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11. Impact of Covid-19 on Profitability of Multiplex Theatres in India

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Abstract

One of the fastest-growing industries is the Media and Entertainment Industry, in which Cinema halls and Multiplexes are one of the major segments contributing a huge share towards its revenue. Covid-19 has impacted this segment drastically due to the complete shutdown of all the cinema halls and multiplexes across India. This paper is studying the impact of this pandemic on the profitability of 2 major players i.e. PVR Limited and Inox Leisure Limited by studying the financial statements for the last 4 to 5 years. The study showed a downfall in the revenue of both companies; the reasons of the downfall is studied and it concluded that this pandemic gave an opportunity to such companies to explore different avenues to increase their revenue. This paper is an attempt to focus on the difficulties faced by multiplexes and look for other opportunities post Covid-19 with special reference to Indian multiplexes.

Keywords - Multiplex theatres, Cinema halls, PVR, Inox, Profitability, Revenue

Introduction

2019 novel coronavirus disease (COVID-19) has left a great impact on the Media and Entertainment Industry and specifically the Multiplex theatres and cinemas. It has not only made the companies suffer losses but also increased the unemployment levels and has lowered the incomes of different stakeholders linked with these theatres.

Adhering to Government imposed hygiene and safety measures, Multiplexes had to upgrade their Business standards and expected to increase their Operating expense up to 25% after Covid-19 restrictions were lifted. Multiplexes must situate sanitizing equipment and temperature checking devices in multiple places; recurring cost of purchasing Masks, sanitizers, gloves for staffs, increase promotions incurred additional expenditures.

Multiplexes after reopening have an impact on revenue since they are running limited shows and limited seat reservation per show (Initial 30% and then 50%) due to safety protocols, drop-in foods, and beverages sold due to less footfall. In turn, they had faced multiple lockdowns due to Covid-19 Wave 1 and Wave 2. This was a huge loss to Multiplexes as Management had to still bear the maintenance cost without income.

Distributors and Multiplexers due to the Covid-19 situation had to delay potential new movies bearing the loss and the movies that were on screen after lockdown had to be shelved without running shows until the lockdown was lifted.

Literature Review

UNIC RESEARCH included a huge report of Coronavirus's impact on the European cinema industry for 38 territories. This study reported the closure and reopening process; introduction of health and safety guidelines for different areas; different support mechanisms such as loans, grants, employment, other operating expenses, and taxation. The guidelines and other measures were bifurcated on the basis of employees and visitors.

Kyung Kim

2020, did a study to understand the impact of social distancing during covid-19 on box-office revenue of Korean Movie theatres. The study showed that social distancing has made people reluctant to go to theatres, distributors delayed their releases, and decreased the quality of movies. The paper concluded that the competitive environment of such industries has changed due to heavy revenue losses and customers switching to other OTT platforms for entertainment and also there was a noticeable change in consumer behavior post-covid-19.

Muhammed Salih

2020, did a study on the coexistence of OTT platforms with theatres in India. The paper highlighted the release and opportunity of OTT platforms being used as a medium to release movies due to lockdown. The switch is mainly due to the short life of the topic covered in the movie, difficulty in accommodating the said movie after the lifting of lockdown, the uncertainty of new restrictions, etc.

Eziwho Emenike AZUNWO, 2021 examines the effects of Covid-19 on the entertainment industry. The study pointed out that any kind of containment leads to disturbing the aggregate supply and demand, pay cuts, termination of contracts, death, etc. Hence, sufficient funding should be provided by the government and multinationals to prevent such scenarios in the future. The study covered details of different types of pandemics in the past and their effects.

Markand Adhikari, 2021, in his article in Financial Express pointed out that cinema and OTT combination will continue for a longer time. The writer shows a positive side of the same, as OTT will promote new talents, new experiments, controlled finance, and a vast audience. On the other hand, the love of patrons for the big screen is not going to fade away and people will still experience the outing with family while watching a movie together.

Opportunity for Multiplex Theatres

The pandemic has resulted in a loss for both single screens and multiplexes due to financial stress and a drastic fall in revenue. There are chances that screen screens might close post-Covid-19 as the recovery from the pandemic is not going to be very rapid and hence the small and single screens might find it difficult to cover up their losses and operating expenses. Hence, we can say that multiplexes have the chance of gaining market shares. This is the reason we can see the proposed expansions and opening up of many multiplexes in the country.

