ICRA

A MOODY'S INVESTORS SERVICE COMPANY

INDIAN MEDIA AND ENTERTAINMENT INDUSTRY UPDATE

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

December 2020

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@icraindia.com

CREDIT OUTLOOK: NEGATIVE

While the credit metrics of film exhibitors will weaken materially in FY2021 due to the pandemic, ICRA expects a moderate impact on the credit metrics of entities involved in print media and TV broadcasting segments

- ICRA has maintained its negative credit outlook for the film exhibition, print media and television (TV) broadcasting segments of the Indian Media and Entertainment (M&E) industry.
- ICRA expects a 80-85% YoY contraction in revenues in FY2021 for the film exhibition industry. The occupancy levels will remain subdued during the balance four months of FY2021 as consumers are likely to stay away from enclosed places, amid rising cases of Covid-19 infections. While ICRA expects the over-the-top (OTT) platforms to remain the preferred mode of release of small to mid-sized budget films during FY2021, producers of large budget films are expected to defer their movie releases to Q1 FY2022 and beyond. In the absence of fresh content, advertisement revenues will also remain muted. Such a pronounced revenue decline will lead to operating losses for the film exhibitors, though the industry's (multiplexes)[1] monthly cash burn will reduce from Rs. 57 crore in H1 FY2021 to Rs. 25-30 crore in H2 FY2021 supported by a sequential uptick in revenues and increased cost rationalisation.
- A 30% YoY decline in revenues in FY2021 is likely for the print media segment. Circulation revenues will recover largely to pre-Covid levels by Q4 FY2021. Advertisement revenues have picked up well in Q3 FY2021, led by festive season demand, with most entities also witnessing an uptick in ad rates. Overall, ICRA expects advertisement revenues to improve sequentially, though shall remain lower by 7-8% on a YoY basis in H2 FY2021. Newsprint prices continue to trend low. ICRA expects the operating profit margins (OPM) of print media entities to be supported by savings in newsprint costs, thus witnessing a lower contraction by up to 200 bps YoY in FY2021.
- The TV broadcasting industry to witness a YoY decline of 15-20% in revenues in FY2021. Subscription revenues for TV broadcasters will hold steady in H2 FY2021 as consumers are likely to continue their TV viewing amid limited outdoor avenues of entertainment. Advertisement revenues witnessed a good traction during the festive season and are thus, expected to recover in H2 FY2021 (vis-a-vis H1 FY2021), as economic activity and growth improves; however, the same will be lower by 5% on a YoY basis. The OPM of TV broadcasters in H1 FY2021 was supported by the savings on fresh content creation costs. Given the anticipated revenue decline in H2 FY2021, ICRA expects the OPM to remain under pressure and contract overall by 400-500 bps in FY2021. Profitability pressures also arise due to the increasing investments in content necessitated by increased competition from digital platforms.

[1]*Aggregate of two listed exhibitors*

FILM EXHIBITION SEGMENT

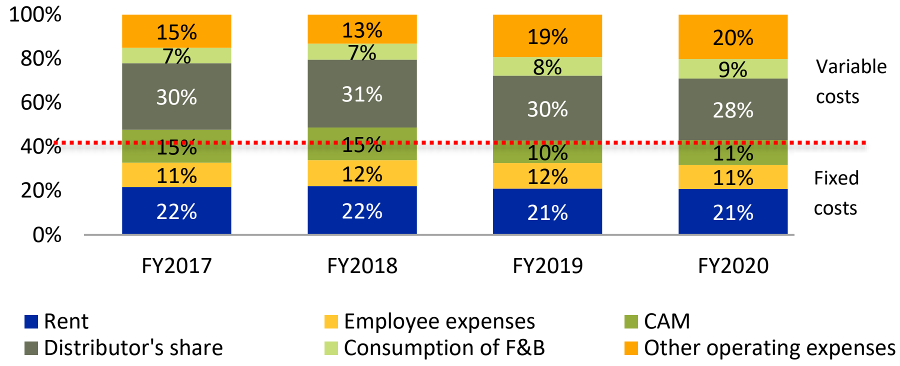
FOCUS ON COST RATIONALISATION; FIXED COST SAVINGS IN H1 FY2021 WERE HIGHER THAN ICRA ESTIMATES

Within the M&E industry, the pandemic took its biggest toll on the film exhibition segment. This segment has been adversely impacted from March 2020 onwards, when cinema-goers restricted their visits amid virus fears. Subsequently, the operations of theatres were completely shut from March 10, 2020 to October 15, 2020, following the nationwide lockdown and ensuing restrictions imposed by the Ministry of Home Affairs (MHA).

