may act as an impediment for growth of the filmed entertainment industry in short term. The frequent sanitization to be carried out after each show and following adequate social distancing norms will add to the cost. Additionally, having staggered show timings may lead to a reduction in total number of shows screened

per screen per day. Also, allowing only packaged foods to be sold in cinemas will curb revenue generation from sale of food and beverages, which constitute nearly 20-30% of total revenues of film exhibitors. However, the cap of 50% on total seating capacity may not impact much, especially for multiplexes, as even during pre-covid times, the average occupancy rates were around 25 to 35%. The longer intermissions could attract greater number of advertisers.

Various stakeholders of the filmed entertainment industry wholeheartedly cheer the central government's decision to reopen cinemas as theatrical releases will up to an extent, ease the liquidity pressure and free the blocked working capital of film producers who could not release their movies in the past 7 months during cinema closures. Unlike Western nations, most Indian film producers have small budgets and tend to struggle due to the lack of organized sources of funding. Hence, most producers usually use their own reserves or borrow capital at high interest rates. To confront liquidity issues during the lockdown period, some producers opted for release of their movies on various OTT platforms, while the rest remained committed towards the theatrical platform. Theatrical releases account for nearly 60-70% of the revenue for movie producers and hence offer better returns than any other medium.

Reopening cinemas worldwide

Large markets globally have reopened their cinemas and their box office responses came in quite promising in the recent months. In US, cinemas reopened on 4th September by allowing occupancy between 25%-60% varying depending on different states, while Canada reopened theatres on 26th June allowing maximum of 50 people. Within Asia, countries like China reopened cinemas on 20th July and initially allowed 30% occupancy which was later raised to 50%. In Japan, theatres started operations on 1st June by having alternate seating, while in South Korea, theatres reopened on 29th April with a cap of 50% occupancy. In UK, 4th July onwards cinemas started with a cap of 50 people, while France restarted cinemas on 22nd June allowing alternate seating and 50% capacity.

In India, in the Unlock 5.0 phase, the central government allowed reopening of cinemas 15th October onwards, however, certain state governments including that of Maharashtra are yet to indicate their stand clearly. The Mumbai territory is a major market and accounts for a huge share of box office collections, especially for Bollywood. Hence, it is quintessential for screens across the country to reopen together, if not, there is a likelihood for big budget films to further defer their release dates, which will further elongate the working capital cycle of producers and simultaneously keep job creation low in the industry.

Financial performance

Analysis of financials of three large players in the film exhibition industry shows that the net sales reached historic lows in Q1-FY21 by declining 99.3% YoY. The total expenditure dropped by 68.4% to Rs. 420 crore which helped minimise losses for players.

The operating expenses declined 82.9% YoY attributed to nil electricity and water charges due to closure of properties, waiver of minimum load charges by various state governments and 34.4% reduction in employee costs through measures like layoffs, retrenchments and reduction in salaries. Other overheads were controlled with contractual obligations like housekeeping and security being suspended in lockdown. Also, the rent and common facility charges stood nil due to the invocation of force majeure under the respective lease agreements due to the Covid-19 pandemic and engaging with developers to seek waiver for lockdown period and reduced rent / revenue share post opening.

Other expenses such as movie exhibition cost and cost of food and beverages consumed stood negligible due to the closure of theatres for the entire quarter. However, interest expenses rose 2.2% YoY to Rs. 186 crore. All capex spends were put on

hold and will be reviewed post reopening of cinemas. The industry’s loss at the net level stood at Rs. 295 crore compared with a net profit of Rs. 443 in same quarter last year.

Box Office Collections

Box office collections in India grew at CAGR of 13.4% in the past 5 years from CY2015 to 2019. Out of the top 10 all-time high grossers in India over the years, 8 films were released in the recent 5 years, indicating the impact of content and its effects on box office collections. Since the preceding few years, there has been a growing shift of consumer preference from the star-studded and big-ticket budget movies to those that offer differentiated content. Multiple small budget movies have done exceedingly well at the box office and hence this has reduced the dependence on the opening week collection as movies continued performing well even after moderate opening weeks of box office collections. Increasing number of small budget films are now a part of the 100 Crore Rupees club, which means the market is moving towards acceptance of quality content and producers are inspired to experiment with new content.