Year	Movie screens for the period 2016 to 2019	
	No. of single Screens	Multiplexes
2019	6,327	3,200
2018	6,651	2,950
2017	6,780	2,750
2016	7,031	2,450

Table 1Source: Statista 2021

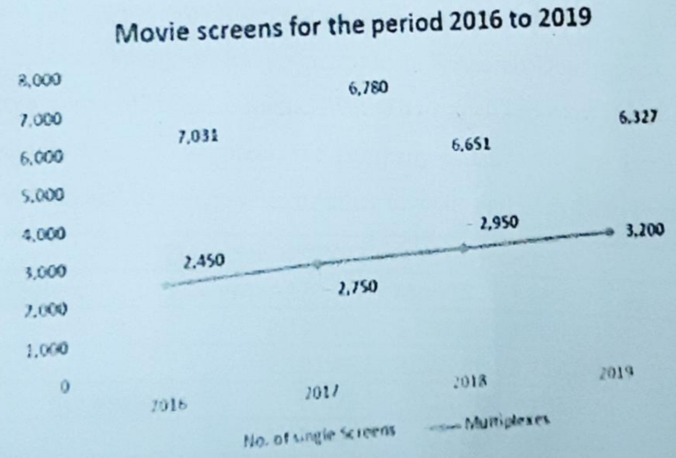


Chart 1

Table 1 and Chart 1 shows the declining number of single screens and the increasing number of multiplexes for the period 2016 to 2019.

Social distancing is one of the implemented safety guidelines which every multiplex has to follow, which leads to reduced accommodation of patrons for a movie.

Starting with the Nationwide vaccine drive, the situation has become optimistic about the future reopening of theatres especially for the young generation as a prime audience segment.

Market Scope and Dynamics

According to the FICCI-EY report 2021, the M&E (Media and Entertainment) business is projected to grow 25% to reach INR 1.73 trillion in 2021 whereas in 2020 it stands at Rs. 1.38 trillion.

Online Video Trends and India Consumer Research Highlights' report published in 2021 by India, the Indian SVOD market, with OTT video subscriptions, will reach ~62 million in 2020 from ~32 million in 2019.

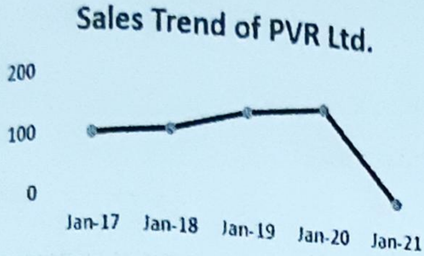
During the Covid-19 pandemic we saw that the OTT platform market boosted given lockdown conditions imposed on Multiplex theatres however the overall M&E market did not fall as we had expected. The market has enough potential for Indian cinemas in Multiplexes to revive and show an upward trend.

Analysis of PVR Limited

PVR Ltd started its operations in 1997. It is the movie exhibition industry leader and the 3rd largest segment in the Indian Media and Entertainment industry. It generates revenue from Sale of Food and Beverages, advertisement income, convenience fees, and income from movie production/ distribution among others. As per Statista Research Department, in 2021, PVR Ltd. owned 846 screens across 71 cities in India. PVR. The annual report of the company says cinema exhibition is its only business segment, the company is currently not generating any revenue from admissions, food and beverage sales or other revenue and cash-flow from operations.

Financials of PVR Limited (in Rs. Cr.)					
Particulars	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Sale	2,119.00	2,334.00	3,085.00	3,414.00	280.00
Total Revenue	2,181.68	2,365.45	3,118.70	3,452.23	749.35
Profit/Loss for the period	95.79	124.70	183.27	27.30	-747.79
Basic EPS	21.00	27.00	39.00	6.00	-136.00
Employee Benefit Expens	220.51	254.07	337.26	393.81	217.08
Finance Cost	80.58	83.71	128.01	481.79	497.84
ROE	9.92	11.59	14.78	1.84	-40.78

Table 2 moneycontrol.com



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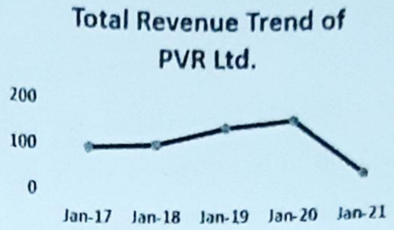