The film exhibition industry is characterised by high fixed costs. Around 40-45% of the total cost of the film exhibitors (primarily multiplexes) is fixed in nature, with lease rental being the major component, accounting for 20-22% of the total cost. To reduce the cash burn, multiplexes embarked upon a stringent cost rationalisation drive. While ICRA had estimated a ~66% reduction in fixed costs for the multiplexes during the shutdown period, the actual (fixed) cost savings reported by multiplexes stood higher at ~77% YoY in H1 FY2021.

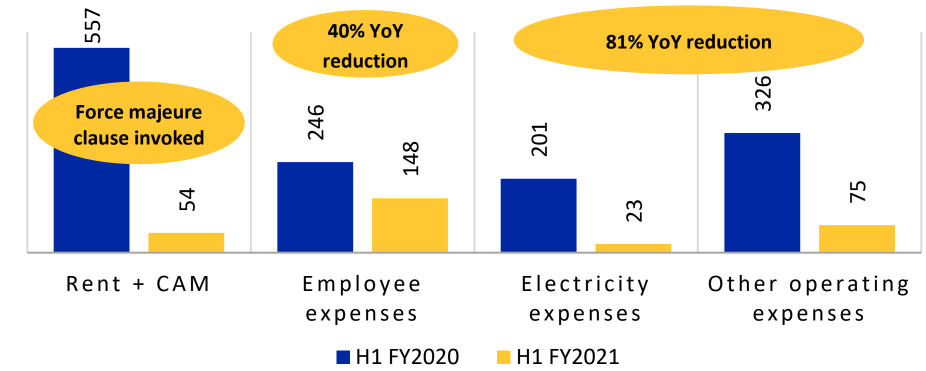
Multiplexes invoked force majeure clauses in their rental agreements in H1 FY2021, seeking a complete waiver of rental and common area maintenance (CAM) charges for the period of shutdown. Till September 2020, most of the multiplexes had been able to negotiate with ~60% of the landlords/developers on a) a complete waiver of rentals and nil/reduced CAM for the lockdown period and, b) a revenue-sharing model/ discounts to the minimum monthly guaranteed rentals, following resumption of operations. In value terms, till September 30, 2020, multiplexes were able to achieve rent concessions for ~34-38% of the rent outgo in FY2020.

Exhibit 1: Key cost elements for exhibitors



Source: *Company financials, ICRA research*

Exhibit 2: YoY reduction in fixed costs in H1 FY2021



Source: *ICRA research; aggregate of two leading listed film exhibitors, figures in Rs. crore*

Multiplexes are in dialogues with the remaining landlords/ developers. Overall, the film exhibitors expect to achieve at least 50% discounts to pre-Covid level of lease rentals in H2 FY2021.

Exhibitors have also undertaken salary rationalisation and have laid off staff in significant numbers (including contractual workforce) to manage their second largest fixed cost component. The listed players in ICRA's sample set reported a 40% YoY decline in employee costs in H1 FY2021. With resumption of cinema operations from October 15, 2020 onwards, while the employee costs will increase sequentially, these will remain lower on a YoY basis by ~30% in H2 FY2021. ICRA does not expect multiplexes to ramp up their employee base, till the operations normalise to pre-Covid levels.

Exhibit 3: Rent concessions received in H1 FY2021

	Unconditional rent concessions received till H1 FY2021	Savings
	Rs. crore	As a % of total rent expense in FY2020
Inox Leisure Limited	141.6	38%*
PVR Limited	187.6	34%

Source: *Company financials, ICRA research; *As a percentage of rent and CAM charges*

CINEMA HALLS PERMITTED TO RESUME OPERATIONS WITH EFFECT FROM OCTOBER 15, 2020; HOWEVER, THEY HAVE FAILED TO ATTRACT CONSUMERS DUE TO LACK OF FRESH CONTENT

After a hiatus of seven months, the MHA allowed cinema halls to resume operations from October 15, 2020, subject to state government discretion. The standard operating procedures (SOP) issued by the MHA mandate the auditoriums to operate with only 50% capacity, implying every alternate seat has to be kept vacant. Furthermore, only packaged food and beverages (F&B) are allowed inside the cinema halls. The show timings are required to be staggered to avoid crowding. Also, no overlap among screens is allowed with respect to show commencement, intermission and finish time. The SOP also lays down a host of guidelines for regular sanitisation of common touch points of the auditorium after every screening.

While cinema operations have started in most states (excluding Jharkhand (barring Raipur), Chhattisgarh, Odisha and Rajasthan as of November 26, 2020), the occupancy levels at multiplexes, are at present very low at mid-single digit levels (of the permitted capacity). Most multiplexes are at present relying on library content and have had only a handful of new film releases (with the exception of West Bengal, which saw six new releases during the Puja time).

