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FROM THE RINGSIDE

Making Bollywood dreams a reality

The myriad coloured fireworks of the Diwali night would have barely subsided when Bollywood embarks on a new blitzkrieg of what they call the “Diwali Dhamaka” ranging from *Veer-Zaara*, *Naach*, *Aitraaz* to *Mughal-e-Azam* — with stars like Shah Rukh, Priety Zinta, Abhishek, Kareena, Priyanka Chopra to name just a few. Good luck to the film directors and financiers who have invested so much hope in a cramped eventful week.

This is a good time to consider the current state of the Indian film industry. The Indian film industry produces around 1000 films every year employing 60 lakh people with a turnover of Rs 5,000 crore. This is expected to rise annually at 20%, exceeding Rs 10,000 crore turnover by 2008. The global entertainment industry itself is projected to be around Rs 135,000 crore in the next 10 years with nearly half of the revenues emanating from Asia. There are 400 production houses in the country with 32 corporate houses in the business of film production. The 100 individual distributors service seven historically earmarked territories. India has a low screen density with 13 screens per million, compared to 121 in the US, 81 in Europe and even lower than many Asian countries. The multiplexes have just commenced in India and seek the enlargement of their penetration.

Is India prepared to benefit from this huge growth potential? I was privileged to chair a task force, set up by the Ministry of Information and Broadcasting on the entertainment sector in India, whose report is now under the government’s consideration. The group included the stakeholders from film producers, financial institutions, various ministries of government and venture capital fund managers. The committee received the organisational support of ICICI under K V Kamath, and the energetic Renuka Ramnath who has experience in venture capital management. Clearly, Sustainable development necessitates redressal of several issues.

Clearly, the foremost is transparent financing. Film financing is channeled through family-run companies, who also access unaccounted, some say underworld financing, with interest rates as high as 40 per cent. The industry is not integrated with the financial system in the country, notwithstanding IDBI’s marginal activity. Film financing is 20-30 per cent costlier to cover potential risks. Failure to meet repayment obligations and the risks of box-office success push up costs.

Countries, like UK, USA, France and Australia have provided significant tax breaks and subsidised financing. Given the risk characteristics, a venture capital fund is the logical response. We adopted this approach a few years ago in the IT sector, and the entertainment industry needs its replication. The government can sponsor a VC fund with a contribution of say Rs 200-300 crore, to be called the “fund of funds” that would invest in film production, video and multimedia. The fund should be managed by a professional fund manager like the ICICI Venture

Fund. The corpus can be leveraged at least 4-5 times for film financing.

Based on the IT experience of “pass through”, any money invested in a SEBI-registered VC fund should be permitted a tax deduction in the computation of total income. Film production could have a 20 per cent tax break by suitable provision in Section 10 of the Income Tax Act. The venture capital would finance a portfolio mix so that generally “successes” and “failures” can be neutralised.

The film industry itself needs to create appropriate structures by way of corporatisation so that the entity, which could be a special purpose vehicle, into which the funds are invested, can be easy to incorporate, dissolve, and have a limited liability status. Limited liability companies and limited liability partnerships have utility in facilitating “pass through arrangement” with easy incorporation and dissolution without lengthy procedures.

The indirect tax structure for the entertainment sector is distorted. The incidence of indirect taxes are unacceptably high, with entertainment taxes varying from 25-110 per cent of gross box-office collections. Out of the earning, after payment of taxes, 40 per cent goes to exhibitors and the balance is shared between the distributor and the producer. Illustratively, a Rs 10 crore financing cost with a 50 per cent entertainment tax needs a box-office collection of Rs 50 crore to break even and Rs 60 crore for securing 20 per cent rate of return on capital. Clearly, this is cascading, discourages investment, enhances risks and leads to large-scale evasion of entertainment taxes. Reduction in entertainment and sales tax to around 15 per cent would impart momentum to the industry and also improve revenue realisation. State governments need to be persuaded to rationalise the entertainment tax structure. Jaipal Reddy needs to proactively pursue this.

Piracy levels are debilitating and the film industry is losing Rs 300-400 crore a year. While piracy is a non-bailable cognisable offence under the Copyright Act, its enforcement is, to say the least, tardy. Identification and enforcement of anti-piracy measures, promotion of organised retailing and introduction of source identification codes on each unit should receive priority. Violations should receive exemplary penalties including business licence revocation.

There are too many bodies involved in films, the Central Board of Film Certification under the I&B, intellectual property rights and copyright violations under HRD, taxes under Finance, entertainment taxes with state governments. There is need to harmonise. Discussions on a regulatory body, and whether it should be part of TRAI, have remained unresolved for long. An appropriate regulatory framework is inescapable. A long-term approach is also necessary to encourage new format in film-making and adapt to technological changes.

UK has become a great outsourcing destination for US film-makers. On outsourcing possibilities we can promise equally attractive talent, location and facilities.

Films hold the power to enhance awareness and support our far-reaching economic and social changes. Bollywood makes a seamless transition in its reigning queens from Madhubala to Nargis Dutt to Madhuri Dixit. Repositioning India's film industry will not however be so seamless. It would require extraordinary initiative, imagination and skills. Can the duo of Shah Rukh Khan and Aishwarya Rai charm

their way into New Delhi's complex power labyrinth? Bollywood is globalising faster than India.

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