Wonderla Holidays Limited

December 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	80.0	80.0	[ICRA]AA- (Stable); Rating reaffirmed
Long-term fund-based	10.0	10.0	ICRA] AA- (Stable); Rating reaffirmed
Short-term non-fund based	15.0	15.0	[ICRA]A1+; Rating reaffirmed
Total	**105.0**	**105.0**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)[1] outstanding on the Rs. 80.0 crore[1] term loan and Rs. 10.0 crore fund-based facilities of Wonderla Holidays Limited (Wonderla / the company). ICRA has also reaffirmed short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 15.0 crore non-fund-based bank facilities of Wonderla. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation in ratings factors in Wonderla's established position in the growing amusement park industry and its ability to take price hikes while commanding premium pricing and expanding revenues from its non-ticket segment. Wonderla witnessed growth of 2.9% yoy in its operating revenues in FY2018, supported by 5.0% yoy increase in average ticket revenue per person and a sharp increase of 22.9% yoy in average non-ticket revenue per person. This was despite a decline of 6.5% yoy in Wonderla's footfalls on account of heavy rains, shift of exam schedules and fluctuations in ticket prices throughout the year due to different tax regimes. Going forward, the company is expected to drive its revenue growth supported by increasing ticket prices and growth in revenues from non-ticket segment. Revenues from non-ticket segment are expected to be supported by improving sale of food & beverage (F&B). The company has also been focusing on cost optimization which has led to expansion of its operating margins by 710 bps to 33.5% in FY2018 from 26.4% in FY2017. Wonderla's financial profile is characterized by healthy debt and coverage indicators supported by absence of any debt as on Sep 30, 2018. Cash and liquid investments of Rs. 70.1 crore as on Sept 30, 2018 further support Wonderla's liquidity.

However, the ratings are constrained by Wonderla's moderate scale of operations in a highly fragmented industry and vulnerability of footfalls to exogeneous factors and discretionary spends by consumers. Also, Wonderla must undertake maintenance and safety inspections of its existing rides and regular addition of rides to support its established position in the industry. The company is also constructing a new park at Chennai, which is expected to cost Rs. 300-350 crore. While the company has already incurred Rs. 91.5 crore as on July 31, 2018 for the same, remaining construction cost is expected to be incurred over the next two-three years and funded through internal accruals. Sizable capex plan is expected to constraint the company's liquidity going forward.

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[1] 100 lakh = 1 crore = 10 million

Outlook: Stable

ICRA believes that the company will continue to benefit from its established position in the amusement park industry , its ability to increase ticket prices and increasing revenues from its non-ticket segment. The outlook may be revised to Positive if the company witnesses a substantial increase in its footfalls, revenues and expansion in margins leading to strong cash accruals. The outlook may be revised to Negative if footfalls or cash accruals are substantially lower than expected, or delays in construction of Chennai park leads to sizable increase in cost of construction, weakening Wonderla's liquidity.

Key rating drivers

Credit strengths

Despite decline in footfalls, Wonderla witnessed healthy growth in its operating revenues in FY2018: While declining trend in footfalls continues for Wonderla's matured parks (Bangalore and Kochi, declined by 9.5% yoy), footfalls at the Hyderabad park witnessed 3.4% yoy growth in FY2018. Footfalls were impacted due to heavy rains, shift of exam schedules and fluctuation in ticket prices throughout the year due to multifarious taxes. Supported by higher ticket price and strong growth in its average non-ticket revenue per person in FY2018, the company witnessed 2.9% yoy growth in its operating income. To further support revenues from its non-ticket segment, during H1FY2019, the company has taken over all the in-park restaurants and plans to supply food and beverages (F&B) through a centralised kitchen in its parks going forward. This is expected to provide growth to revenues from non-ticket segment.

Financial profile characterized by healthy margins, low gearing and adequate coverage: Through various steps for cost optimization, Wonderla expanded its operating margins by 710 bps and 970 bps yoy in FY2018 and H1FY2019. With debt of Rs. 3.8 crore and net worth of Rs. 772.6 crore as on March 31, 2018, the company had strong capital structure. Wonderla also maintained strong coverage indicators with OPBITDA/ interest and finance charge at 75.1 times in FY2018. Cash and liquid balance of Rs. 37.0 crores as on March 31, 2018 provides further cushion to the financial profile of the company. With no debt-funded capex plans and healthy margins, Wonderla is expected to maintain comfortable debt and coverage indicators going forward.

Strong growth potential in the Indian amusement park industry: As per the association of amusement parks and industries, the industry is growing at a CAGR of 17.5% and witnessed revenues of Rs. 1,700 crores in CY2017. The Indian amusement park industry is still at a nascent stage of operations in comparison to its international peers, thus offering sizeable headroom for growth. With its longstanding presence and established market position in the industry, Wonderla is expected to benefit from the industry's expected growth trajectory.

High barriers to entry in the industry: Owing to heavy capital costs and long payback periods, the industry has high barriers to entry, thereby limiting competition for the company to some extent and favouring the incumbents. Further, Wonderla's competitive pricing coupled with in-house design teams also lends strong competitive advantage.

Highly capital-intensive industry with regular maintenance / up gradation of attractions is necessary to ensure safety and attract footfalls: The park requires proper inspection and maintenance to ensure safety, which is handled at competitive rates by the company's in-house team of engineers. In addition, to attract guests, new rides have to be added regularly, the company builds over 30.0% of its own rides in-house at economic rates. This provides a competitive advantage over other parks.

