

India's box office growth runs into a screen problem

Single-screen theatres are closing down at a higher rate than at which multiplexes are adding screens



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Could this year end up being the worst for box office growth in India? In April 2013, PVR's five-screen multiplex at Grand Mall in Chennai's Velachery was ready for business. It was, however, only in December 2015, under a court directive, that the licence to open was issued. The interest costs, that of keeping the property fully-staffed in anticipation of the licence and the opportunity cost is not something anyone at the ₹1,485-crore PVR cares to discuss. "Capital is not a constraint (for growth), the ecosystem is," is all Kamal Gianchandani, CEO, PVR Pictures, says.

There are dozens of theatres like PVR, ready in various parts of the country, awaiting a licence to start. Getting permission to open a multiplex remains "the single biggest challenge to expansion," says Rahul Puri, managing director, Mukta Arts, which owns 38 screens across the country. In a country where more than three-fourths of the ₹3,000-crore film industry's revenues come from the box office and where single screens have been shutting down at an alarming rate, this delay in opening new properties is almost criminal. While multiplexes have been doing a good job, adding 150-200 screens every year, single screens have been shutting at twice that rate. From over 12,000 screens five years ago, there are now just about 10,000 left in India.

The result: in 2014, growth in box office revenues screeched to a halt. While the numbers are yet to come in, 2015 is not expected to have done much better. This is simply because there aren't enough screens around.

Over the years, multiplex chains like PVR and Inox have grown at a fast pace. The initial growth that came from metros and large cities is now plateauing. More recently, the chains' growth has come from consolidation, rising ticket prices and higher contribution by food & beverage sales and advertising. Average occupancy at multiplexes remains 30 per cent. For more than five years now the number of Indians watching films has fallen consistently — from 82 million in 2010 to just about 78 million in 2014.

Without faster addition of screens, especially in small towns and rural India where single screens are shutting down fast, the Indian film industry is up for some tough times, say analysts.

China had about 9,000 screens in 2011 when the government decided to push investments into building screens. By 2014, China had over 24,000 screens and its box office revenues — 90 per cent of all revenues — had more than doubled to \$4.8 billion. It is now the world's second largest film market after the United States.

The "speed of screen

LEADING THE SHOW

Company	Revenue FY15 (₹ crore)	Films FY 15 (nos)	Screens FY 15 (nos)	Revenue FY14 (₹ crore)	Films FY 14 (nos)	Average ticket price (₹)
PVR	1,485	43	464	43	177	na
INOX Leisure	1,016	52	372	28	164	na
Carnival Cinemas	850	89	327	60	140	na
Cinepolis	na	35	217	75	176	na
UFO Movies	479	1,400	4,932	300-400	na	na

Notes: The model for revenue of digital cinema technology such as UFO and Real is completely different from that for PVR or Inox. They are included only for an overall perspective. Carnival's revenues are as per the FY 2015.

Source: INOX Investor Presentation, Company websites and annual reports

SCREEN PRESENCE

	US	China	India
Films released	707	342	1,778
Tickets sold (mn units)	1,268	830	1,930
Total screens (units)	40,158	24,317	10,167
Screen density (per mn people)	125	17	8
Average ticket price (\$)	8.17	5.5	2
Box office gross (\$bn)	10.4	4.8	1.7
Other revenues (\$bn)	26	0.3	0.4
Total film revenues (\$bn)	36.4	5.1	2.1

Source: Variety.com, US, INOX, PVR, Film Federation of India, Inox Investor Presentation, EntGroup

growth has to increase," says Alekh Tandon, CEO, Inox Leisure. A jump of 10,000 screens will mean more than doubling of revenues and a more equitable distribution of money, especially among different genres instead of just Hindi, English, Telugu and Tamil.

Devang Sampat, business head, India strategic initiative, Cinepolis, points to Pune, Kochi or Thane where it has megaplexes, theatres with 10 or more screens. Cinepolis has seen the share of regional and Hollywood films in its revenues rise in these markets because there are enough screens to play them long enough for word-of-mouth publicity.

It is easier for studios to take any film national because of digitalisation, points out Rajkumar Akella, managing director, Remrak India, a global audience measurement firm. "The cost of a print is a fraction of what it was, so releasing across 1,500-2,000 and more screens is doable."

This creates tremendous pressure on each screen. At over 1,700 films in 2014, there were about 30 releases every week. The pressure then means that for every *Baahubali* that grossed ₹ 411 crore in theatrical revenues, there is the critically acclaimed *Masaan* that does not get enough time.

Attacking piracy

The second thing that more screens could do is improve the spread of revenues. According to a Rentrak report, Mumbai, Delhi and Uttar Pradesh account for over 60 per cent of the total revenue for Hindi films largely because functional screens are concentrated in these markets. The other markets simply watch pirated versions killing potential revenues.

"If 9,000 single screens are converted into three-screeners, 27,000 screens can be added, in six months," claims Nitin Datar, president, Cinema Owners and Exhibitors

Association of India.

Refitting or turning single screens into two- or three-screen multiplexes costs ₹40-75 lakh at the low-end, says Rajesh Mishra, CEO, UFO Movies. The money, says Datar, could come from a tax holiday or subsidy or allowing single screen owners to have extra floor space index that can then finance the retrofit. Plus, "not all single screens can be converted into multiplexes. They are usually on a single plot of land, and underground parking, open areas around are all requisites. Often, they belong to families with splintered shareholding," says Tandon.

Multiplexes, with three and more screens are the only way forward, say analysts. The cost is about ₹2.5 crore per screen in the metros and under ₹2 crore in the non-metros, reckons Tandon.

"Multiplexes are the core of malls. The difference in average ticket price between a multiplex within and outside of a mall is 10-15 per cent. So there is pressure unless enough and more supply of malls is there," says PVR's Gianchandani.

Not everyone agrees. "A multiplex could come up next to a local supermarket or shopping area, next to a marriage hall. And it need not be a multiplex, could be a twin theatre system too," says Saurabh Saxena, chief operating officer, Carnival. Of Carnival's 327 screens, 60 per cent are in Tier two and three towns. And it liberally uses the non-mall approach wherever needed. The result: while average ticket prices are lower at ₹126 in non-metros versus ₹170 in the metros, the margins are the same. That is because the cost of running the multiplex is lower in small towns.

Ratan Jain, director, Gold Cinemas, which has 65 screens, says small towns need the twin-theatre approach — two screens with small capacities and lower prices. Gold, he claims, makes the bulk of its money from ticket sales and almost nothing from food & beverages. Its whole premise is offering the single-screen audience a slightly better experience for a slightly higher price. Licensing, uneven entertainment tax (a state subject) and other issues remain critical.