The cinema halls are facing the classic ‘chicken-and-egg’ problem when it comes to footfalls and content as consumers are not visiting theatres since there is no fresh and quality content being released, while the film producers (especially Bollywood) are not doing theatrical releases of new big blockbuster films, given the lack of visibility on footfalls. Besides, consumers are also avoiding enclosed air-conditioned spaces in the fear of contracting the virus.

To attract cinema-goers, film exhibitors are also currently running various promotions on ticket prices and F&B. The average ticket price (ATP) is currently discounted at sub-Rs. 140 (vis-a-vis average of Rs. 200 in FY2020). Coupled with the restrictions on the type of food that can be sold, the discounts on F&B have further constrained the overall spend per head (SPH). Given the limited footfalls, the film exhibitors are also running lower daily shows of two-three per screen vis-a-vis four-five daily shows per screen during pre-Covid times.

OUTLOOK: NEGATIVE

ICRA expects an 80-85% YoY decline in revenues in FY2021 for the entities in the film exhibition industry. It stands revised downwards from ICRA's earlier expected revenue contraction of 60-65% in FY2021, given the complete shutdown of theatres till October 15, 2020 and lower-than-expected ramp up in footfalls thereafter.

The occupancy levels will remain subdued during the balance four months of FY2021 as consumers are likely to stay away from enclosed places, amid rising cases of Covid infections. This in turn will also lead to film producers deferring their movie releases or a possible digital release on the OTT platforms. While ICRA expects OTT to remain the preferred mode of release for small to mid-sized budget films in FY2021, producers of large budget films are expected to defer their movie releases to Q1 FY2022 and beyond. The ATP will remain sub-Rs. 150, as multiplexes shall continue with their promotional offers to attract cinema goers. All of these will result in lower ticket sales and F&B revenues, which together constitute around 82-85% of the total revenues of an exhibitor. In the absence of fresh content, advertisement revenues will also remain muted.

Such a pronounced revenue decline will lead to operating losses for the film exhibitors, though the industry's (multiplexes)[2] monthly cash burn will reduce from Rs. 57 crore in H1 FY2021 to Rs. 25-30 crore in H2 FY2021 supported by the sequential uptick in revenues and increased cost rationalisation.

The key challenge for the film exhibitors is the revival in consumer confidence, so that they feel safe and comfortable going to the cinemas, without any dilution in the overall movie-watching experience.

This will remain an important driver for theatrical release of fresh content. Besides, film producers releasing their films on OTT platforms also reduce the attractiveness of cinemas.

ICRA expects the credit metrics for the film exhibitors to weaken materially in FY2021, though the ICRA-rated portfolio has an adequate liquidity profile.

[2] *Aggregate of two listed players*

PRINT MEDIA SEGMENT

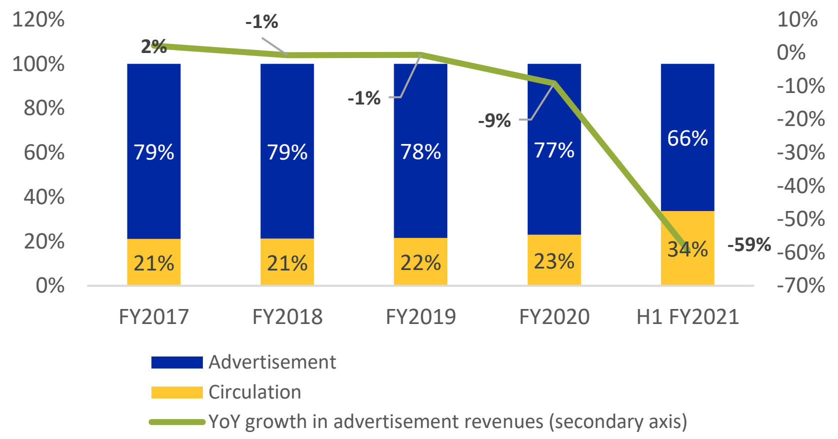
Sharp Decline In Revenues In H1 FY2021; Soft Newsprint Prices, However, Supported Profit margins

The print media entities in ICRA's sample set reported a 53% YoY decline in revenues in H1 FY2021 led by a decline in both advertisement and circulation revenues. The former declined by a sharper 59%, with the latter witnessing a decline of 27%.

