UFO digital cinema

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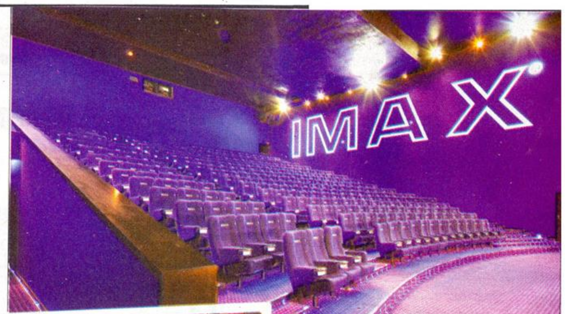
PVR ECX; (below) PVR Playhouse



NEXT SHOW: The Multiplex Revolution

Home theatres, stagnant footfalls, licensing issues — multiplexes face multiple challenges. How are they upping the ante?

Chandni.Mathur@expressindia.com

LONG gone are the days of patrons watching a movie in an 800-900 seat theatre with wooden chairs and antique fans, vying for the 'popular' balcony seats. Cut to today's multiplex phenomenon replete with comfortable recliners, latest sound and projection technology and endless F&B options delivered straight to your seat.

Today, the consumer has access to flexi-ticket pricing, flexible show timings, online booking, etc at the click of a button. And players like PVR, Inox, Cinépolis and Carnival are trying out newer ways to make the user experience worth her time, including setting up network operation centres to monitor the light/sound intensity of screens, increasing legroom and compromising on the total number of seats.

> We wouldn't like to increase our ticket prices competing with western countries at the cost of losing consumers
>
> **PV SUNIL,**
> CEO & Director,
> Carnival Cinemas

Not surprisingly, as PVR claims, the more expensive recliner seats are getting booked first. Moreover, investments are being driven by improved per-ticket realisation, rising urbanisation and growing disposable incomes.

Despite a large number of films produced in India, the cinema exhibition industry has a big challenge — of lower gross realisation when compared to its global counterparts. Irrespective of the fact that Indian screens registered second highest footfalls in the world in 2015 (over 2.1 billion) following China (almost 2.2 billion), it continues to remain abysmally low when compared to global cinema exhibition industries in terms of revenue. So the question is, whether the film exhibition industry in India is growing at the right pace.

A whole new curtain raiser

Not surprisingly, multiplexes, which account for about 25% of the total screens currently, contribute to over 60% of the total box office collections in the country.

Explains **PVR** chief of strategy Kamal Gianchandani, "People wanted to watch films, but they were unhappy with the destination. The economic model of single screens was outdated. Multiplexes gave them choice in terms of show time, movies, etc which as an economic model was viable because the occupancy levels increased and we were not dependent on one film." With the economic model shifting as more screens resulted in more footfalls, experience has become the keyword as players introduce various services, focus on staff training and designing each property.

> Multiplexes rely on malls but due to the slow growth, developments are coming at a higher price and thus the cost is increasing
>
> **DEVANG SAMPAT,**
> Director, strategic initiatives, Cinépolis India

F&B is another focus area as sales contribute almost 20-25% in the total revenue pie for multiplexes. While many have introduced gourmet food in their menus including items like sushi, others innovate and refresh their menu on the basis of the movies being showcased.

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Online Link -http://www.financialexpress.com/industry/multiplexes-under-onslaught-but-heres-how-they-are-scripting-a-revolution/465300/

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Alok Tandon, CEO, **Inox Leisure**, highlights the usage of handheld tabs given to staff to take F&B orders in the lobby, so that patrons don't have to queue up. "It's an extra point of sale for us. The ease of ticketing has also been enabled by flashing the QR code on your mobile for entry. We also have Bluetooth emitters which give location based info and offers."

However, the spends per head on F&B are very low currently at around ₹50-60, which needs to increase. In developed markets, the ratio of ticket prices to F&B is 1:1; in India, it is 3:1 signifying headroom to increase the spends. Players in the film exhibition segment have grown not only through organic screen additions, but also through acquisitions of multiplexes and single screens. Inox kicked off the consolidation phase by acquiring Calcutta Cine in 2007, followed by Fame Cinemas in 2012 and Satyam Cineplex (2014); Cinépolis acquired Fun Cinemas in 2015; Carnival Cinemas acquired HDIL's Broadway Cinemas, Reliance's Big Cinemas and Network18's Stargaze; while PVR took over Cinemax in 2013 and DT Cinemas earlier this year. Consolidation of the multiplex segment has resulted in the top four cinema operators (PVR, Inox, Carnival and Cinépolis) controlling almost 70% of the market.

"Smaller players find it difficult to manage their businesses and consolidation is a natural evolution. You save on the overheads and because of your size and scale, you are able to give better services at more affordable prices," states Gianchandani.

