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INDIAN MEDIA INDUSTRY-FILM EXHIBITORS

The buzz is back in show-biz; Multiplexes look to surpass pre-pandemic revenues in FY2023

NOVEMBER 2022

Highlights

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Industry's revenues expected to surpass pre-Covid levels in FY2023, supported by recovery in occupancy, screen additions, higher ATP and SPH

Profitability recovery will lag revenues as margin-accretive advertisement revenues yet to bounce back, while rental expenses revert to pre-pandemic levels

The film exhibition segment of the Indian media industry was the worst impacted by the pandemic. However, it has seen a strong recovery since Q3FY2022. Occupancy at leading multiplexes almost touched pre-pandemic levels in Q1 FY2023, led by positive consumer sentiments (regarding watching movies in theatres) and strong content line-up.

ICRA analysis suggests that despite sharp rise in average ticker prices (ATP) due to premiumisation of screens, decrease in supply due to closure of single-screen theaters (impacted by pandemic) and inflation, consumer sentiments remain buoyant. Unlike earlier when Bollywood content was the key revenue driver, regional cinema has gained consumer awareness and acceptance, in part due to the increased penetration of digital over-the-top (OTT) platforms during the pandemic.

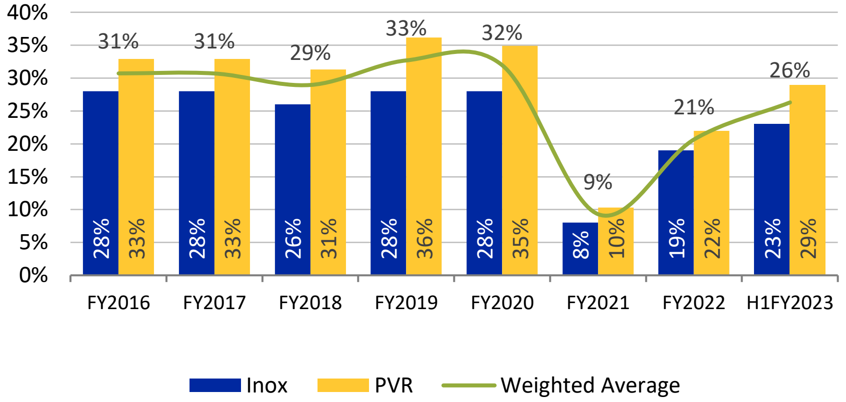
Revenues from the sale of food and beverages (F&B) inside the theatre saw healthy traction in H1 FY2023 and surpassed pre-pandemic levels (in absolute terms). The healthy increase in spend per head (SPH) is being driven by a mix of price hikes and wider (and gourmet) menu choices and increase in points of sale.

High rental and common area management (CAM) charges expected to constrain profitability margins pending complete recovery in occupancy levels and ad revenues. Despite the increase in ticket prices, the rebound in theatre occupancy in Q1 FY2023 highlights the continued popularity of this medium and its ability to face competition from OTT platforms.

ICRA expects the industry's revenue to surpass pre-pandemic levels in FY2023; profitability margins will lag given the lower occupancy, higher rentals and slower recovery in high-margin advertising revenues. Nonetheless, the credit profile of multiplexes is expected to improve as they consolidate to leverage their scale to gain market share at the expense of unorganised single-screen owners.

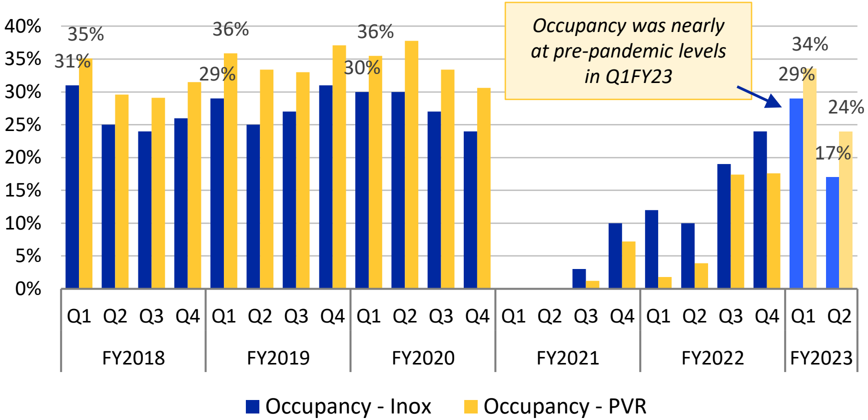
Viewers crowd theatres after a pandemic-forced hiatus

