April 14, 2020

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	80.00	80.00	[ICRA]AA-(Stable); Outstanding
Long-term Fund Based	10.00	10.00	[ICRA]AA-(Stable); Outstanding
Short-term Non-fund Based	15.00	15.00	[ICRA]A1+; Outstanding
Total	**105.00**	**105.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating update follows the impact of the novel coronavirus (Covid-19) outbreak on the amusement and theme park industry. Since India reported its first coronavirus patient towards the end of January 2020, the impact on the Indian amusement and theme park industry has been severe, more so in March 2020. Footfalls at all amusement parks across the country have crashed, following the pan-India 21-day lockdown announced by the Government of India (GoI) on March 24, 2020. This is in line with the global situation.

Given the discretionary nature of spend, the amusement and theme park industry has always been highly susceptible to exogenous shocks like wars, terror attacks, diseases and meltdowns. Covid-19's impact is expected to be far more severe and broad-based than the previous instances. ICRA expects significant pressure on footfalls over the next two quarters.

The ratings factor in Wonderla Holidays Limited's (WHL) established position in the Indian amusement park industry, healthy operating margins and robust coverage indicators. Due to the Covid-19 pandemic, WHL's Kochi park has been closed since March 11, 2020, the Bangalore park since March 14, 2020 and the Hyderabad park since March 15, 2020. The parks will be closed till April 14, 2020 following the pan-India lockdown announced by the GoI. While ICRA takes cognizance of the impact that the closure of the parks is expected to have on WHL's revenues and cash accruals over the near term, the ratings remain supported by the company's strong liquidity position, with cash and liquid investments of Rs. 125 crore and unutilised working capital lines of Rs. 10 crore as on March 31, 2020. The lack of debt and the robust coverage metrics provide additional comfort. ICRA also notes that a significant part of WHL's operating cost is variable in nature, which will enable it to reduce costs to some extent during the period of closure. However, on an overall basis, WHL is expected to report operating losses during the period of shutdown owing to fixed expenditure in the form of salaries, rentals and certain fixed overheads amounting to ~Rs. 7 crore per month. ICRA will continue to monitor the impact of the Covid-19 outbreak and the corresponding impact on WHL's liquidity and overall financial position.

WHL's revenue increased by 4.2% to Rs. 282 crore in FY2019 from Rs. 270.6 crore in FY2018 on the back of a 1.5% YoY growth in footfalls. The growth continued in 9M FY2020 with WHL witnessing revenues of Rs. 228.5 crore on the back of a 2.0% YoY growth in footfalls. The company's average non-ticket revenue per person increased by 10.2% in FY2019, supporting the top line. However, the same moderated to 2.0% in 9M FY2020 as the major growth in footfalls in 9M FY2020 came from groups, mostly school and college students who have lower capacity to spend. WHL has also been focusing on cost optimisation measures like taking over the in-park restaurants and supplying through a centralised kitchen, changing the on-roll and off-roll employee mix to reduce costs during lean seasons and realigning the marketing channels at a lower cost to name a few. This led to an increase in its operating margins to 40.7% in FY2019 from 33.1% in FY2018. The operating margins grew further to 43.3% in 9M FY2020. WHL's financial profile is characterised by healthy coverage indicators, supported by the absence of any debt as on March 31, 2020.

The ratings, however, remain constrained by WHL's moderate scale of operations in a highly fragmented industry and the vulnerability of footfalls to exogeneous factors and discretionary spends by consumers. Also, WHL must undertake maintenance and safety inspections of its existing rides and add rides regularly to support its established position in the industry. It is constructing a new park in Chennai, which is expected to cost Rs. 365 crore. While the company has already incurred Rs. 110 crore as on March 31, 2020 for the same, the remaining cost is expected to be incurred over the near term after the normalisation of the current situation. The company is also planning to set up a new park in Odisha, though the timelines for the same are undecided as of now.

Key rating drivers and their description

Credit strengths

Financial profile characterised by healthy margins, robust debt-protection metrics and healthy cash reserves – The company's operating profit margins increased to 43.3% in 9M FY2020 from 40.7% in FY2019 through the various cost optimisation measures mentioned above. WHL did not have any debt on its books as on March 31, 2020, resulting in robust coverage indicators. Cash and liquid investments of Rs. 125 crore as on March 31, 2020 provide further cushion to the company's financial profile.

Strong long-term growth potential in Indian amusement park industry – The Indian amusement park industry is still at a nascent stage of operations compared to its international peers, thus offering sizeable headroom for growth. With WHL's long-standing presence and established market position in the industry, it is expected to benefit from the industry's expected growth trajectory.

