

PRESS RELEASE

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Third wave dashes imminent recovery for multiplex operators; sector rebound hopes pushed to Q1 FY2023: ICRA

- *Q3 FY2022 revenue expected to be highest since the onset of pandemic, but Q4 FY2022 to be sequentially weaker*
- *With robust content line-up, the recovery is expected to be much faster once restrictions are removed*

Multiplex owners are once again facing a tough time due to the emergence of third wave of Covid-19 pandemic. As per ICRA, while November 2021 to March 2022 was expected to witness a strong rebound, given the strong content pipeline, which was also reflected in the box office performance of major movies released in Q3 FY2022. However, the restrictions imposed by various state governments on multiplex operations due to the third wave has dashed imminent recovery for the industry. With malls and cinema halls closed temporarily in Delhi and Haryana, allowing only double vaccinated consumers in a few states such as Kerala/Karnataka and night curfews in many regions, most of the movie releases were deferred. Consequently, occupancy for Q4 FY2022 will be impacted and revenues for the quarter will be sequentially lower than Q3 FY2022.

Giving more insights, Mr. Jay Sheth, Vice President & Sector Head, Corporate Sector Ratings, ICRA Limited adds, “The industry participants were pinning recovery hopes on the festive season in Q3 FY2022 with the strong content pipeline, increased pace of vaccination and relaxations in key markets like Maharashtra adding to the optimism. In Q3 FY2022, supported by increase in occupancy (60-65% of pre-Covid levels), higher average ticket prices and spend per head, the multiplex operators are expected to report their highest revenues (since Q4 FY2020) and turn EBITDA positive. This is despite some restriction on occupancies in key states of Gujarat (60% cap) and Maharashtra (50% cap) and restrictions on consumption of food and beverages inside cinema halls (a high-margin segment) across a few key territories such as Maharashtra. Furthermore, as occupancy remained sub-optimal, contribution from another high-margin revenue source viz. advertising income (comprising 10-11% of overall revenues) also remained low.”

During FY2021, the profitability and consequently the credit profile of multiplex operators had taken a severe beating with low to mid-single digit occupancy resulting from the stringent restrictions and lockdown implemented for most part of the year. Moreover, as state governments eased restrictions in Q4 FY2021 leading to better occupancy, the second wave added to the woes of the operators, significantly impeding their revenues during Q1 FY2022. To help them survive the difficult phase, apart from equity fund-raising, the multiplex operators had undertaken various cost rationalisation measures on the employee front and rental waivers/ discounts with the mall operators to keep their fixed costs low and reduce cash burn.

“With the current evolving situation, the recovery for the film exhibition sector will now stand further delayed to Q1 FY2023. However, on the positive side, unlike in the past, several large-budget movies are now ready for release – content line-up remains robust and hence recovery, post easing of restrictions, is expected to be stronger and much faster. Nevertheless, ICRA continues to maintain a negative outlook on the sector until it achieves a full and sustainable recovery. The current adequate liquidity profile of the incumbents is expected to help them navigate short-term head winds on profitability,” **Added Mr. Sheth.**

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