ICRA

Media and Entertainment

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Shutdown of cinema halls amid COVID-19 outbreak and slowdown in discretionary and advertisement spends - credit negative for the Indian Media and Entertainment industry

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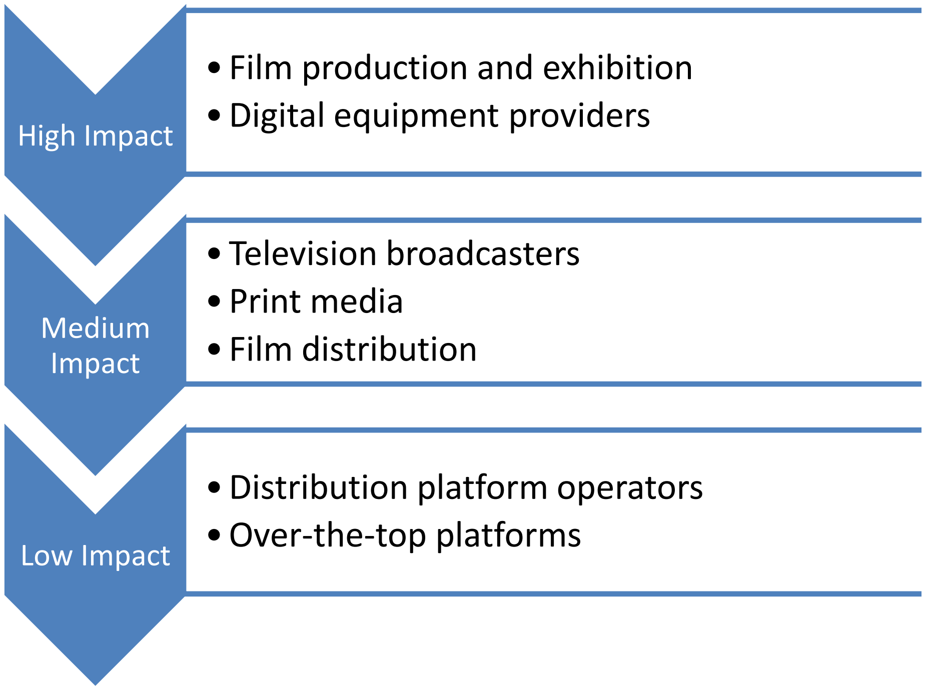
OVERVIEW

The coronavirus outbreak is a credit negative for the Indian Media and Entertainment (M&E) industry. While the impact is high for the film production and exhibition segments, it is medium for television broadcasters, film distribution and print media, and low for the distribution platform operators (DPOs, comprising direct-to-home (DTH) operators and multi-system operators (MSOs)). Furthermore, over-the-top (OTT) platforms are poised for growth. Besides direct impact by way of lost sales due to the shut-down of cinema halls, given the adverse impact on the overall economy, corporates are likely to curtail their advertisement spends over the short-term. This in turn will dampen the revenues and profitability of the Indian M&E industry. Additionally, consumer sentiments are also likely to remain weak in an adverse economic environment. Consequently, recovery in discretionary spending is expected to be gradual once the threat of Covid-19 is allayed. ICRA, thus, expects the credit profile of the entities with high dependence on advertisement revenues to moderate in the next one year.

