September 07, 2023

Wonderla Holidays Limited: Ratings upgraded to [ICRA] AA- (Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	10.00	10.00	[ICRA] AA- (Stable); upgraded from [ICRA] A+ (Stable)
Long-term Fund-based – Term Loan	80.00	80.00	[ICRA] AA- (Stable); upgraded from [ICRA] A+ (Stable)
Long-term Fund-based – WCDL	5.00	5.00	[ICRA] AA- (Stable); upgraded from [ICRA] A+ (Stable)
Long-term Interchangeable – Overdraft	(1.00)	(1.00)	[ICRA] AA- (Stable); upgraded from [ICRA] A+ (Stable)
Short-term Non-fund Based	15.00	15.00	[ICRA] A1+; upgraded from [ICRA] A1
Total	**110.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action reflects the sustained improvement in Wonderla Holidays Limited's (WHL) operating performance over recent quarters and its strong financial risk profile, with expectations of this trend to continue going forward as well. WHL demonstrated a healthy improvement in footfalls in FY2023 supported by pent-up demand following the pandemic, and its multiple steps to attract footfalls such as focussed marketing campaigns, thematic events and attractions. Moreover, the company was able to improve on its Average Revenue Per User (ARPU) during FY2023 and Q1 FY2024, supported by both ticket-price hikes as well as focussed efforts to improve non-ticket revenues. Given its established position in the Indian amusement park industry and continued strong demand in the market after the pandemic, WHL is expected to sustain these improvements going forward as well, translating into healthy growth in revenues and earnings. In addition to the healthy operating margins of 49.0% in FY2023, and 63.3% in Q1 FY2024, the company's nil debt position (excluding lease liability and vehicle loan) and healthy cash and liquid investments of Rs. 256.0 crore as on March 31, 2023, offers further comfort to its financial risk profile. Despite having sizeable capex plans over the near to medium term for two upcoming parks in Bhubaneswar (Odisha) and Chennai, the company is expected to maintain its healthy financial risk profile and comfortable capital structure, supported by its healthy cash accruals and available liquidity.

The ratings, however, remain constrained by WHL's moderate scale of operations in a fragmented industry and the vulnerability of footfalls to exogeneous factors and discretionary spends by consumers. ICRA also notes that the company has sizeable capex plans of Rs. 450-550 crore over the near to medium term. Accordingly, the progress on these projects, WHL's ability to execute these large projects and commercialise the two new parks without significant time and cost overruns would remain key monitorables. Moreover, with healthy interest evinced from multiple other states for setting up amusement parks, WHL's plans for undertaking any incremental large capex other than those already announced, its funding mix for the same and their impact on its credit metrics would be monitored.

The Stable outlook on the long-term rating reflects ICRA's expectation that WHL will continue to benefit from its established position in the amusement park industry; and will also continue to generate healthy cash accruals, reporting healthy debt protection metrics and a comfortable capital structure going forward as well.

Key rating drivers and their description

Credit strengths

Healthy financial risk profile characterised by robust profitability, strong capital structure and sufficient liquidity – WHL has been reporting a steady improvement in operating performance over recent quarters, with footfalls, ARPUs and revenues crossing pre-Covid levels during FY2023, and the trends continuing into Q1 FY2024 as well. The healthy operating performance, with strong footfalls and increasing ARPUs, driven by increase in both ticket prices and non-ticket revenues, has translated into significant improvement in WHL's operating margins to 49.0% in FY2023 and 63.3% in Q1 FY2024 from 15.9% in FY2022 and 38.4% in FY2020. WHL also continues to generate strong internal accruals, which coupled with conservative capex undertakings, have resulted in a strong financial profile characterised by nil external borrowings (excluding vehicle loan) and healthy liquidity, and this is expected to continue going forward as well.

Established market position in the industry – WHL is one of the largest amusement park companies in the country with a strong footprint in southern India. Further, the promoter group has more than 20 years of experience in the Indian amusement and theme park industry. The industry is still at a nascent stage compared to its international peers, thus offering sizeable headroom for growth, supported by WHL's established presence and market position in the industry.

High barriers to entry in the industry – Owing to the capital intensive nature and long payback periods, the industry has high barriers to entry, favouring existing players. Further, WHL's competitive pricing, coupled with its in-house design team, provides a strong competitive advantage.

Credit challenges

Footfalls vulnerable to exogenic shocks and discretionary spends; seasonal demand results in fluctuations in earnings – Given the discretionary nature of consumer spending, footfalls at WHL's parks are susceptible to exogenic shocks, as has been seen over the years. In recent times, due to heavy rains in FY2020 and Covid-19 subsequently, the footfalls for WHL's parks declined significantly over FY2020 to FY2022. While healthy recovery has been seen in FY2023 and Q1 FY2024, the susceptibility to such exogenic shocks remain. Moreover, revenues and earnings are seasonal, with Q1 and Q3 of a fiscal typically being the strongest quarters, and Q2 and Q4 being lean periods.

Sizable capex plans – At present, WHL is constructing a new park in Bhubaneswar at an estimated cost of Rs. 146.0 crore and at that of Rs. 330.0 crore in Chennai, of which it has already incurred Rs. 123.5 crore (as on March 31, 2023). The construction of the Chennai park was delayed by the Covid-19 pandemic. However, the company has received all the necessary approvals, and the remaining capex is expected to be incurred over FY2024 and FY2025, and both the parks are expected to be operational by FY2026. The company is also exploring possibilities of setting up parks in other states, discussions for which are ongoing with various state governments. Additionally, it may set up resorts adjacent to its existing parks, similar to the one in Bangalore. While the company is expected to fund the capex and maintenance capex for the parks announced so far from its internal accruals and cash reserves, its plans for further capacity expansion and funding mix for the same would remain monitorables. Moreover, its ability to execute the ongoing two projects with minimal time and cost overruns remains critical to maintaining its healthy credit metrics going forward as well.

