PRESS RELEASE

November 29, 2022

It's showtime for the Indian Multiplexes: ICRA

- ***Indian Film exhibition segment outlook revised to Stable from Negative***
- ***Revenues to exceed pre-pandemic levels in FY2023 buoyed by higher ATP, SPH and additional screens***
- ***Profitability margins to range in 14-16% in FY2023e; touch pre-pandemic levels in FY2024e***

ICRA estimates that multiplex industry revenues will exceed pre-pandemic revenues (FY2020 revenue) by 6-8% in FY2023e. Higher average ticket prices (ATP, up 10-15% in FY2023 compared to pre-pandemic levels) and spend per person (SPH, up 30-35%) on food and beverage (F&B) will enhance total revenue growth. Despite revenue and margin growth, current occupancy levels (at 27-29%) remain below pre-pandemic levels of 32-33%. The industry had a great start to FY2023, with occupancy levels of 32% in Q1FY2023. While occupancy decreased sequentially during Q2FY2023 due to a lacklustre content line-up, occupancy is likely to rise in coming quarters due to a solid content pipeline and favourable consumer sentiments about watching movies in theatres. The return of the windowing gap (the time between theatrical release and release on other platforms) to pre-pandemic levels of eight weeks, beginning in August 2022, is likely to be beneficial to exhibitors. F&B income will be supported by expanded menu options, appealing marketing offers, increased points of sale, and some inflation-driven price increases. Overall revenues and operating margins are likely to rise in H2 FY2023e, thanks to a recovery in the high-margin advertising business, which underperformed pre-pandemic levels by 35-40% in H1 FY2023. In comparison to operational losses in the previous two years, the industry profitability margin is predicted to be 14-16% (adjusted for Ind-AS 116) [1] for the full fiscal FY2023.

Providing more insights, **Ms. Ritu Goswami, Sector Head, Corporate Ratings, ICRA,** said, *"The film exhibition industry has witnessed a healthy rebound in performance in YTD FY2023, evidencing that the "Cinema Experience" continues to have a pull on the consumers. Given the healthy content pipeline in the coming months and encouraging consumer sentiments towards watching movies in theatres (after a hiatus forced by the pandemic), the occupancy levels are expected to improve in H2 FY2023. The outlook revision to Stable from Negative reflects ICRA's expectation that occupancy will touch pre-Covid levels in the ensuing 12-month period. With recovery in footfalls, higher ATP supported by premiumization of screens, higher SPH and recovery in advertising business, the positive operating leverage is expected to play out, leading to improvement in profitability margins. This would imply a steady improvement in cash flows available with the industry for debt servicing and capex."*

The challenges to the industry in the near-to-medium-term would be volatility in the quality of the content (which has overtaken 'Star power'), especially in the wake of increasing competition from Over-the-top (OTT) platforms. While growing acceptance of Hollywood and regional content (dubbed or otherwise) has supported industry performance in the last few quarters (in absence of Bollywood blockbusters) it highlights the importance of content evolution to keep attracting consumers. Going forward, an increase in consumer preference for OTTs would increasingly make the occupancy sensitive to the quality of the content thereby impacting the theatre occupancy levels over the medium term.

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[1] The margins mentioned 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 multiplex operators to continue undertaking capex to strengthen their screen portfolio and expand reach. Consolidation in the industry also augers well for multiplex players, as an increase in their market share would augment their bargaining power with film producers/distributors, mall landlords, and advertisers.

Click the below link to access our previous press releases on the sector:

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

Film exhibition segment on rough road; some recovery in sight for the print media and television broadcasting segments

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