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 the current players. Further, WHL's competitive pricing, coupled with its in-house design teams, also lends a strong competitive advantage.

Credit challenges

Footfalls vulnerable to discretionary spend; seasonal nature of demand and climatic risks resulting in fluctuations in earnings – In FY2019, the company's overall footfalls were impacted by a 14.1% YoY decline in footfalls at the Kochi park owing to the Nipah virus outbreak and floods in Kerala. While the Hyderabad park witnessed footfall growth of 6.2% YoY in 9M FY2020, the Kochi park witnessed footfall growth of 14.0% YoY over a smaller base. The Bangalore park witnessed an 8.7% decline in footfalls in 9M FY2020 owing to heavy rains in H1

FY2020, a general slowdown and the retrenchment in the auto sector. Owing to the discretionary nature of spend and other factors as mentioned above, there remains volatility in footfalls across the parks.

Exposure to exogenous shocks – As a result of the Covid-19 pandemic, all three parks have been closed following the nationwide lockdown announced till April 14, 2020. With the possibility of further restrictions going forward, coupled with the discretionary nature of spend, the impact on footfalls is expected to be severe in the coming months. The revival of the growth in footfalls will be a key monitorable.

Stagnation in footfalls across mature parks; WHL to set up park in Chennai and Odisha over medium term – WHL's Bangalore park witnessed a YoY decline of 8.7% in footfalls in 9M FY2020 while the Kochi park witnessed YoY growth of 14.0%, partly on the lower base of the previous year. However, the current levels of footfalls at the Bangalore and Kochi parks are relatively lower than the historical average witnessed a couple of years back. The company is undertaking several measures and marketing schemes such as tying up with various travel agents, shifting to video-led marketing, direct pitching to crowds in districts during festivals, etc, to support its brand positioning and footfalls. The upcoming parks in Chennai and Odisha are expected to support the company's growth over the medium term.

Liquidity position: Strong

WHL's liquidity position is **Strong** with cash and liquid investments of Rs. 125 crore and an undrawn working capital limit of Rs. 10 crore as on March 31, 2020. The company does not have any fixed repayment obligation and its capital expenditure for new parks is discretionary in nature. WHL incurs maintenance capex of ~Rs. 22 crore per annum for its three parks, which can be comfortably funded through internal accruals. Overall, ICRA expects WHL to be able to meet its near-term commitments through internal sources and yet be left with a sufficient cash surplus.

Rating sensitivities

Positive triggers – An upgrade in the rating in the current environment is unlikely. Nevertheless, ICRA could upgrade the rating if the company demonstrates significant growth in its revenues and margins in addition to maintaining its strong debt metrics on a sustainable basis.

Negative triggers – As a result of the Covid-19 pandemic, prolonged pressure on revenues and consequently on liquidity owing to the negative impact on footfalls may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

WHL operates amusement parks in Bangalore, Hyderabad and Kochi. Its flagship property, Wonderla Bangalore, had commenced operations in 2005. This was the second amusement park to be 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 WHL, effective April 1, 2008, and the name of the Cochin amusement park was changed to Wonderla from Veega Land. The company commenced operations of a new park in Hyderabad in April 2016 and it plans to open a new park in Chennai in FY2021. 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 and manufactured in-house. WHL's amusement park revenue is seasonal with maximum footfalls on weekends and during school vacations. Typically, the April to June (summer vacations) and October to December (festive season) quarters are peak quarters, accounting for a combined ~60% of the revenue. The company generates revenue primarily from amusement park ticket sales, merchandise sales and from restaurants inside the parks.

WHL is guided by Mr. Kochouseph Chittilappilly and Mr. Arun Chittilappilly (second generation), who are the promoters as well as board members. Mr. George Joseph, Joint Managing Director, has been associated with the company for about a decade and spearheads the day-to-day operations. WHL's other Group companies are V-Guard Industries Limited [rated [ICRA]AA(Stable)/A1+] and V-Star Creations Private Limited**.**

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	270.6	282.0
PAT (Rs. crore)	38.5	55.4
OPBDIT/OI (%)	33.1%	40.7%
RoCE (%)	7.6%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	74.1	678.5
DSCR	11.4	23.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					14-Apr-2020	-	28-Dec-2018	22-Sep-2017
1	Term Loan	Long Term	80.0	0.0	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Long-term Fund Based	Long Term	10.0	NA	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Short-term Non-fund Based	Short Term	15.0	NA	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	NA	NA	NA	80.00	[ICRA]AA- (Stable)
NA	Long-term Fund Based	NA	NA	NA	10.00	[ICRA]AA- (Stable)
NA	Short-term Non-fund Based	NA	NA	NA	15.00	[ICRA]A1+

Source: Wonderla Holidays Limited

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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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