Advertisement revenues witnessed a significant 76% YoY decline in Q1 FY2021 as corporates reduced their advertisement spends amid the pandemic. Some of the key advertising segments on the print media, like automobiles, real estate and consumer durables curtailed their ad-spends due to the then-imposed lockdown. Furthermore, the education segment also pulled back its advertisement spends due to delayed results of examinations, uncertainty regarding the conduct of entrance examination as well as closure of schools and educational institutions. Circulation revenues were adversely impacted by ~31% on YoY basis in Q1 FY2021, amid distribution challenges due to the then ongoing lockdown restrictions.

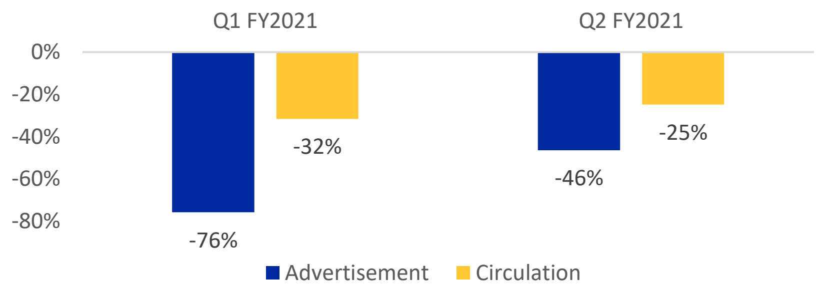
With the lifting of the lockdown, easing of restrictions and the commencement of economic activity, corporates increased their advertisement spends in Q2 FY2021. Sequentially, advertisement revenues almost doubled in Q2 FY2021, though they remained lower by 43% on a YoY basis. Consumer durables, e-commerce, automobiles and education remained the top contributors in terms of ad-spends during Q2 FY2021.

Exhibit 4: Key revenue components for print media companies



Source: Company financials, ICRA research; aggregate of four listed print media entities

Exhibit 5: YoY trend in revenues in H1 FY2021



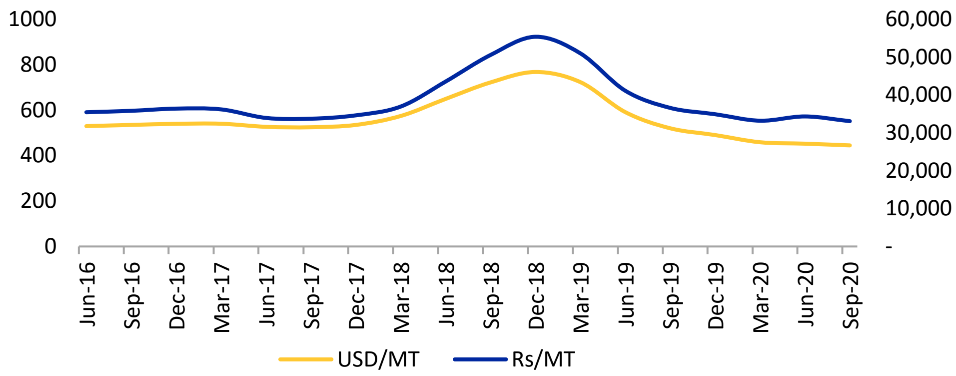
Source: *Company financials, ICRA research; aggregate of four listed print media entities*

The print segment also received advertisements from the fast-moving consumer goods (FMCG) companies, which have been traditionally primarily focussing its spends on television (TV) channels.

Circulation revenues also posted a sequential growth of 9% in Q2 FY2021, though they remained lower by 23% on a YoY basis, impacted by sporadic local lockdowns. Nonetheless, there has been a month-on-month recovery in newspaper circulation. The recovery has been sharper for Hindi and other regional dailies, with entities reporting an 85% recovery (to pre-Covid levels) in the month of October 2020. The balance 15% is impacted on account of cash point of sales (e.g. at railway stations, local metro stations) which contribute ~5-7% to the total circulation and the balance due to containment zone/area restrictions. The rate of recovery in circulation of English national dailies, however, remains lower at ~50% of the pre-Covid levels, adversely impacted by the high incidence of infections in metro cities and the restrictions imposed thereon by several residential societies.