Exhibit 1: Trend in annual occupancy of multiplexes



Source: Company data; For weighted average, number of screens as weights

Exhibit 2: Quarterly occupancy trend in leading multiplexes

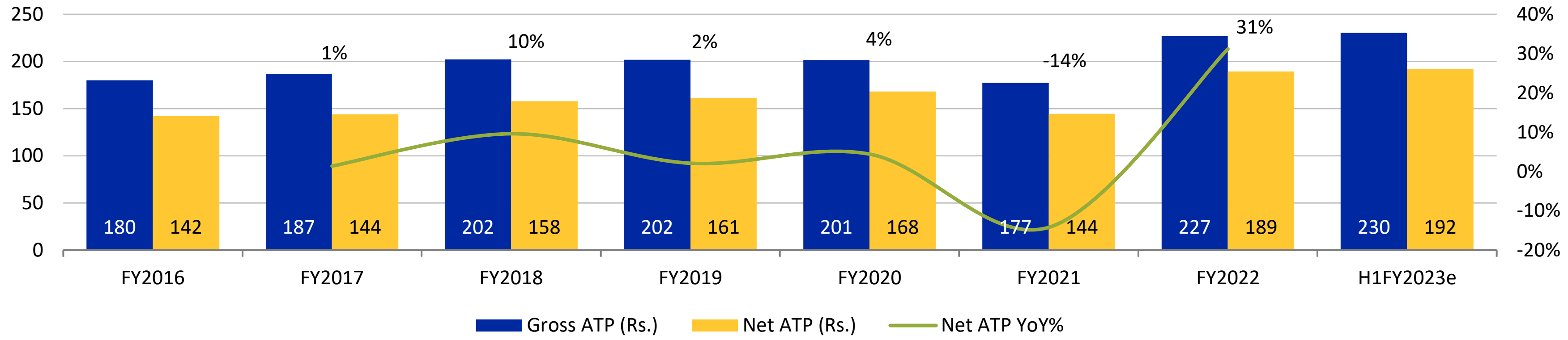


Source: Company data

- Indian multiplex performance data indicate a strong comeback in YTD FY2023 after the pandemic set-back; occupancy almost touched pre-pandemic levels (i.e., Q1 FY2020 levels) in Q1 FY2023, led by positive consumer sentiments and a strong content line-up. The trend saw some reversal in Q2 FY2023, as Bollywood movies failed to excite consumers and Hollywood releases were also limited.
- Windowing gap (duration from theatre to OTT) reverted to pre-pandemic levels of eight weeks starting end of Q2 FY2023, which is a positive for increasing occupancy. While the content slate for the near term is healthy, consumer acceptance remains a monitorable.

Premiumisation of screens, inflationary pressures drive ATP to all-time-high levels; expansion in tier III/IV cities may cause some moderation

