`

Fair Competition
For Greater Good

COMPETITION COMMISSION OF INDIA

(Combination Registration No. C-2015/01/236)

24.03.2015

Notice u/s 6 (2) of the Competition Act, 2002 given by Carnival Films Private Limited

<u>Order under Section 31(1) of the Competition Act, 2002</u>

1. On 2nd January, 2015, the Commission received a notice under sub-section (2) of Section 6 of the Competition Act, 2002 ("**Act**") given by Carnival Films Private Limited ("**Carnival or Acquirer"**), pursuant to a Share Purchase Agreement dated 15th December, 2014("**SPA**"), entered, *inter alios,* between Carnival, Reliance MediaWorks Limited (**"Reliance Media**") and Cinema Ventures Private Limited, a subsidiary of Reliance Media ("**CVPL**").

2. As per the information provided in the notice, the proposed combination entails the steps i.e.; a) pursuant to a Business Transfer Agreement executed on 14th December, 2014 between Reliance Media and CVPL ("**BTA**"), the film exhibition business of Reliance Media along with the food and beverages business which is a part of such film exhibition business (but excluding all forms of film exhibition through internet, mobile or television of Reliance Media), would be transferred to CVPL. It has been stated in the notice that 88 cinemas (72 multiplexes and 16 single screen cinemas) operated by Reliance Media having 238 screens are proposed to be transferred by Reliance Media to CVPL ("**Transferred Business**"); and b) pursuant to the SPA, Carnival will acquire 98 percent of the share capital of CVPL whereas a director of Carnival will acquire the remaining 2 percent of its share capital.

3. In terms of Regulation 14 of the Competition Commission of India (Procedure in regard to transaction of business relating to combinations) Regulations, 2011 ("**Combination Regulations**"), vide letter dated 14th January, 2015, the Acquirer was required to remove defects and furnish certain

information/document(s) by 22nd January, 2015. The Acquirer filed its response on 30th January, 2015, after seeking extension of time. Since, the response filed by the Acquirer was incomplete, another communication dated 3rd February, 2015 under Regulation 14 of the Combination Regulations was sent to the Acquirer. The Acquirer filed its response on 10th February 2015. Further, vide letter dated 19th February 2015, in terms of Regulation 14 of the Combination Regulations, the Acquirer was again required to remove defects and furnish certain information/documents, latest by 2nd March 2015. In this regard, the Acquirer submitted a partial response on 27th February 2015 and its complete response on 2nd March 2015. Since the response dated 2nd March, 2015 was incomplete, another communication dated 5th March, 2015 was sent to the Acquirer. The Acquirer filed its response on 11th March, 2015, after seeking extension of time.

4. Carnival, a company incorporated under the Companies Act, 1956 is engaged in the business of film exhibition and other related activities i.e. food and beverages business and provision of advertising space (both on and off screen) within the cinemas operated by Carnival. As per the information provided by the Acquirer, Carnival operates 7 cinemas (4 multiplexes and 3 single screen cinemas) having 17 screens in the states of Kerala, Karnataka and Tamil Nadu. Carnival through its subsidiary, namely, Carnival Films Entertainment Private Limited (hereinafter referred to as **"CFEPL**") operates 6 cinemas (all multiplexes) having 24 screens in the states of Madhya Pradesh, Maharashtra, West Bengal and Uttar Pradesh. In this regard, it is pertinent to mention that as submitted by the Acquirer, it proposes to acquire 10 multiplexes having 30 screens from Stargaze Entertainment Private Limited ("**Stargaze**"). Hence, the screens proposed to be acquired by Carnival from Stargaze are being taken into consideration for competition assessment of the proposed combination.

5. Reliance Media is a company incorporated under the Companies Act, 1956, and is stated to be engaged in the business segments of film and media services, television content production and film exhibition business. It has been stated that Reliance Media operates 99 cinemas under the brand "Big Cinemas" (80 multiplexes and 19 single screen cinemas), having 269 screens, across India.

6. CVPL is a company incorporated under the Companies Act, 1956. It has been stated in the notice that CVPL does not carry out any commercial operations at present. However, as stated in the notice, CVPL will carry on the business of film exhibition to be transferred by Reliance Media to it under the BTA.