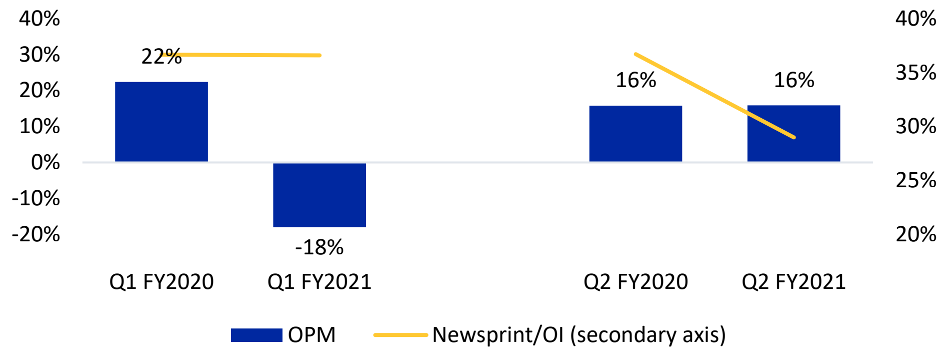
Newsprint prices were benign in H1 FY2021, with a YoY decline of 23% in H1 FY2021. Newsprint costs represent the single largest cost component for print media companies, accounting for 40-45% of their total cost. Coupled with reduced pagination (in the backdrop of sharp decline in advertisement and for optimisation of costs), this enabled the print media entities to report a positive contribution (defined as circulation revenues less newsprint costs) from circulation in Q2 FY2021. Further, aided by other cost control initiatives like rationalisation of employee costs and other overheads, the print media entities in ICRA's sample set were able to retain their Q2 FY2020 OPM in Q2 FY2021.

Exhibit 6: Key revenue components for print media companies



Source: *ICRA research*

Exhibit 7: Trend in newsprint costs and OPM



Source: *Company financials, ICRA research; aggregate of four listed media companies*

OUTLOOK: NEGATIVE

ICRA maintains its expectation of a ~30% YoY contraction in revenues in FY2021 for the entities in the print media segment.

Circulation revenues will recover largely to pre-Covid levels by Q4 FY2021, barring the cash point of sales. Advertisement revenues picked up well in Q3 FY2021, led by the festive season demand, with most entities also witnessing an uptick in ad-rates. ICRA expects advertisement revenues to improve sequentially, though they shall remain lower by 7-8% on a YoY basis in H2 FY2021. While digital consumption of news has seen an upswing during the current times, given the nascent stage of their monetisation, it is unlikely to make up for the loss of revenues in the print media.

Newsprint prices continue to trend low and are expected to correct by 1% (on a QoQ basis) in Q3 FY2021 and remain benign in Q4 FY2021. Entities in ICRA's sample set had an average of 140 days of newsprint inventory as on September 30, 2020, providing visibility for low newsprint cost in H2 FY2021. In the backdrop of expected recovery in advertisement revenues as well as to boost advertisers' confidence, many entities had also launched their mega city-wise editions. The pagination is thus, expected to improve to up to pre-Covid levels in Q4 FY2021. Nonetheless, given the expected 8% YoY reduction in newsprint prices in H2 FY2021, the overall newsprint costs would be lower by 33% on a YoY basis.

With ~78% of total revenues of the print media segment contributed by advertisement, a decline in the same will adversely impact the profit margins of print media companies, though ICRA expects the same to be partly offset by savings in newsprint costs. ICRA expects the OPM of print media entities to contract YoY by up to 200 bps in FY2021.

While credit metrics for print media entities will weaken, ICRA-rated entities have strong liquidity to weather the impact.

TELEVISION BROADCASTING SEGMENT

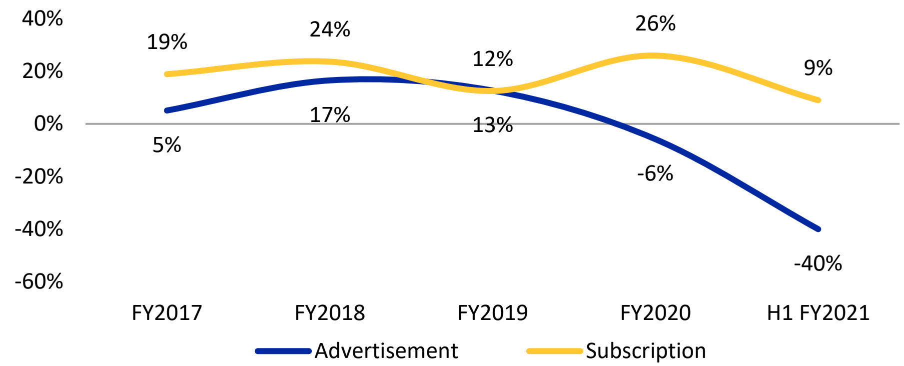
Strong Sequential Increase In Revenues In Q2 FY2021

TV broadcasters in ICRA's sample set reported a 21% YoY decline in revenues in H1 FY2021. Advertisement revenues witnessed a sharp 40% YoY decline in H1 FY2021, though the same was partly offset by the 9% YoY growth in subscription revenues as subscribers increased their TV viewing during the pandemic.