Exhibit 3: Annual trend in average ticket price (ATP) at Multiplexes

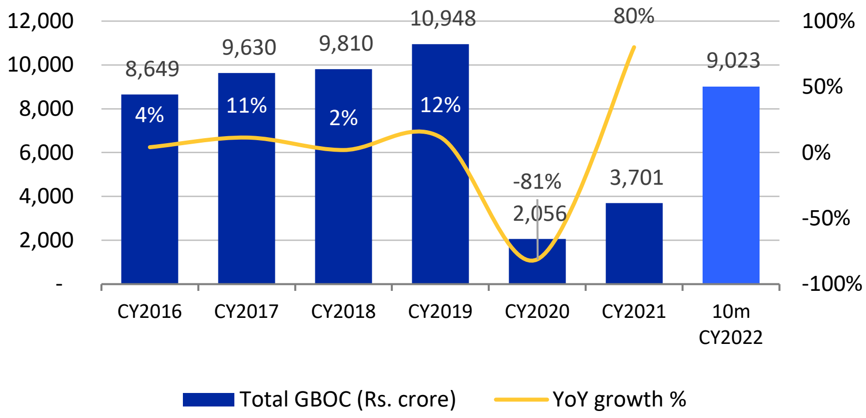


Source: Weighted average data reported by Inox and PVR; ICRA Research

- Increasing percentage of premium/ luxury format screens, tie-ups for screening events (for e.g., T-20 world-cup etc.) which draw higher prices, coupled with inflationary pressures have driven ATPs to all time highs in H1 FY2023. Also, with several single screen theatres closing permanently due to the pandemic, the reduced supply has likely augmented the pricing power of multiplexes.
- Quality of content, theatre location, buzz around the content and advance bookings are a few key factors for setting the ticket price. Given the inflationary pressures (development cost, rent, maintenance and operational costs etc. all escalating), industry is trying to balance occupancy and ticket prices.
- With multiplexes planning expansion in tier-III/IV cities, the ATP may decline (on a consolidated level) going forward, commensurate with lower capex/operating costs in these locations.

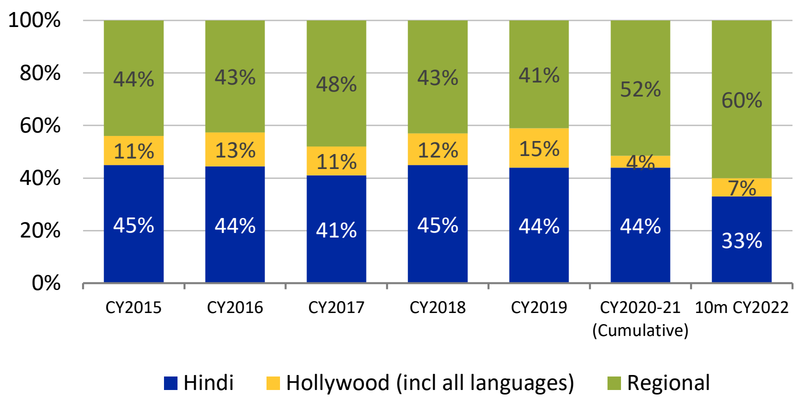
Regional films drive GBOC as Bollywood struggles to find its footing

Exhibit 4: Indian gross box office collections (GBOC)



Source: Ormax Media

Exhibit 5: Language-wise mix of GBOC



Source: Ormax Media

- Rapid penetration of OTTs and exposure to varied content on it (in regional and foreign languages) during the pandemic has increased consumer awareness and the acceptability of non-Bollywood content. Consequently, weak content has driven down the GBOC for Bollywood movies post pandemic and has pushed viewers to other language and mediums of entertainment.
- The recent underperformance is in sharp contrast to the pre-Covid period when 30-40% of Bollywood movies were able to cover production costs from theatrical releases. As per Ormax Media, 37% of Hindi box office collections in YTD 2022 have been generated through Hindi dubbed versions of Telugu, Tamil & Kannada language films.
- Regional cinema has been supporting box-office collections following the pandemic. However, sustenance of such performance in Hindi speaking markets remains to be seen; Bollywood's ability to adapt to changing consumer preferences remains important.