Exhibit 1: Impact analysis for the Indian M&E industry



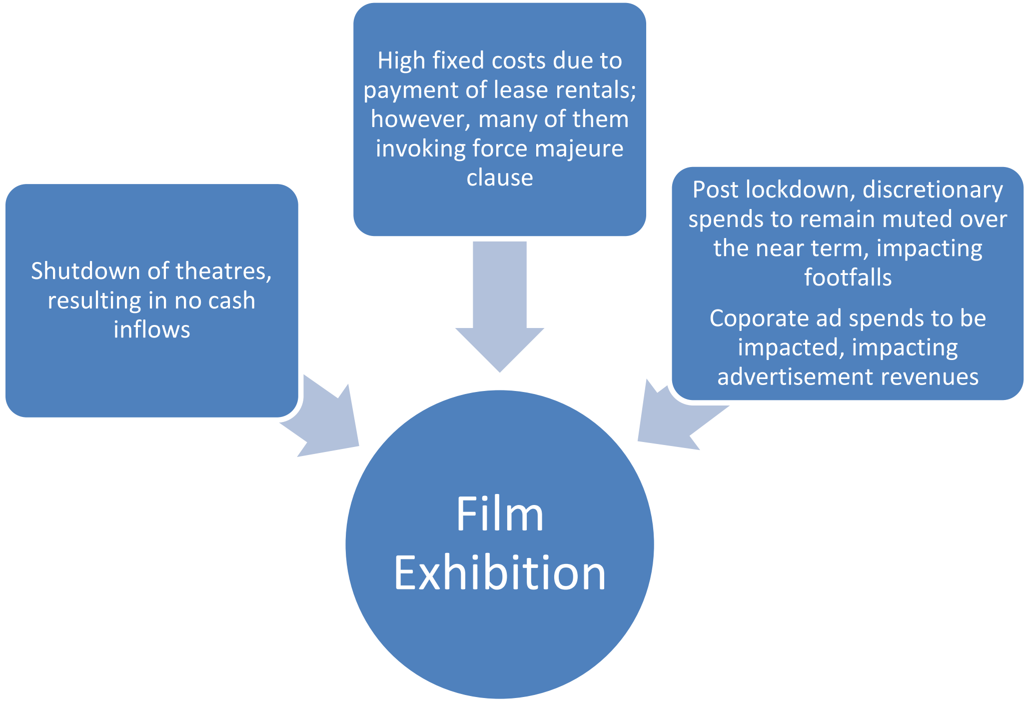
Source: ICRA research

Film Exhibition segment and Digital Equipment Providers – High impact

Within the M&E industry, this segment has been impacted the most with the COVID-19 outbreak. While the virus fears had already impacted the footfalls in theatres in the month of March 2020 by 30-40%, mandated closure of cinema halls across states starting March 10, 2020 has brought the film exhibition business to a complete standstill.

The film exhibition industry is characterised by high fixed costs. Around 40% of the total costs of the exhibitors is fixed in nature, with lease rental being the major component. Such shutdown of operations is thus a significant credit negative for the industry, as this will result in inability of the exhibitors to meet their operating expenses in the absence of cash inflows. However, many of these exhibitors have invoked force majeure clauses in their agreements so that they do not have to pay lease rentals during this period of shutdown, thereby limiting impact on their losses.

Exhibit 2: Impact analysis on Film Exhibition segment



Source: ICRA research

Closely linked with the prospects of the film exhibition industry are the digital equipment providers, who receive monthly lease rentals for the digital equipment (including projectors) provided to the exhibitors, share of advertisement revenues from the exhibitors for the contracted screens and virtual print fee (VPF) from the film producers on a per show basis. With the shutdown of theatres, the advertisement revenues and VPF income for these digital equipment providers have completely stopped. As regards the monthly lease rentals (comprising ~11% of the total revenues of digital equipment providers), while the exhibitors are required to make monthly payments, they would likely get offset against the minimum guarantee advertisement revenue sharing by the equipment providers.

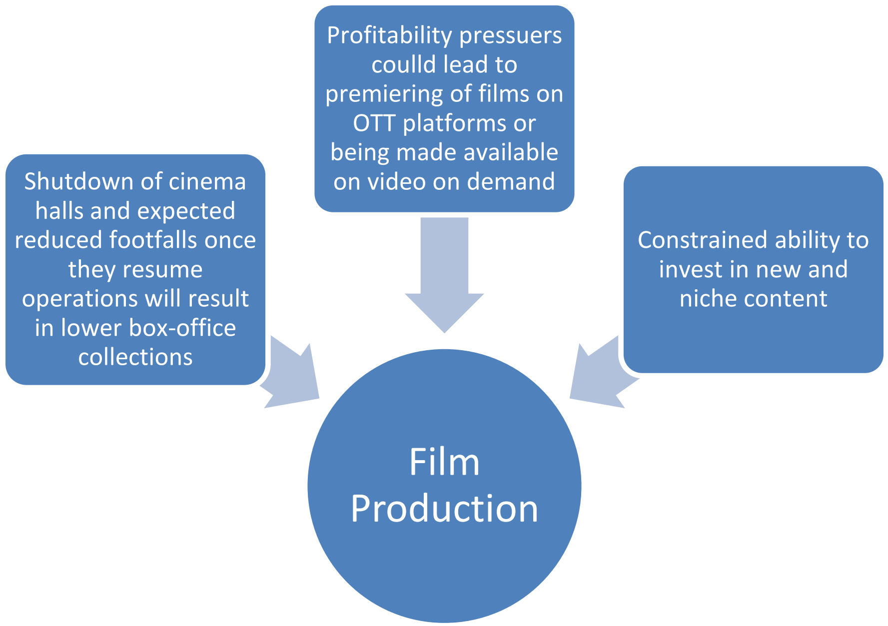
Even after the theatres resume operations post the lockdown, consumers, as a means of caution, are likely to stay away from crowded places. Furthermore, the discretionary spends are also expected to remain muted over the near term. Reduced footfalls will translate into lower ticket sales and food and beverage (F&B) revenues, which together constitute around 82-85% of the total revenues of an exhibitor. Furthermore, coupled with muted corporate spending on advertisements over the medium term, lower footfalls with also impact the advertisement revenues of the theatres, which comprise the balance 10% of their total revenues.

