



The promise of bigger screen presence

UFO Moviez and Qube, two of India's largest digital cinema firms, join hands to carve out a bigger slice of the ad pie.

How many cinema screens with one company make for enough advertising heft? That is the question the proposed merger of the Rs 595-crore UFO Moviez India with the Rs 360-crore Qube Cinema Technologies raises. The decision, announced earlier in November, was greeted by a 10 per cent spike in UFO's share price. "It is a great transaction. The bargaining power of the combined entities is better," says Rohit Dokania, vice-president (research), IDFC.

UFO has digitised more than 5,100 screens in India. Of these, it owns the advertising rights to about 4,000. Qube, which is more focused on south India, has the ad rights to 3,300 screens. Together, the combined entity will have 7,300 screens. Last year, advertisers spent Rs 1,500 crore reaching the 998 million Indians who watched films in a theatre. "The reasons (for the merger) are obvious, there will be ad (revenue) growth because of the entity," says Senthil Kumar, co-founder, Qube. Together, UFO and Qube make Rs 287 crore in ad revenues; "taking it to Rs 400-500 crore can be rapid with this combo," says Sanjay Gaikwad, founder and managing director, UFO Moviez.

Any move to consolidate in India's fragmented Rs 14,230-crore film market is usually welcome. Most analysts agree that combining the cost of the satellite bandwidth required to deliver movies digitally, rationalising disparate technologies et al, could bring down costs by Rs 15-20 crore. However, it is not quite clear how advertising could improve.

As Dina Mukherjee, chief marketing officer, Carnival Cinemas, explains; "Having 7,300 screens combined will not make that much of a difference because 2,000-2,500 multiplex screens lure major advertisers and contribute 80 percent to the overall pie. Rest of the single screens (which is what UFO and Qube control) contribute 20 per cent. Cinema advertisers still prefer tier I, II cities and their (UFO-Qube) target group is different," says she.

Not just the proportion of ad spends, even yields are lower. PVR and Inox made five to 10 times more in ad revenues per screen than UFO, which had ten times as many screens in 2016-17. What then is the duo banking on?

Two plus two may not be four

Gaikwad and Kumar were among the earliest entrepreneurs in the business in 2004. As digital screens spread, their success also presented a business problem. "From a shareholder perspective, growth is a challenge because the ecosystem is now digitised; there are no more screens to digitise. This (merger) gives them better bargaining power with the studios. They are now more of a media company," says Nitin Sood, CFO, PVR Cinemas. Gaikwad agrees. "As our base increased, the big challenge has been maintaining growth," says he.

UFO makes its revenues from three sources: advertising, the virtual print fee that it charges producers and the lease rental income on digital equipment it lends to theatres and advertisers. With the number of theatres stabilising, the print fee income has been stagnant for the last three years. This is where Qube makes a good partner for three reasons.

One, it's largely DCI or Hollywood approved screens are in the south Indian markets. Together, the firms can now offer a pan-India reach with both the high-end DCI screens and the lower end e-cinema ones. This should improve yields.

Two, both Qube and UFO are on different compression technologies. Adding the two helps producers cut down costs since they will only be going to one vendor. It also offers the possibility of a hybrid solution - which should again improve yields.

But the thing that really stops advertisers from spending more on single screens is the lack of metrics. And that is the third thing that this merger hopes to crack. The reason multiplexes get a better deal is not just because of location, but also measurability - they have automated ticketing systems, so occupancy becomes a measure of reach.

About three-fourth of the single screens, even if digitised, do not have an automated ticketing system. That makes measurement almost impossible. Qube, however, has been conducting an experiment in 15 of its screens with ticketing systems using iCount. It is a software that detects the number of occupied seats in a theatre or auditorium. This is then validated by the actual ticketing system. Since the experiment started two years ago, iCount has hit 95 per cent accuracy levels on audience measurement.

Kumar says that Qube will soon offer the iCount feed to a research agency. By March 2018, this data will be converted into a robust metric which the research agency can then commercialise. Kumar reckons that the impact of a robust metric on UFO-Qube's combined ad revenues could be 10-15 times, over five to seven years.

The challenges? Getting advertisers to accept the measure and cough up better rates. Another could be the Competition Commission of India or CCI, says Dokania. UFO and Qube between them control over 76 per cent of the 9,600 screens in India. For now, though, since Qube, the merged entity, was below the Rs 1,000-crore topline threshold, the transaction did not require notification to and approval from the CCI. The duo could, however, attract the commission's attention if they display any monopolistic tendencies - for instance, an unjustified hike in the virtual print fee. Gaikwad reckons that the print fee would increase only if there are enhanced services being offered because of the merger.

For now, it is the promise of advertising that beguiles.