F&B revenues set to surpass pre-pandemic levels in FY2023; ad revenues to trail

Exhibit 6: Revenue mix for multiplexes over past 5 years

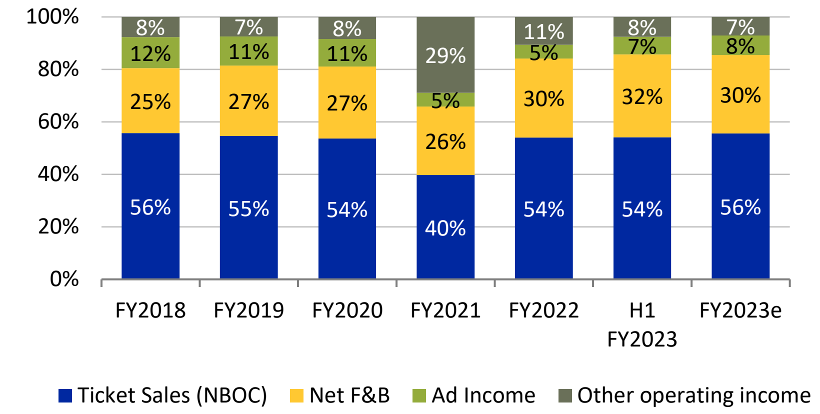
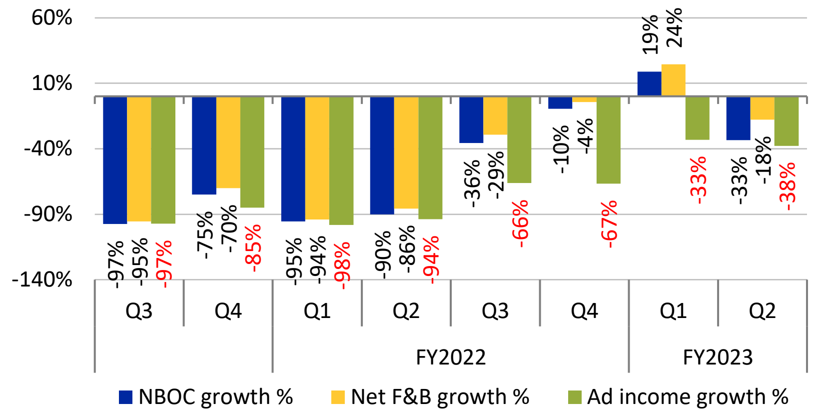


Exhibit 7: Growth in revenue streams vis-à-vis FY2020 levels



Source: ICRA Research; ICRA data for the industry consist of consolidated data for PVR and Inox

- Revenues from the sale of F&B inside the theatre saw healthy traction in H1 FY2023 and surpassed the pre-pandemic levels (in absolute terms). It contributed to a third of the overall revenues, driven by a mix of price hikes, wider (gourmet and local) menu choices and higher points of sale.
- In the absence of a healthy content pipeline and uncertainty regarding footfalls (and likely shift of advertising budgets to other mediums – like OTTs etc.), in-cinema advertising has seen the slowest recovery post pandemic vis-à-vis other revenue streams. Industry expects the same to touch 70-75% of pre-Covid levels by the end of Q4 FY2023 as volumes recover (even as yields remain decent) and touch pre-pandemic levels in H1 FY2024.

Screen additions, improving occupancy and SPH to drive revenue growth

Exhibit 8: Trend in number of screens operated by leading multiplexes

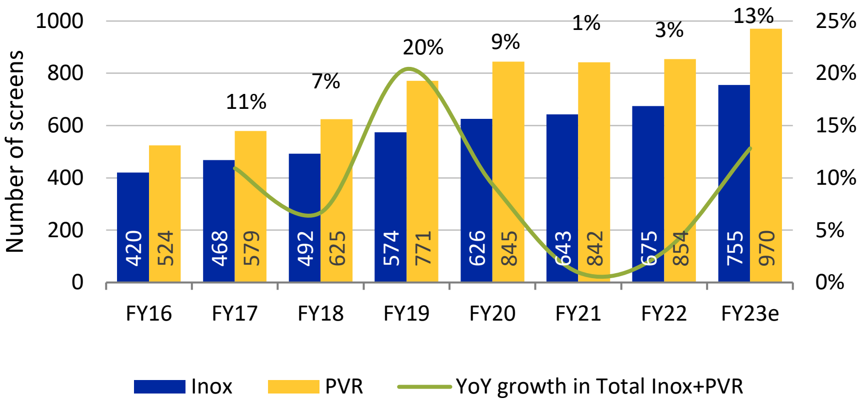
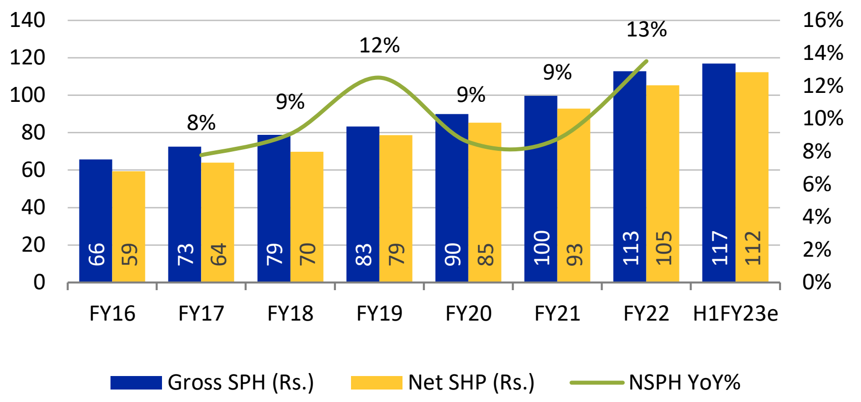