Film Production segment – High impact

Shutdown of cinema halls currently has resulted in the film producers having to defer their movie releases. Thus, no cash inflows constrain their ability to invest in future pipeline of movies. Furthermore, the reduced footfalls once cinema halls resume operations will result in lower box-office collections. This will adversely impact the revenues and thus profitability of film producers.

While blockbuster films, earlier slated for release during March 2020 and Q1 FY2021, are expected to be deferred beyond Q2 FY2021, there exists a high likelihood of premiering of small budget films on OTT platforms or being made available on video on demand and other rental platforms of Pay-TV, earlier, so as to monetise the content. Subdued consumer sentiments would also necessitate higher investments towards promotional activities by film producers, adding to profitability pressures. Weak revenue prospects for producers might also limit their ability to invest in new and niche content.

Exhibit 3: Impact analysis on Film Production segment



Source: ICRA research

Television Broadcasters – Medium impact

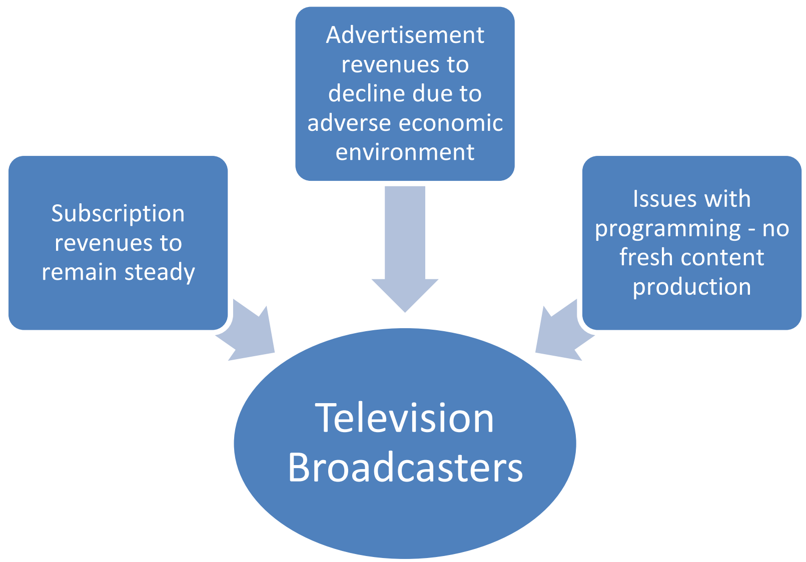
ICRA does not foresee any significant immediate adverse impact on television broadcasters as consumers are likely to increase their TV viewing during social distancing. Hence, subscription revenues for television broadcasters are expected to hold steady. These would, however, be lower by at least 10% on a YoY basis, owing to the recent amendments in the new tariff order (NTO) (which came into effect from March 1, 2020) as well as deferment of high viewership driving sports programmes, including the Indian Premier League (IPL), UEFA 2020, Olympics 2020, among others, which were earlier scheduled for airing over the next two quarters.

However, in case of a prolonged economic slowdown, rationalisation in subscription spends cannot be ruled out as cord-cutting increases in an adverse economic environment. The other major challenge for the broadcasters is fresh content production. Given the shutdowns and travelling restrictions, the broadcasters will face issue with programming and will have to rely on re-runs as pipeline of fresh content dries up.

