

Hollywood finds a piggy bank in Bollywood

By Indrajit Basu

KOLKATA - Bollywood, the notional center of the Indian movie industry, may be a minnow compared with Hollywood in terms box office revenues and hit rate, but India and other emerging markets could prove the United States movie industry's savior as it struggles to obtain funding from risk-averse recession-hit financiers in the West.

Millions of dollars of Indian money that have so far funded the Hindi film industry - "Bollywood" in local parlance - are now eyeing Hollywood. Soon, India investors could emerge as a significant source of cash for the world's largest and most successful entertainment industry.

Banks, private equity firms and hedge funds from countries such as the US, France, Germany and the United Kingdom, once the main fund source for Hollywood, have lost the courage to bankroll entertainment projects as their coffers have dwindled amid the [financial crisis](#). On [the other hand](#), Indian [investors](#) who have burnt their fingers funding [Bollywood](#) projects, which have seen more flops than hits in the past 18 months, are increasingly eyeing Hollywood to grab a share of its success.

"Indian cinema, or the Hindi film sector in particular, has been consistently losing money since the beginning of 2009," says A V T Shankardass, a US- and UK-based financier and fund manager who has been [investing in](#) Hollywood for the past three years. "With many producers losing millions in that period, investing in Bollywood has become more of a gamble than an investment. Hollywood's performance in contrast has been phenomenal.

"In nine of the 12 months in 2009, Hollywood reported record box [office collections](#) - 37% up over 2008. Since conventional fund sources are drying up, Hollywood is also in need of money for meeting its burgeoning production costs and Indian investors are willing to fill that gap."

According to Shankardass, a shortage of cash from conventional sources will result in a drastic reduction of Hollywood releases this year, when the total is expected to fall to 167 from 406 last year.

"Film-makers in Hollywood have slashed budgets by half, while box office collections are soaring," Shankardass said. "Despite this, Hollywood will still require over US\$1.2 billion of funding from private equity investors to meet its production costs."

To take advantage of this opportunity, Shankardass has just launched a \$100 million private equity fund in India. Global [Entertainment Partners](#) will seek investors from Indian corporations as well as high net-worth investors to produce American and international content.

"The majority of the this fund will go towards funding American content that will include films, [syndicated TV shows](#) and live entertainment for casinos in Las Vegas. But to be loyal to my Indian roots, we will invest about 20% in local content as well," Shankardass said.

A veteran in film financing, Shankardass-produced movies include the Harrison [Ford vehicle K-19: The Widowmaker](#), *Ball & Chain* and an Indo-Pakistan war story. In 2008, he also floated a \$50 million Cinema Centro Fund with [Brazilian entertainment](#) tycoon Enzo Barone. This fund invests solely in Hollywood ventures and has yielded about 27% returns to date.

Global Entertainment Partners is something of a late entrant. Reliance Entertainment, part of the \$75 billion-revenue Anil Dhirubhai Ambani Group - owned by the world's sixth-richest man - ventured into Hollywood financing more than a year ago.

In May 2008, Reliance Entertainment announced a slew of development deals with eight Hollywood-based production houses and committed \$1 billion to make "at least 10 films" by 2010.

These production houses belong to leading Hollywood actors such as George Clooney's Smokehouse Productions, Nicholas Cage's Saturn Productions, Tom Hanks' Playtone Productions, Brad Pitt's B Entertainment, Chris Columbus' 1492 Pictures and Jim Carrey's JC 23 Entertainment.

Last year, Reliance Entertainment also made a big-bang announcement by agreeing to invest \$825 million in Steven Spielberg's DreamWorks Studios.

In its most aggressive push into Hollywood yet, Reliance Entertainment last month joined the ranks of Goliaths like Time Warner, Lions Gate Entertainment and News Corp to bid for a stake in Metro-Goldwyn-Mayer. Having run up a debt \$3.7 billion, this studio is frantically seeking funds to meet its creditors' demands.

Other Indian film production houses, including UTV Software, Shemaroo and PVR Cinemas, are also collaborating with Hollywood producers to produce American content.

"Hollywood's sterling record of continuous profits for the last 106 years, the transparency in its operations and its high success rate makes it very attractive for Indian financiers," said Gowree Gokhale, Partner-Media Entertainment, Nishith Desai Associates (NDA), a legal and strategic consultancy firm.

"Suddenly a lot of Indians do not feel comfortable anymore with investing in Bollywood and want to invest in Hollywood now."

There are reasons for this shift in preference. According to a 2009 PWC Global Entertainment and Media Outlook Report, despite the commonly held belief that India's media and entertainment (M&E) sector is highly prolific, it is still a minnow compared with the global M&E sector.

Global total expenditure on filmed entertainment was \$80 billion in 2009, of which Hollywood bagged 90-95%; Bollywood at \$1.8 billion made up for only about 2%.

Hollywood also matured into a professional industry decades ago, whereas Bollywood, despite recent improvements, continues to be plagued by various issues such as shadow finance, financial mismanagement, a shortage of creative and management talent, high taxation rates, a minuscule market in global terms and above all rampant piracy.

"These shortcomings seriously affect a genuine investor's ability to find a predictable, sustainable and, most importantly, profitable film business model in Bollywood, in comparison with Hollywood," said Gokhale.

Experts complain that although in the past 10 years India has undergone a process of liberalization making the Indian M&E sector attractive, much remains to be done for corporate investments to take full advantage of India's vast potential in this space.

"For Indian investors, Hollywood offers a winning formula over Bollywood," said Shankardass. While Bollywood viewers are largely Indians and the Indian diaspora, Hollywood enjoys access to multi-platform releases and a huge demand from across the world for North American English content.

Platforms such as syndicated television "makes returns more assured", he said.

"What can't be ignored," he said, "is that it is the only industry outside the arms industry that has made profits consistently for over a century."

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