Exhibit 9: Trend in spent per head (SPH) on F&B at multiplexes

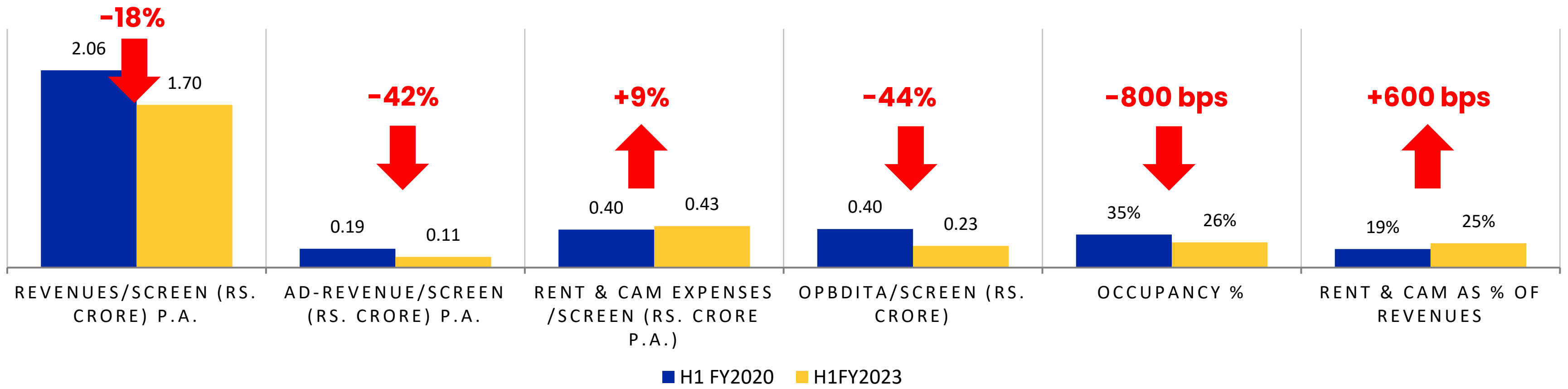


Source: Company data, ICRA Research; gross and Net SPH data is weighted average for Inox and PVR

- India lags other mature markets in the number of screens available (~8,500 screens in India vis-à-vis ~75,000 in China and ~45,000 in USA). Given the underpenetrated market, multiplexes are expected to keep investing in network expansion, especially in tier-II and tier-III markets.
- SPH has witnessed ~9-12% YoY growth over the last five years and crossed the Rs. 100-mark in FY2022. In YTD FY2023, inflation-led price hikes, creative marketing initiatives by the exhibitors, introduction of season-special items and interactive culinary sessions across India with chefs etc. contributed to the improvement. ICRA expects that a steady 3-5% growth in SPH will continue to support industry revenues.

High rental expenses, pending recovery in occupancy and ad revenues to keep margins constrained

Exhibit 10: Comparison of property rent and common area management (CAM) expenses for multiplexes



Source: ICRA Research; Calculations are as per ICRA; data consist of consolidation of PVR and Inox performance

- Between Sep 2020 and Sep 2022, the screen count for the two leading multiplexes grew 12%. The fight for premium location presence led to higher rentals.
- During the initial Covid wave, the exhibitors invoked the force majeure clauses in their lease agreements (given the forced closure) and rent payments were suspended for 1-2 quarters. However, by the end of FY2022, the rent and CAM cost escalations kicked in as per agreements.
- With occupancy still below the optimal levels and ad revenues lower by 30-40%, the rent and CAM costs as a proportion of total revenues remain much higher than the pre-pandemic levels. With limited flexibility to increase ATP and SPH, the profit margins are expected to remain sub-pre-pandemic levels (18-19%) over the next few quarters.