In Q1 FY2021, ICRA's sample set of TV broadcasters witnessed a whopping YoY decline of 59% in advertisement revenues, as corporates pulled back their advertisement spends, amid the uncertainty during the then imposed lockdown and the pandemic. Depending on genres, advertisement revenues were impacted by 25-60% (vis-a-vis pre-Covid average monthly revenues) in Q1 FY2021. While news and movies genres were on the lower end of the spectrum, with an average decline of 25-30% in advertisement revenues, the general entertainment channels (GECs) and sports channels witnessed a sharp 50-60% reduction in advertisement revenues in Q1 FY2021, given the absence of fresh content (due to the lockdowns and travelling restrictions) and deferment of high viewership driving sports events - including the IPL, UEFA 2020, Olympics 2020, among others.

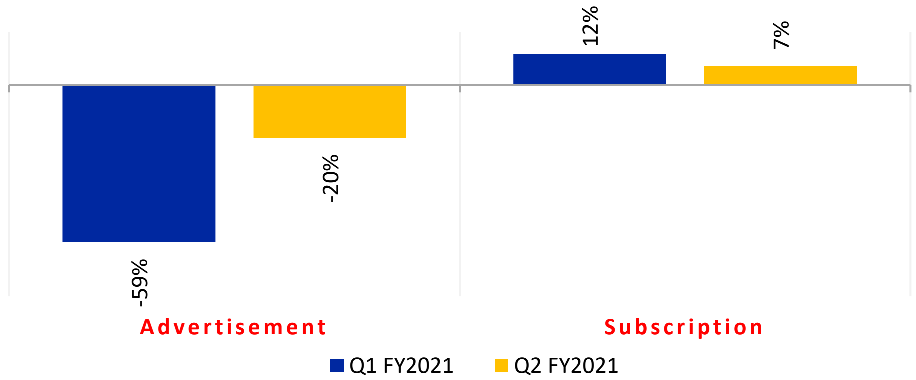
Advertisement revenues posted a strong sequential recovery of 86% in Q2 FY2021 (albeit on a low base), though they were lower by 20% on a YoY basis. The sequential growth was aided by the lifting of the lockdown, easing of restrictions and resumption of fresh content on GECs with effect from June 2020. Genre-wise, GECs regained their popularity and market share that they had lost to news and movies during the lockdown. FMCG, e-commerce and consumer durables remained the top contributors in terms of advertisement spends in Q2 FY2021.

Exhibit 8: Trend in revenues (YoY growth)



Source: *Company financials, ICRA research; aggregate of six listed TV broadcasters*

Exhibit 9: Advertisement and subscription revenue growth in H1 FY2021

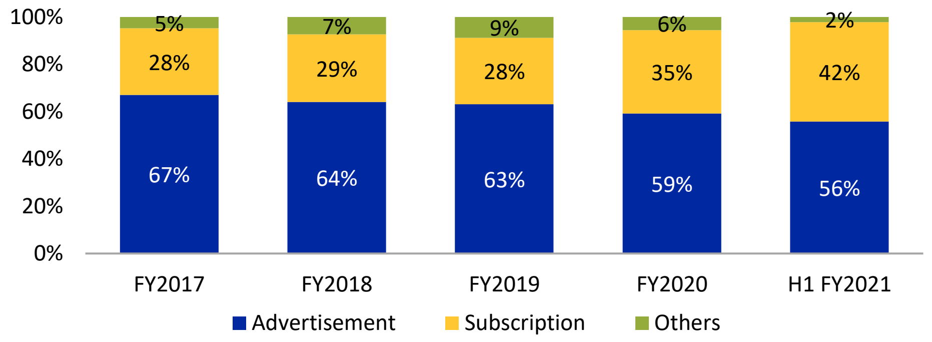


Source: *Company financials, ICRA research; aggregate of six listed TV broadcasters*

TV viewing remained high during H1 FY2021 (vis-a-vis pre-Covid levels), given the then shutdown of cinema halls and limited outdoor avenues of entertainment. This is also evinced in improved subscription revenues, which grew by 12% on a YoY basis in Q1 FY2021 and 7% YoY in Q2 FY2021.