Corporates are also expected to significantly scale down their advertisement spends over the next two-three quarters as businesses grapple with lower sales and profits, amid Government mandated shutdowns and work-stoppages. This will adversely impact the revenues and profitability of television broadcasters, who derive between 65% to 100% (for free-to-air (FTA) channels) of their revenues from advertisement. The television broadcasters have already witnessed a decline in their advertisement revenues during 9M FY2020 amid subdued consumer sentiments, though higher subscription revenues following the implementation of the NTO partially mitigated the impact.

Revenues from other sources including live shows and sponsored events are also expected to decline, at least for the next one-two quarters following weak advertiser confidence and expected lower footfalls as consumers will be wary of stepping out.

Exhibit 4: Impact analysis on Television Broadcasters

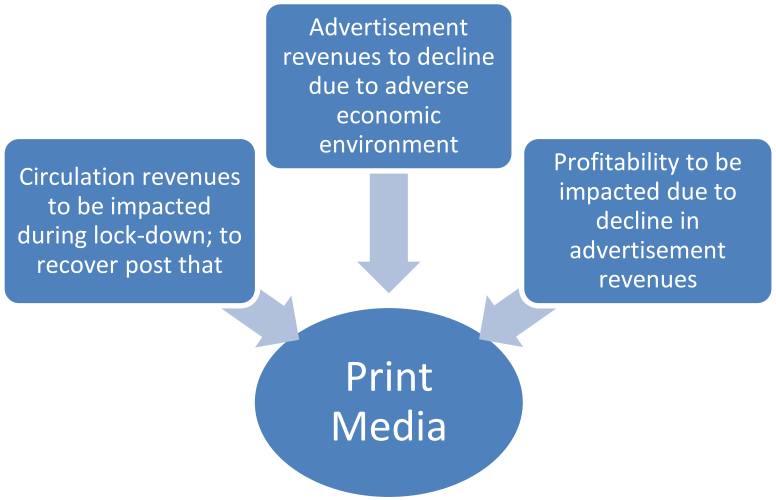


Source: ICRA research

Print Media – Medium impact

For the print segment, while circulation revenues are likely to be impacted during the period of lockdown, they would recover once the lockdown is over. However, with ~70% of their total revenues being contributed by advertisement, a decline in the same will adversely impact the revenues of print media companies. Furthermore, with the newsprint loss (circulation revenues less cost of printing a newspaper (including newsprint cost)) being compensated by advertisement revenues, the decline in advertisement revenues will impact the profitability of this segment.

Exhibit 5: Impact analysis on Print Media

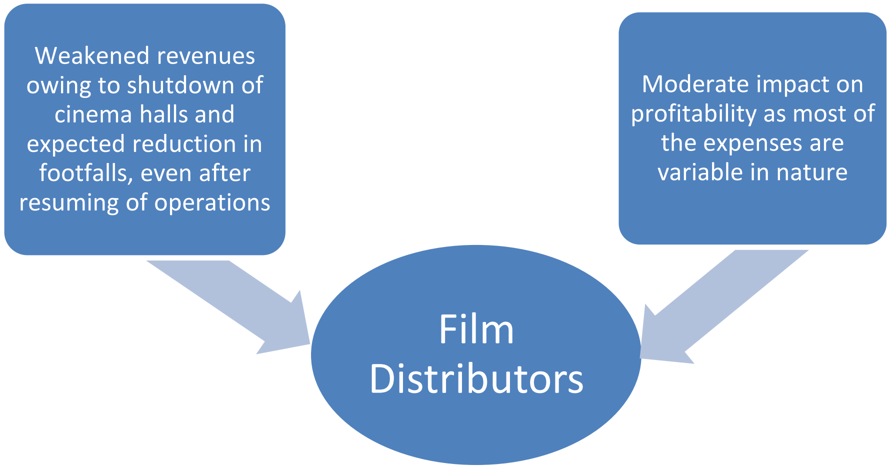


Source: ICRA research

Film Distribution – Medium impact

The shutdown of cinema halls will adversely impact the revenue inflows of the film distributors, who generally operate on the revenue share model (where a fixed percentage of the box-office collections is retained by the distributor as commission for distribution of the film) or the minimum guarantee or outright purchase model (where a significant risk on film's performance is borne by the distributor). Nonetheless, given that large portion of their costs are variable in nature, ICRA expects the impact of COVID-19 outbreak to be relatively moderate on the profitability of film distributors.