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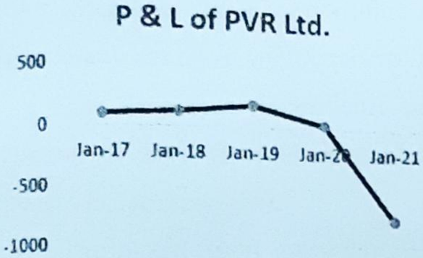

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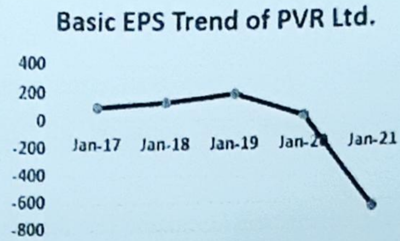

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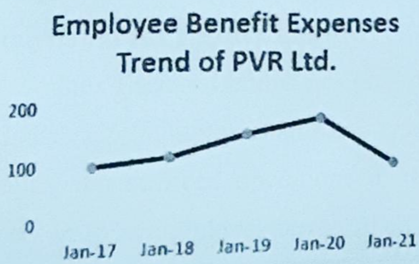

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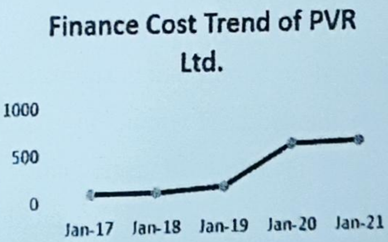

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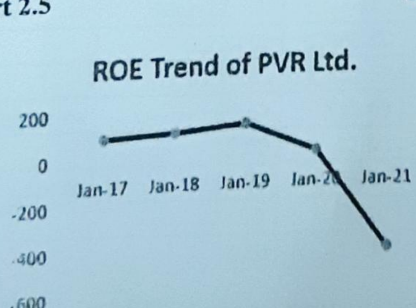


Chart 2.7

Details for PVR Limited: Table 2 and related charts from 2.1 to 2.7 reflect the upwards trend in losses since lockdown due to Covid-19. The Sales have fallen from Rs. 2,119 crores (Trend = 100%) to Rs. 280 crores (Trend = 13%); Total Revenue has fallen from

Rs. 2,181.68 (Trend = 100%) to Rs. 749.35 crore (Trend = 34%).

Profit, Earning Per Share, and Return On Equity have crashed and gone to negative (Trend = - 781%; - 648% and – 411 % respectively as compared to the base year), making it more difficult to recover the losses with government regulations and limitations on sitting capacity. It is not generating any revenue from food and beverages, admissions, advertisements, convenience fees, and other cash-flow operations. The Increasing finance costs would mean that the company has taken additional credit facilities.

The Employee Benefit-cost and other costs have reduced to a trend of 98% with a reduction in rents (non-payment of rentals for common area maintenance) and employee expenses (salaries, wages).

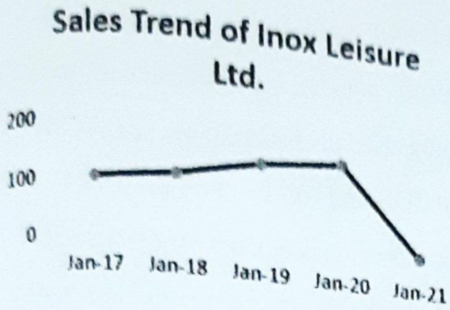
The annual report stated that PVR has reduced personnel cost through retrenchments and salary reductions of 20 to 35% for employees and a 50% reduction of salary for senior management.

Analysis of Inox Leisure Limited

Inox Leisure Limited is a public limited company that started on November 9, 1999. one of India's top multiplex chains and is a subsidiary of Gujarat Fluorochemicals Ltd. In 2002 the company commenced operations in its first four-screen Multiplex at Pune. It operates 658 screens in 156 multiplexes across 70 cities of India.