Credit challenges

Stagnation in footfalls across mature parks; marketing efforts and addition of new rides expected to support the same: The company's matured parks (in Bangalore and Kochi), continued to witness decline in footfalls FY2018. While the Hyderabad park witnessed 3.4% yoy growth in FY2018, it lagged behind expectations. However, the company has realigned its marketing strategies and is taking up steps such as offering loyalty programs to support its footfalls. The company continues to work on improving attraction of its parks and has also added a new ride at a cost of Rs. 40 crores in its Hyderabad park in December 2017. These steps resulted in a 3.6% yoy and 12.8% yoy growth in footfalls of Bangalore park and Hyderabad park respectively during H1FY2019. Going forward, Wonderla is expected to support growth in its footfalls by improving brand positioning and addition of new rides across its parks. The upcoming park at Chennai, which is expected to commence its commercial operations in H2FY2021, is also expected to support the company's growth going forward.

Footfalls vulnerable to discretionary spend by consumers, seasonal nature of demand and climatic risks result in fluctuations in earnings: Footfalls for the parks were below expectations during FY2018 on account of heavy rains, shifts in exam schedules of school and fluctuating ticket prices due to different tax regimes. In H1FY2019, while Bangalore and Hyderabad park witnessed healthy footfall growth of 3.6% yoy and 12.8% yoy, Kochi park witnessed footfall decline of 42.4% yoy because of the heavy floods in the state during H1FY2019. Kochi park was also closed for a period of one week in Aug 2018. However, the Kochi park witnessed ramp up in its footfalls in Nov 2018. While companywide footfalls are expected to remain muted during FY2019 (given the sharp decline in the Kerala park), further stabilization of Hyderabad park is expected to provide momentum to footfalls, going forward.

Liquidity likely to be affected by capex plan of the company: Wonderla is expected to incur Rs. 300-350 crore for constructing a new park at Chennai. The company has already incurred Rs. 91.5 crores as on July 31, 2018 and the remaining is expected to be funded through internal accruals over FY2019-FY2021. The sizable capex is expected to affect the liquidity of the company and expose the company to project execution risk going forward.

Liquidity Position:

Wonderla has access to Rs. 25 crore of unutilized working capital limits and cash and liquid investments of Rs. 70.1 crore as on Sep 30, 2018. In the absence of any term loan as on Sep 30, 2018, the company does not have any repayment obligations going forward. However, moderate dividend payments and sizable capex plans for constructing a new park at Chennai is expected to impact liquidity to some extent. In addition to this, each park needs maintenance capex of Rs. 5.0 crore each year. Going forward, while liquidity is expected to be impacted by Wonderla's capex plans and dividends, it continues to be supported by healthy accruals, available cash balances and undrawn working capital lines.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	-
Consolidation / Standalone	The rating is based on standalone basis. The company does not have any subsidiaries.

About the company

Wonderla is engaged in operations of amusement parks in Bangalore, Hyderabad and Kochi. The flagship property of the company, Wonderla Bangalore had commenced operations in 2005. This was the second amusement park set up by the promoters of V-guard group, the first being 'Veega Land' established in Cochin in 2000. 'Veega Land' was incorporated as Veega Holidays & Parks Limited (VHPL) in January 1998. VHPL was amalgamated with Wonderla effective from April 01, 2008 and the name of the Cochin amusement park was changed from Veega land to Wonderla. The company commenced operations of a new park in Hyderabad in April 2016 and it plans to open a new park at Chennai during FY2021. It also operates a resort which was started in March 2012.

Wonderla 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 comprise a mix of imported, domestically procured and manufactured in-house. Wonderla's amusement-park revenue is seasonal, with maximum footfalls on weekends and school vacations. Typically, April to June (summer vacations) and October to December (festive season) quarters are peak quarters, accounting for a combined ~60% of revenue. The company generates revenue primarily from the amusement-park-ticket sales, merchandise) and from restaurants inside the parks. Ticket sales accounted for ~73.7% of amusement-park revenue in FY2018.

Wonderla is guided by promoters and board members Mr. Kochouseph Chittilappilly and Mr. Arun Chittilappilly (second generation). There has been recent churn at key personal management level following resignations by Wonderla's chief financial officer (CFO) and chief executive officer (CEO) over the last one year. While the CFO position has been temporarily filled, the CEO position remains vacant.

Wonderla's other group companies are V-Guard Industries Limited [rated by ICRA as [ICRA]AA (Stable)/ A1+] and V-Star Creations Private Limited**.**

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	262.8	270.5
PAT (Rs. crore)	33.9	38.5
OPBDIT/OI (%)	26.4%	33.5%
RoCE (%)	10.0%	7.6%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.3	0.0
Interest Coverage (times)	52.3	75.1

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2018 (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 June 2015
1	Term loan	Long-term	80.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2	Fund-based	Long-term	10.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
3	Non-fund based	Short-term	15.0	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1

Source: company

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	June 2017	-	July 2021	-	[ICRA]AA- (Stable)
NA	Fund-based	-	-	-	-	[ICRA]AA- (Stable)
NA	Non-fund based	-	-	-	-	[ICRA]A1+

Source: company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
-	-	-

Source: company

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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.

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