Demonetisation and more

While multiplexes have shown a growth rate of 15% in terms of adding screens, increasing from 925 in 2009 to 2,100 in 2015, over 2,000 single screen cinemas have shut down or converted to multiplexes mainly due to greater cost of operations (higher entertainment taxes, increase in distributors' shares and lower ticket prices), non-viability of running on a standalone basis and a low occupancy rate.

Compared to international markets like the US and China, India has a low penetration of multiplexes with a potential to have almost 7,500-10,000 multiplex screens pan India. India has over 2,100 multiplexes and over 6,000 single screens.

> Handheld tabs are an extra point of sale for us. The ease of ticketing has also been enabled by flashing the QR code for entry. We also have Bluetooth emitters to give location based info
>
> **ALOK TANDON,** CEO, Inox Leisure

"The number of screens is not going up. If 200-300 screens are getting added, an equal number is getting sucked out of the equation," says Rajesh Mishra, CEO, **UFO Moviez**. Organic screen addition too is limited due to the real estate slowdown. Multiplexes rely on malls but due to the slow growth, whatever developments are coming up are at a higher price and thus the cost is increasing. "Second, the long licensing time is also slowing the growth of multiplexes," mentions Devang Sampat, director, strategic initiatives, **Cinépolis India**.

Another challenge is to increase the average ticket prices (ATP) — currently around

₹95, compared to $8.25 (₹560) in the US and $5.5 (₹375) in China. However, multiplex players seem unfazed as they state it's growing annually by 6-7%, which is at par with inflation. Once the screens increase, operators will have the ability to charge more.

PV Sunil, CEO and director, **Carnival Cinemas** states, "As we grow, we increase our ticket prices. We wouldn't like to increase our prices competing with western countries at the cost of losing consumers."

The third challenge is taxes and regulatory hurdles. Some states are still following 20-30 year-old licensing norms even as players are asking for a single window clearance.

"From getting a license to making it operational takes around five to six months. For a cinema, you require 8-10 licenses every year, which makes it a difficult business to be in," Sunil adds. "Going by the margins on which we operate after all this, we need high footfalls and this is a risky business as not every movie is a blockbuster."

The high entertainment tax, where multiplex owners pay around 27% on an average compared to the US which is 12.5%, is also an obstacle but players expect it to reduce with the GST bill. While the present demonetisation move seems to have a temporary impact on ticket sales, players claim it's not very bothersome as patrons are increasingly opting for cashless transactions. In fact, Inox has partnered with SBI to offer cash withdrawals at its 106 properties across the country.

PVR claims that currently about 42.5% of its tickets gets sold through online channels and this is growing by 7-10% every year — these account for almost 50% of the box office collection because the ATP of these tickets tends to be higher than that of the remaining. However, Sunil states that the overall effect on the multiplex business due to demonetisation is around 30% considering in-house cafe sales also.

Solving the problem

Mishra states that in smaller markets, people have money and land but no understanding to run the movie business. Hence, UFO Moviez launched Nova Cinemas — its franchise small screen brand in March this year to stabilise the demand-supply gap in regional markets. Most of the top plex owners are looking at opening 50-60 screens per year. Tandon states that Inox is opening around 50-60 screens every year.

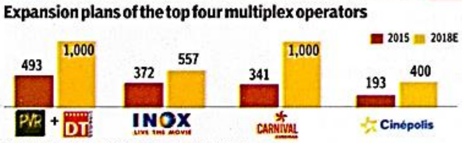
Single screens, being old structures, do not comply with the latest Cinematograph Act. This prompts multiplex owners to get them renovated albeit with difficulty. Carnival has adopted this in Bihar, Hajipur, Jharkhand, etc turning six to seven single screens into two-screen theatres.

For Cinépolis, expansion in metros with quality malls is definitely a priority but it is not shying away from smaller towns. Similarly, PVR has also been building 60-70 screens organically every year and the company doesn't see this number decreasing.

"Currently the market is such that for us to win, no competitor has to lose, as we are at 2,500 screens and this market can take at least 10,000 screens. There is a long way to go," Gianchandani sums up. BW

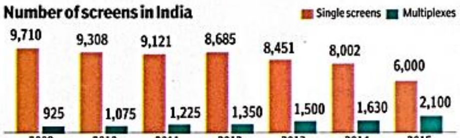
@chandni_mathur

Expansion plans of the top four multiplex operators



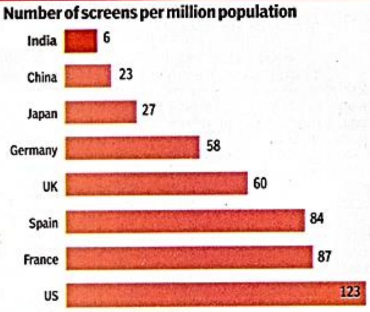
Source: Analyst Report: India Film Exhibition – Blockbuster year

Number of screens in India



Source: Inox Investor Presentation February 2016

Number of screens per million population



Source: PVR Investor Presentation August 2016

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