Industry consolidation to continue; Inox-PVR merger set to create largest multiplex chain in India

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Exhibit 11: Major multiplex M&A over the past decade in India

2012
- PVR acquired DT Cinemas (32 screens)
- Inox acquired Satyam Cineplex (38 screens)
- Carnival Cinemas acquired Big Cinemas (242 screens)
- PVR acquired Cinemax (138 screens)

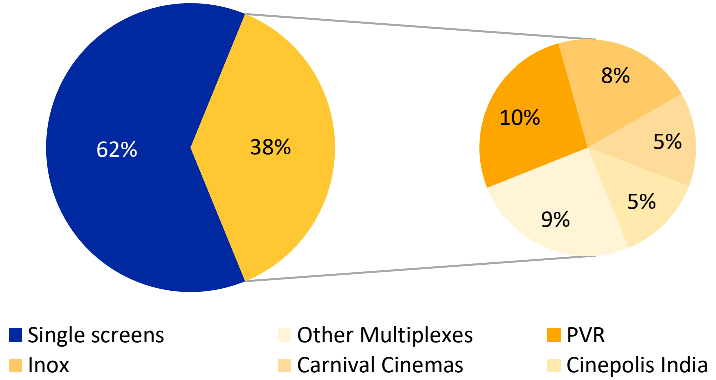
2014-15
- Cinepolis acquired Fun Cinemas (83 screens)

2018
- Inox acquired Swanston Multiplex
- PVR acquired SPI Cinemas (76 screens)

2022-23
- Inox acquiring Luxe Cinemas (11 screens)
- **PVR and Inox head for merger**

Source: ICRA Research; Note that the above M&A list is indicative, not exhaustive.

Exhibit 12: Indian film exhibition segment – Key players (end of 2021)

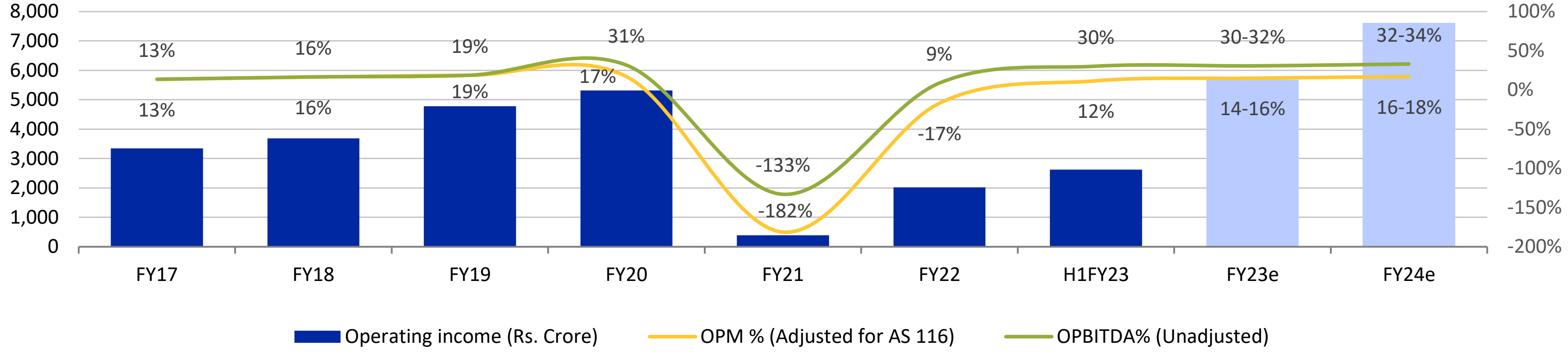


Source: ICRA Research; Screen count was estimated at ~9,425 in 2021 although industry believes that around 1,000 screens, which were open intermittently during the year, may not reopen again. Hence, ICRA assumes total screens around 8,500 for above calculations

- Multiplexes accounted for ~40% of the total screens in India as of 2021-end. This segment is oligopolistic in nature with the top four players – PVR, Inox, Carnival Cinemas and Cinepolis – accounting for 75% of the total screens.
- As the segment was one of the worst impacted by the pandemic, creating scale to achieve efficiencies has become critical for the long-term viability of the business and to mitigate any threat from digital OTT platforms. As such, the multiplex space is expected to see further consolidation over the medium term.