7. The proposed combination pertains to the film industry in India which mainly involves three stages of production, distribution and exhibition. The film exhibition sector forms an important component of the Indian film industry. Historically, the cinemas in India were set up as single-screen theatres, which were generally owned by small businesses or sole proprietorships. Multiplex cinemas, a relatively recent development in India, generally have a seating capacity of approximately 250 seats per screen and are often characterized by modern infrastructure and good ambience and quality of food and beverages. Multiplexes are normally professionally managed and owned by the corporations.

8. As per the FICCI-KPMG Indian Media and Entertainment Industry Report, 2014, multiplexes accounted for approximately 25 percent of the total number of screens in the country with a low screen density of around 8 screens per million in comparison with 117 per million in the U.S.A. As per the said report, given the low screen penetration, India has the potential to significantly increase the existing multiplex screens in the country over the next decade without causing an oversupply of the screens. In this regard, it is also observed that major growth of multiplexes in India has mostly occurred in Tier II and Tier III cities and

factors like rising consumerism, increase in disposable income, favourable demographics and lower penetration of multiplexes within the country throw up excellent opportunities for the multiplex sector in India. This is also because over the last few years, multiplex cinemas are changing the way the movies are viewed, particularly in the big cities of India. The single screen market, on the other hand, which are losing out to multiplexes in the film exhibition space are attempting to compete with multiplexes by improving the movie watching experience in the single screen theatres.

9. It is noted that Reliance Media, Carnival and Stargaze operate multiplexes and single screen cinemas that exhibit films across the various cities in India. It is observed that the multiplexes are usually costly in comparison to the single screen theatres. As already noted, multiplexes are characterized by modern technology, good ambience and related services of good quality. It is therefore observed that generally as per growing trend, especially in the bigger cities, the multiplexes may be classified as being distinct from the single screens. Further, it is observed that considering the fact that consumers are reluctant to travel long distances to watch a movie, different cities where films are exhibited may be considered as different relevant geographic markets. However, it may be noted in this regard that the market conditions in one city cannot be equated easily with those in another. This is due to differences in factors such as means of transportation, purchasing power of consumers etc. Further, even within a city itself, based on the size of the city and the aforementioned factors, the relevant geographic market for exhibition of films could be further narrowed down.

10. It is noted that pursuant to the proposed combination, there are overlaps between Carnival, Stargaze and Reliance Media with respect to the multiplexes in seven cities namely Indore, Mumbai, Dindigul, Ghaziabad, Dehradun, Raipur and Ajmer.

11. Further, it is noted that in the relevant markets of Indore, Mumbai, Ghaziabad, Dehradun, Raipur and Ajmer, competition concerns may not arise as there are other multiplexes in addition to cinemas operated by Carnival, Stargaze and Reliance Media in these cities exercising competitive constraint on the Acquirer pursuant to the proposed combination in terms of the pricing and services offered within the cinemas. It is also noted in this regard that since the proposed combination is not likely to raise any competition concerns in these cities, the precise delineation of the relevant market on the basis of factors listed above may be left open.

12. As regards the relevant market for exhibition of films in Dindigul, it is observed that that Carnival and Reliance Media own two multiplexes, having five screens and two screens, respectively. It is observed that Dindigul is a small city in the state of Tamil Nadu where existence of three prominent independent single screen cinemas namely, Ganesh, NVGB and Solai Hall amongst others in addition to a multiplex, having two screens, owned by competitors is likely to pose competitive constraints on the Acquirer pursuant to the proposed combination. It is also noted that vide notification dated 20th May 2009 issued under Tamil Nadu Cinemas (Regulation) Rules, 1957, the Tamil Nadu state government has regulated the rate for admission to theatres. It is noted that as per the said notification, the maximum and the minimum rates of admission are fixed with respect to the amenities provided. In view of the foregoing, it is unlikely that the combination would result in increase in prices or would have an adverse impact on the amenities provided to the consumers in Dindigul.

13. Considering the facts on record and the details provided in the notice given under sub-section (2) of section 6 of the Act and assessment of the proposed combination on the basis of factors stated in sub-section (4) of section 20 of the Act, the Commission is of the opinion that the proposed combination is not likely to have an appreciable adverse effect on competition in India and

therefore, the Commission hereby approves the same under sub-section (1) of section 31 of the Act.

14. This approval is without prejudice to any other legal/statutory obligations as applicable.

15. This order shall stand revoked if, at any time, the information provided by the Acquirer is found to be incorrect.

16. The Secretary is directed to communicate to the Acquirer accordingly.