Environmental and Social Risks

Environmental considerations: WHL is exposed to the risks arising from the outbreak of contagious diseases or any natural calamities in the areas where it operates, which may have a negative impact on the footfalls at its parks and the company's operation. The company is also exposed to the tightening regulations on the environment and the safety front as observed during the Covid-19 induced lockdowns. These have necessitated WHL to increase its investments towards meeting the evolving and tighter safety standards following the pandemic. Also, the company is exposed to the risk of water shortage in areas where its parks operate, as the same can have an impact on its operations.

Social considerations: The company would need to adapt to the evolving social fabric (including changing consumer preferences and social trends) from time to time. The Covid-19 pandemic was an example of social risk given its substantial implications on health and safety. The company focuses on maintaining a safe and healthy workplace for its employees as well as visitors. WHL is also exposed to risk of accidents or safety-related incidents, which may hamper its brand name and reputation. The company has outlined its commitment to minimising hazards and risks associated with its activities, preventing injuries and ill health, and continuously improving occupational health and safety performance.

Liquidity position: Adequate

WHL's liquidity position is adequate with healthy cash accruals of Rs. 180-200 crore annually and cash and liquid investments of Rs. 256.0 crore and an undrawn working capital limit of Rs. 15.0 crore as on March 31, 2023. While WHL is in the process of constructing two new parks and will be investing ~Rs. 350.0 crore between FY2024 and FY2025 for the same, the available liquidity and internal cash accruals are expected to be sufficient to fund the same to a large extent. The company does not have any fixed repayment obligations currently (excluding vehicle loan), given the absence of long-term debt on its books. While plans are ongoing for investments in additional parks, the same are discretionary in nature.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates strengthening of its business profile through continued sustained growth in its revenues and increased diversification, while maintaining its strong debt coverage metrics.

Negative factors – Prolonged pressure on the revenues and margins owing to factors including, but not limited to, weakness in footfalls or ARPUs may lead to a rating downgrade. Further, pressure on the ratings could arise if the company incurs significant capex without the desired level of accruals, thus impacting its credit metrics on a sustained basis. Specific credit metrics that could lead to a downgrade includes a DSCR ratio of less than 3.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of WHL.

About the company

WHL operates amusement parks in Bangalore, Hyderabad, and Kochi. Its flagship property, Wonderla Bangalore, commenced operations from 2005. This was the second amusement park to be set up by the promoters of the V-Guard Group, the first being Veega Land established in Kochi in 2000. Veega Land was incorporated as Veega Holidays & Parks Limited (VHPL) in January 1998. VHPL was amalgamated with WHL, effective April 1, 2008, and the Kochi amusement park was renamed as Wonderla. The company commenced operations of a park in Hyderabad in April 2016. Currently, two parks are being constructed at Chennai and Bhubaneswar. It also operates a resort, which was started in March 2012.

WHL is one of the largest amusement park companies in India and has operated in this segment since 2000 when it started its Kochi park. The rides are imported, domestically procured, or manufactured in-house. The company generates revenue primarily from amusement park ticket sales, merchandise sales and from restaurants inside the parks.

WHL is managed by Mr. Kochouseph Chittilappilly (Promoter and Chairman Emeritus) and Mr. Arun Chittilappilly (Promoter and Managing Director). Mr. Arun Chittilappilly, spearheads the day-to-day operations. WHL's other Group companies are V-Guard Industries Limited (rated [ICRA]AA(Stable)/A1+), V-Star Creations Private Limited and Veegaland Developers Private Limited.

Key financial indicators (audited)

WHL	FY2022	FY2023
Operating income	127.6	426.7
PAT	-9.5	148.9
OPBDIT/OI	15.9%	49.0%
PAT/OI	-7.4%	34.9%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	64.4	614.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding as of Mar 31, 2023	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
			(Rs. crore)	(Rs. crore)	Sept 07, 2023	Jul 20, 2022	Jul 29, 2021	Jun 29, 2020	Apr 14, 2020
1	Cash Credit	Long-term	10.00	-	[ICRA] AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
2	Term loans - Proposed	Long-term	80.00	-	[ICRA] AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
3	Fund-based – WCDL	Long-term	5.00	-	[ICRA] AA- (Stable)	[ICRA]A+ (Stable)	-	-	-
4	Interchangeable – Overdraft	Long-term	(1.00)	-	[ICRA] AA- (Stable)	[ICRA]A+ (Stable)	-	-	-
5	Non-fund Based Facilities	Short-term	15.00	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – WCDL	Simple
Long-term Interchangeable – Overdraft	Simple
Short-term Non Fund-based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	10.00	[ICRA] AA- (Stable)
NA	**Term loans - Proposed**	NA	NA	NA	80.00	[ICRA] AA- (Stable)
NA	**Fund-based – WCDL**	NA	NA	NA	5.00	[ICRA] AA- (Stable)
NA	**Interchangeable – Overdraft**	NA	NA	NA	(1.00)	[ICRA] AA- (Stable)
NA	**Non Fund-based**	NA	NA	NA	15.00	[ICRA] A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA 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. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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