In CY2020, the film exhibitors remained opened for less than 3 months and hence net box office collections stood at Rs.824 crore for a total of 68 films released (up to 13th March 2020), while average box office earnings stood at Rs. 12 crore, nearly half of previous year level (Rs. 23 crore in CY2019). In CY2020, top 5 films accounted for 68% share, with Tanhaji being the higher grosser with Rs. 280 crore in India.

Chart 1: Net Box office collection in India (Rs crore)

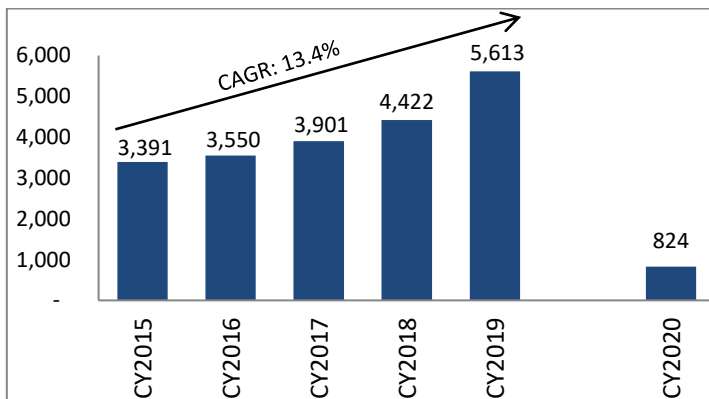
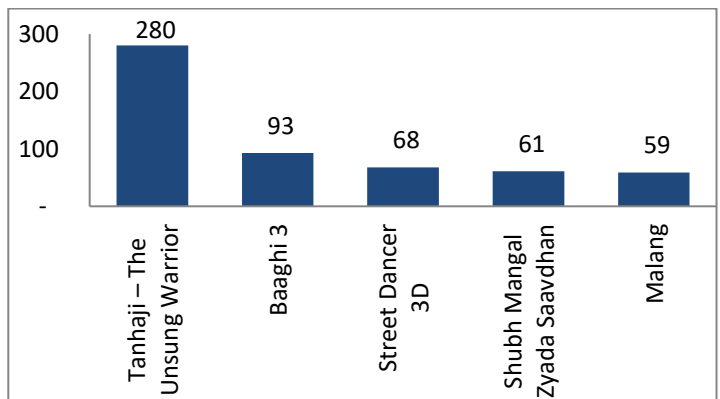


Chart 2: Top 5 grossers in India in CY2020 (Net Rs crore)



Source: Bollywood Hungama, CARE Ratings
 Note: CY2020 data refers to films released upto 13th March 2020

Impact analysis

The filmed entertainment industry wholeheartedly cheers the government’s decision to resume operations after nearly 7 months, but the strict SOPs will mean a rise in cost structure for film exhibitors, which are expected to be offset by lowering overall operating expenses, fall in lease and rentals and employee costs. Showcasing movies in theatres will up to an extent, help ease the liquidity issues of film producers and other theatre artists, who could not release their movies in theatres during lockdowns.

As theatres remained shut for a large part of this year, there will be a backlog of multiple films waiting for a theatrical release and hence the same film may not get the same screen time as before. Usually, a film in pre-covid times, would get a screening time of between 2-5 weeks or even more, which may reduce now.

The occupancy rates in initial few weeks are expected to be low, as it may take time to revive consumer confidence and recede the fear of infection in public areas. If footfalls don't improve after a few weeks, it may take longer for film exhibition business to return to normalcy and hence leading producers may decide to cancel their theatrical release and opt for other mediums such as TV and OTT platform to gain liquidity. At the same time, OTT platforms are a cheaper alternative for audience and offer the convenience of watching fresh content at home. However, the experience of watching films in theatres cannot be replicated on any other medium. Such low footfalls in initial few weeks may also curtail in-cinema advertising, which was already suffering since past few quarters due to reduced spends by corporates.

The lipstick effect applies in the present scenario where public opt for small ticket purchases rather than spending on expensive leisure activities like travelling or opting for a family vacation. During a recessionary period, a small ticket entertainment like going to a movie theatre, which gives a person few hours of escapism, usually works well.

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