Industry outlook revised to Stable given signs of a sustainable recovery

Exhibit 13: Industry revenue and profit margins growth trend (Actual and ICRA estimated)



Source: ICRA Research; ICRA data for the industry consist of consolidated data for PVR and Inox; Ind-AS 116 standards applied w.e.f. FY2020. The adjusted operating profit margins (OPM) depicted above are excluding the impact of Ind AS 116 – 'Leases' and are calculated as reported operating profits less rental expenses divided by operating revenues

- ICRA expects the industry's revenues to surpass pre-Covid levels in FY2023 (6-8% higher than FY2020 levels).
- Profitability for exhibitors expected to trail pre-pandemic levels over the next 12-15 months despite cost curtailment measures on account of, inter alia, lower occupancy (27-29% in FY23e and 29-32% in FY24e), increasing rental expenses and a gradual recovery in high-margin advertisement revenues.
- Industry consolidation is expected to significantly increase the bargaining power of multiplexes vis-à-vis content producers, mall owners, advertisers and consumers, augmenting their pricing power in tickets, F&B and advertising rates. Thus, the credit profile of multiplexes is expected to strengthen compared to single screen owners over the medium term.

Key takeaways I Prevailing and emerging trends

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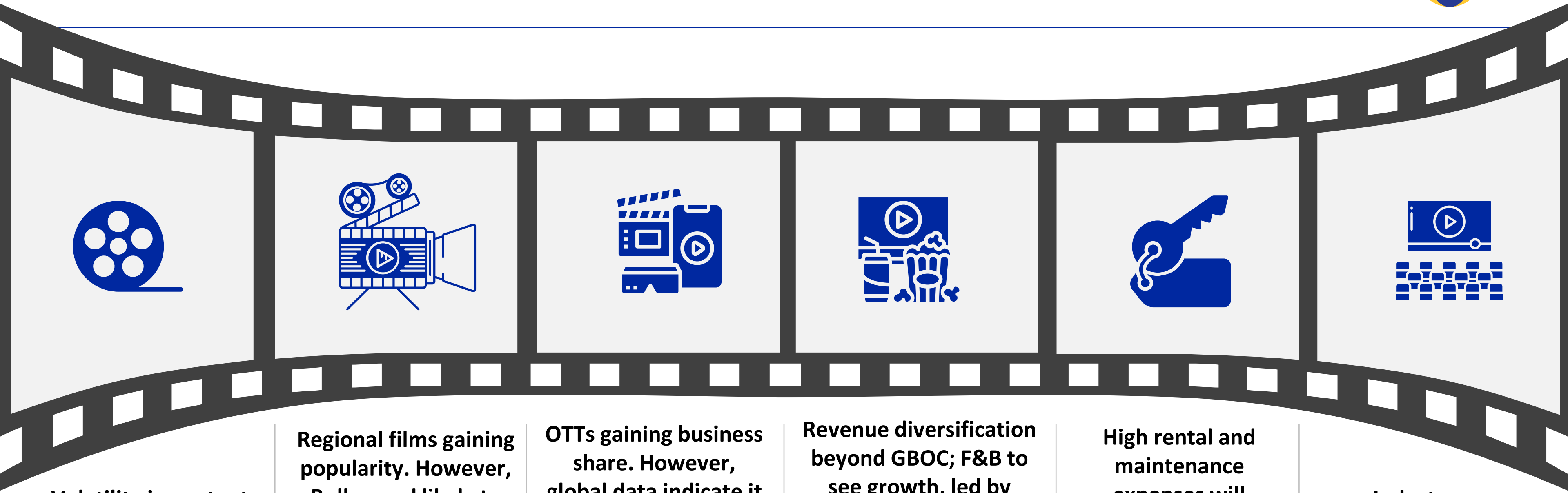

Volatility in content acceptability remains a key risk – 'star power' no longer enough; social media influence on consumer behaviour likely to persist

Regional films gaining popularity. However, Bollywood likely to remain the main driver of GBOC, backed by a large Hindi speaking populace

OTTs gaining business share. However, global data indicate it can successfully coexist with other formats – like theatres

Revenue diversification beyond GBOC; F&B to see growth, led by changing consumer preferences, enhanced menu options, market initiatives and innovations

High rental and maintenance expenses will continue to constrain profitability margins

Industry consolidation to accelerate; multiplexes will continue gaining at the expense of single screens

Source: ICRA Research

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Thank You!