Financials of Inox Leisure Limited (in Rs. Cr.)					
Particulars	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Sale	1,220.00	1,348.00	1,692.00	1,897.00	105.00
Total Revenue	1,229.83	1,362.58	1,707.10	1,914.61	148.20
Profit/Loss for the period	30.61	114.63	133.49	15.01	-337.65
Basic EPS	3.00	12.00	14.00	2.00	-32.00
Employee Benefit Expens	86.39	96.36	115.17	142.07	86.67
Finance Cost	25.28	28.90	23.67	221.24	251.10
ROE	5.51	17.11	13.84	2.40	-53.35

Table 3 moneycontrol.com



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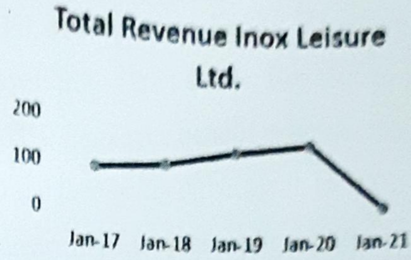

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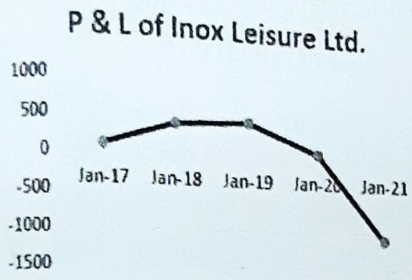

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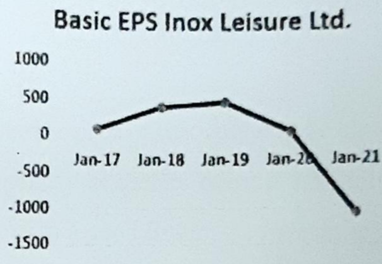

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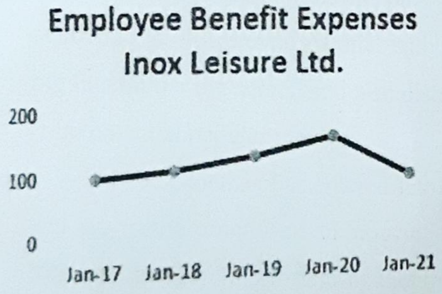

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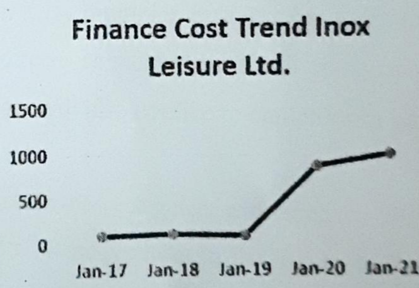

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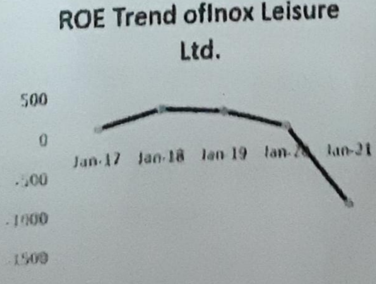

Chart 3.7

Details for Inox Leisure Limited: Table 3 and related charts from 3.1 to 3.7 reflect the drastic downfall in sales, revenue, profit, EPS, and Return on Equity. By taking 2017 as the base year, we can see the trends in sales going down from 100% to 9%; Revenue to 12%; Profit / Loss to - 1,103%; EPS to - 1,067 and ROE to -968%. Employee benefit expenses can see a trend of 100% moving to the highest of 164 in 2020 and then going down again to 100% in 2021. The increased Finance cost may be due to an increase in additional credit facilities.

As per Multiplex Association of India, the total loss a month during Covid-19 due to closure of multiplexes and cinema halls has amounted to Rs. 1,500 crore, which amounts to a revenue of Rs. 9,000 crores in six months.

Conclusion

We can say that post Covid-19, maybe the pace of recovery will be slow but gradually we can expect an upward trend again in the industry as theatre releases not only provides a good opportunity to producers and distributors to earn a good Return on Investment but also gives an opportunity to the customers to enjoy a movie on a big screen with other entertainment options in a Mall (food & beverages and shopping experience).

Although OTT platforms have taken away multiplex business for some time during the pandemic, it will prevail parallel with big screens as movie lovers will always prefer watching big hits on the big screen and also distributors will also not like to compromise on big revenues from potential popular movies.

PVR Cinemas has entered into the e-commerce segment and launched 'PVR PopMagic' and are in the process of introducing several other products in the 'Ready-to-Eat' and 'Do-it-Yourself' category in the coming months.

PVR has also started professional sanitisation and deep cleaning services for home and office spaces under the brand 'V Pristine by PVR'.

Even Inox has set a new F&B roadmap which makes the food available through Swiggy and Zomato. They are also planning to give the option to the patrons to buy food products even when they are not watching a movie.

Hence, this pandemic has given an opportunity to multiplex operators to reinvent themselves and diversify their revenue sources.

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