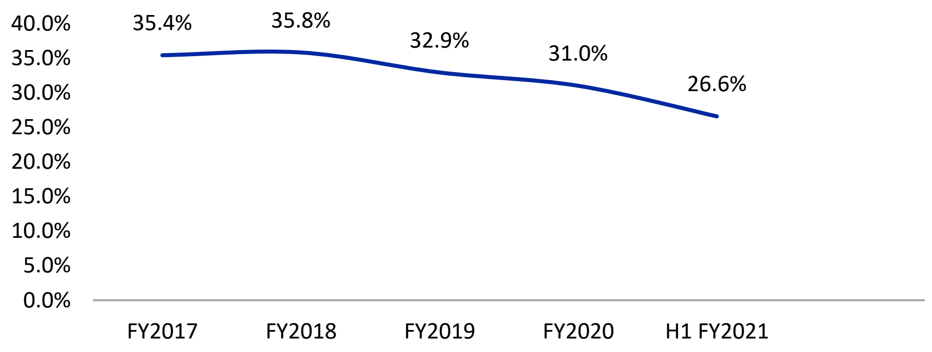
Since advertisement revenues account for more than 55% of the total revenues of TV broadcasters (and even 100% in case of free-to-air channels), decline in these, adversely impacted the OPM of TV broadcasters, which contracted to 26.6% in H1 FY2021 vis-a-vis 31.6% in H1 FY2020 (for ICRA's sample set). To offset the decline in revenues, the TV broadcasters rationalised their overheads, selling and promotion expenses and employee costs, which were cumulatively lower by 17% on a YoY basis in H1 FY2021. Content and other operational costs (which account for 35-40% of the revenues) were also lower by 21% on a YoY basis in H1 FY2021, as broadcasters saved on fresh content creation costs in Q1 FY2021 due to the lockdown.

Exhibit 10: Revenue mix for TV broadcasters



Source: *Company financials, ICRA research; aggregate of six listed TV broadcasters*

Exhibit 11: Trend in OPM of TV broadcasters



Source: *Company financials, ICRA research; aggregate of six listed TV broadcasters*

OUTLOOK: NEGATIVE

ICRA expects the TV broadcasting industry to witness YoY contraction of 15-20% in revenues in FY2021. This stands slightly revised upwards from ICRA's earlier estimates of a revenue contraction of 18-25% in FY2021, given the higher-than-expected growth in subscription revenues in H1 FY2021 and stronger YoY recovery in advertisement revenues since Q2 FY2021.

Subscription revenues for TV broadcasters are expected to hold steady in H2 FY2021 as consumers are likely to continue their TV viewing amid limited outdoor avenues of entertainment. Overall, subscription revenues are expected to witness mid-single digit revenue growth in FY2021.

Advertisement revenues witnessed a good traction during the festive season and most of the TV broadcasters have witnessed an uptick in ad-rates in Q3 FY2021. Industry players expect to reach pre-Covid advertisement revenues in Q3 FY2021. Advertisement revenues will thus witness a strong recovery in H2 FY2021, as economic activity and growth improves; however, the same will be lower by 5% on a YoY basis.

The OPM in H1 FY2021 was supported by the savings on fresh content creation costs. Given the anticipated YoY revenue decline for H2 FY2021, ICRA expects the OPM to remain under pressure and overall contract by 400-500 bps in FY2021. Profitability pressures also arise due to the increasing investments in content necessitated by increased competition from digital platforms.

Overall, ICRA maintains its earlier stance of a moderate impact of Covid-19 on the credit metrics of entities engaged in the TV broadcasting segment.

ICRA-Rated Media And Entertainment Companies

Exhibit 12: Rating distribution of ICRA rated universe of M&E companies as on November 28, 2020

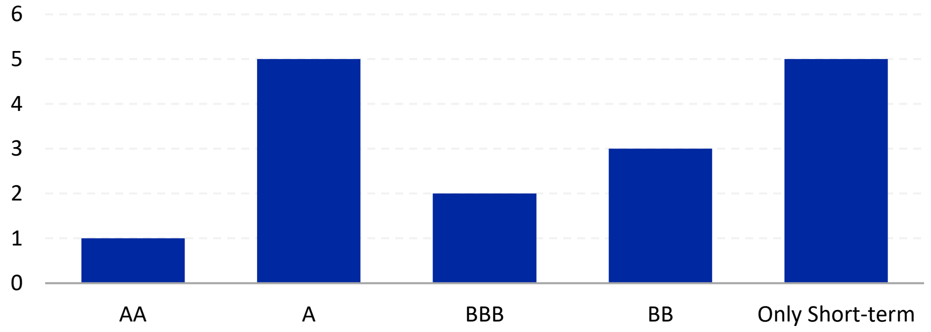
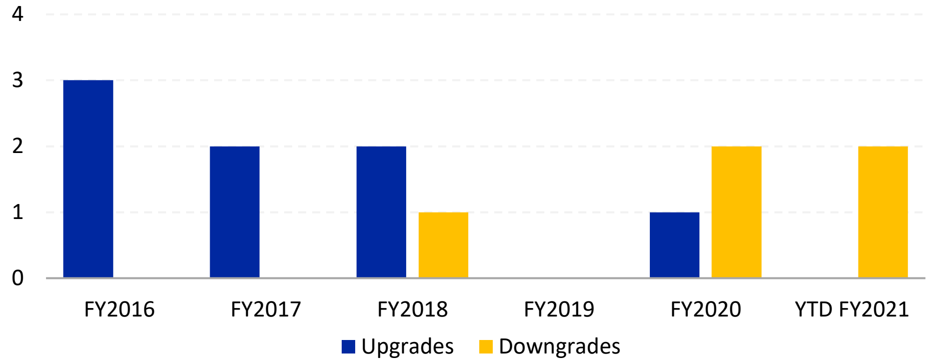