Exhibit 6: Impact analysis on Film distributors

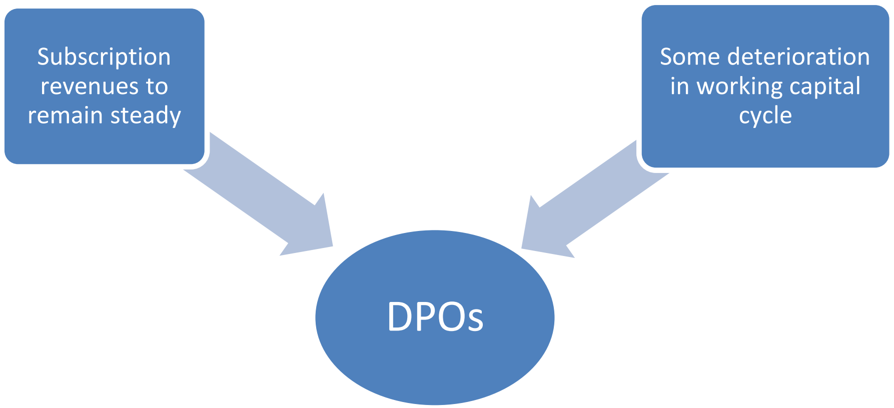


Source: ICRA research

Distribution Platform Operators (DPOs) – Low impact

The impact of COVID-19 on DPOs is expected to be limited, at least in the short-term, as subscribers are expected to hold on to their current subscription packages. There might, however, be some deterioration in the working capital cycle for MSOs, as collections become difficult during lock-down.

Exhibit 6: Impact analysis on Print Media



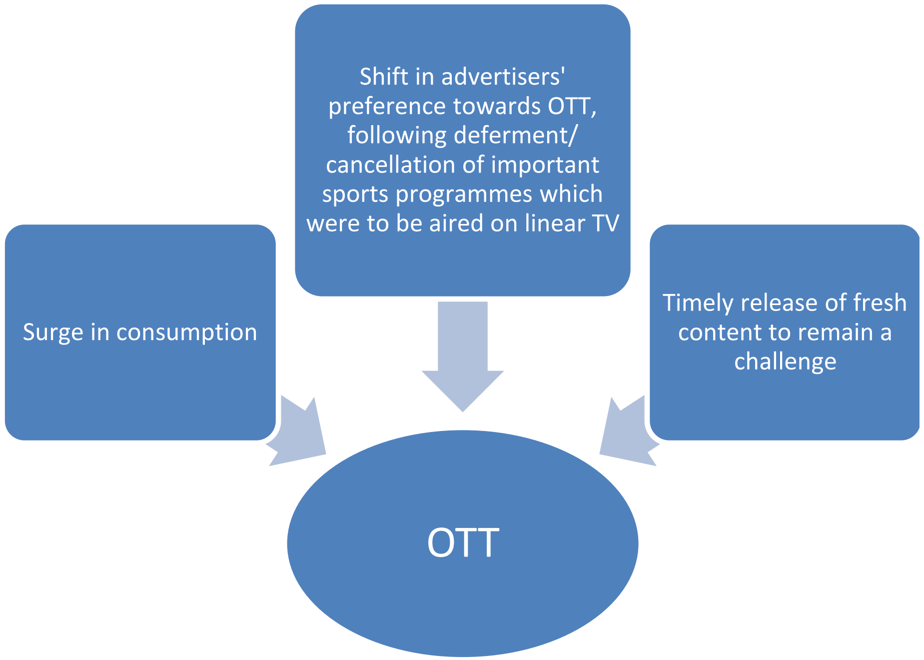
Source: ICRA research

Over-the-top (OTT) platforms – Poised for growth

The current lock-down is expected to lead to a surge in consumption of OTT platforms, at least over the short-term, as consumers stay home. While earlier, OTT viewing was largely restricted to the commute time of the travellers, its consumption is expected to spike with people now staying indoors and also on weekends owing to lack of other avenues of entertainment. This is also evinced in the recent scrambling and congestion of data networks of telecom service providers due to the jump in broadband consumption, following which OTT platforms announced reduction in bit rates.

A shift in advertisers' preference towards online platforms (vis-a-vis linear platforms) is also expected as they attempt to garner more eyeballs and especially, after the deferments and cancellations of various sports programmes which were to be aired on linear TV. Amid increased demand, the challenge for the OTT platforms would be to ensure timely release of fresh content.

Exhibit 7: Impact analysis on OTT Platforms



Source: ICRA research

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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