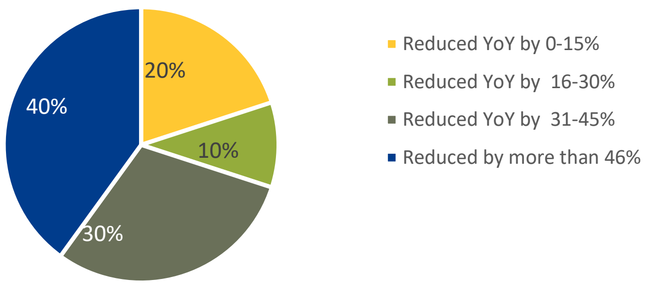
Exhibit 13: Count of upgrades and downgrades (ICRA rated universe of M&E companies)



Source: *ICRA research*

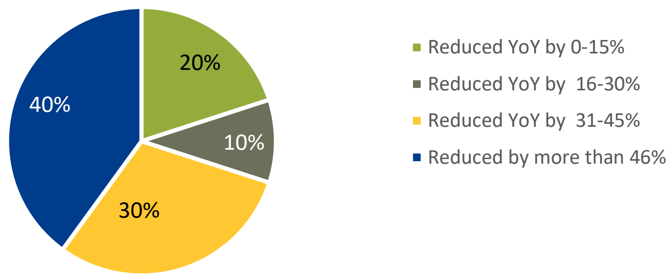
Channel Check With M&E Entities[3]

Q. How has been the trend in advertisement revenues in H1 FY2021?



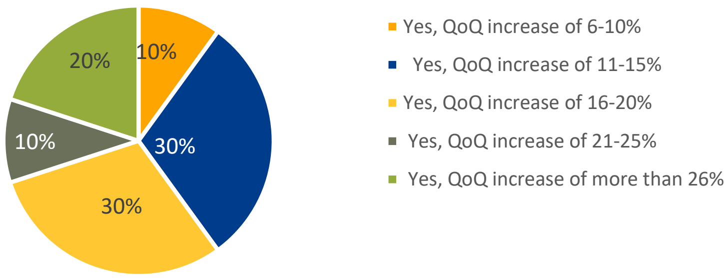
70% of the respondents witnessed decline in advertisement revenues by more than 30% in H1 FY2021

Q. How has been the YOY trend in the ad rates in H1 FY2021?



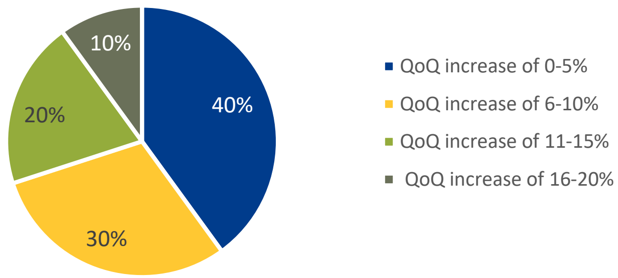
70% of the respondents reported decline in ad-rates by more than 30% in H1 FY2021

Q. Are you expecting increased advertisement spends by corporates during October-December 2020 vis-a-vis July-September 2020?



60% of the respondents are expecting a QoQ increase of 11-20% in advertisement spends by corporates during October-December 2020

Q. How are you foreseeing sequential (QoQ) trend in ad-rates in October-December 2020 vis-a-vis July-September 2020?



50% of the respondents are expecting a QoQ increase of 6-15% in ad-rates during October-December 2020

[3] *Basis survey response received from 10 M&E entities*

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

ICRA

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

1809-1811, Shapath V,
Opposite Karnavati Club
S.G. Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B, Unit No. 1004,
10th Floor,1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony,
S. No. 210 CTS 3202 Range Hills Road,
Shivajinagar,Pune - 411 020
Tel: +91 20 2556 0194, 020 6606 9999

Email: info@icraindia.com
Helpdesk: 9354738909
Website: www.icra.in/ www.icraresearch.in