June 29, 2020

Wonderla Holidays Limited: Ratings reaffirmed; Outlook revised to Negative

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-; Reaffirmed, outlook revised to Negative from Stable
Long-Term Fund Based	10.00	10.00	[ICRA]AA-; Reaffirmed, outlook revised to Negative from Stable
Short-Term Non-fund Based	15.00	15.00	[ICRA]A1+; Reaffirmed
Total	**105.00**	**105.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision of the outlook on the long-term rating factors in the expected weakening in Wonderla Holidays Limited's (WHL/the company) FY2021 operational performance owing to a sharp drop in demand because of the Covid-19 pandemic. The extended pan-India lockdown since March 25, 2020 has resulted in the closure of all the amusement parks of the company over the last three months. 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. As things stand, ICRA expects significant pressure on the footfalls at the parks in H1 FY2021 with a gradual revival in the same from Q3 FY2021. However, given the fast-evolving nature of the pandemic, these estimates are subject to revision.

WHL has undertaken significant cost control measures (voluntary wage cuts of employees, hold on marketing expenditure, extension or cost reduction of annual maintenance contracts for rides, etc), thereby bringing down the monthly expenditure to Rs. 4.5 crore from ~Rs. 15.0 crore. While ICRA takes cognizance of the operating losses being incurred by the company as its parks are shut, the ratings remain supported by WHL's strong liquidity position. As on March 31, 2020, the company had cash and liquid investments of Rs. 123.8 crore along with an unutilised fund-based working capital line of Rs. 10.0 crore. This is sufficient to cover WHL's operating losses for several months. The ratings also continue to factor in WHL's established position in the Indian amusement park industry and steady-state healthy operating margins. Further, nil debt and robust coverage metrics provide significant comfort. ICRA will continue to monitor the ongoing impact of the pandemic on WHL's liquidity and overall financial position.

The ratings 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. WHL is constructing a new park in Chennai at an estimated total cost of Rs. 330.2 crore, of which it has already invested Rs. 109.2 crore as on March 31, 2020. The residual cost is expected to be incurred over 18 months, post normalisation of the current situation, which may impact WHL's liquidity position to a certain extent. The company is also planning to set up a new park in Odisha though the timelines for the same are yet to be decided.

Key rating drivers and their description

Credit strengths

Financial profile characterised by strong liquidity position and nil debt – WHL has a fund-based working capital line of Rs. 10.0 crore though the same is seldom utilised. Further, the company has remained net debt negative for the last several years. WHL's cash and liquid investments (mutual funds and bank fixed deposits) of Rs. 123.8 crore, as on March 31, 2020, provide further cushion to its financial profile.

Margins expected to return to healthy levels over the medium term, post one-off impact of the pandemic – WHL's operating margins declined to 38.4% in FY2020 from 40.7% in FY2019 due to a significant decline in margins in Q4 FY2020 owing to the impact of the pandemic. The closure of all the parks in mid-March 2020 led to a lower operating income in Q4 FY2020 without a commensurate decline in expenses. While WHL's margins declined in FY2020, the margins had been witnessing an uptick in the recent past with the company recording a margin of 40.7% in FY2019, up from 26.4% in FY2017. WHL has been focusing on cost-optimisation measures like taking over the in-park restaurants and supplying food orders 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, etc. These measures led to an in improvement in the margins in FY2018 and FY2019. While ICRA expects WHL's margins to be significantly impacted in FY2021, the same are expected to revive once the footfalls recover.

Established market position of WHL; strong long-term growth potential in Indian amusement park 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 nearly 20 years of experience in the Indian amusement and theme park industry. The industry is still in 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 existing players. Further, WHL's competitive pricing, coupled with its in-house design team, provides a strong competitive advantage.

Credit challenges

Disruption in business operations on account of the pandemic – The spread of Covid-19 across the country has affected the amusement and theme park industry. As a result of the pandemic, all three parks have been closed since mid-March 2020. Currently, there is no visibility on when the parks would be allowed to reopen. Even after the parks reopen, footfalls are expected to be constrained as people would avoid huge gatherings and casual outings to comply with social distancing norms. Non-ticket revenue is expected to drop significantly as the eateries and merchandise stores will be less crowded owing to social distancing practices and general precautionary measures. Given the fast-evolving nature of the pandemic, the timeline for reopening the company's parks and the trend in footfalls will be key monitorables, going forward.

Footfalls vulnerable to discretionary spend; seasonal nature of demand and seasonality resulting in fluctuations in earnings – In FY2019, WHL's overall footfalls were impacted by the decline in footfalls in the Kochi park (14.1% YoY decline) owing to the Nipah virus outbreak and floods in Kerala. In FY2020, WHL's overall footfalls were impacted by the decline in footfalls in the Bangalore park (14.7% YoY decline) due to heavy rains in H1 FY2020, general slowdown, retrenchment in the auto sector and the pandemic in Q4 FY2020. Owing to the discretionary nature of spend and other factors as mentioned above, footfalls at the company's parks remain volatile.

Stagnation in footfalls across mature parks; company to set up parks in Chennai and Odisha over medium term – The current level of footfalls at the company's Bangalore and Kochi parks is relatively lower than the historical average of the last 5 years. To support footfalls across the parks, WHL is undertaking several measures such as tying up with various travel agents, shifting to video-led marketing, pitching directly to crowds in districts during festivals, etc. The upcoming park in Chennai is also expected to support the company's revenue growth over the medium term.

Liquidity likely to be affected by WHL's capex plan – WHL is expected to incur Rs. 221.0 crore for constructing a new park in Chennai. It has already incurred Rs. 109.2 crore as on March 31, 2020 and the rest is expected to be funded through internal accruals, cash reserves and capital creditors in FY2021 and FY2022. The sizeable capex is expected to affect WHL's liquidity to a certain extent and expose it to project execution risk going forward.

Liquidity position: Adequate

WHL's liquidity position is **adequate** with cash and liquid investments of Rs. 123.8 crore and an undrawn working capital limit of Rs. 10.0 crore as on March 31, 2020. With no long-term loans, the company does not have any fixed repayment obligations. WHL is in the process of constructing a new park in Chennai and will be investing Rs. 221.0 crore in FY2021 and FY2022 for the same. Going forward, ICRA expects WHL to be able to meet its capex commitments through its internal accruals and cash reserves.

Rating sensitivities

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

Negative triggers – Prolonged pressure on the revenues and margins owing to footfalls being affected by factors including, but not limited to, the pandemic may lead to a rating downgrade. Further pressure on the ratings could arise if the company incurs significant capital expenditure without the desired level of accruals, thus impacting its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on 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 set up by the promoters of the 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 01, 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 FY2023. 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 park comprises a mix of rides that have been imported, domestically procured and manufactured in-house. WHL's amusement park revenue is seasonal with maximum footfalls on weekends and school vacations. Typically, the April to June (summer vacations) and October to December (festive season) quarters are the peak quarters, accounting for a combined ~60% of the revenue. WHL generates revenue primarily from amusement park ticket sales, merchandise sales and from the restaurants inside the parks.

WHL is guided by the promoters and board members – Mr. Kochouseph Chittilappilly and Mr. Arun Chittilappilly (second generation). 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)

	FY2019	**FY2020***
Operating Income (Rs. crore)	282.0	270.9
PAT (Rs. crore)	55.4	64.8
OPBDIT/OI (%)	40.7%	38.4%
RoCE (%)	10.0%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.1
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	678.5	154.1
DSCR	23.8	147.9

*Source: Wonderla Holidays Limited; *Abridged financials*

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 (as on March 31, 2020)	Current Rating	Earlier Rating	FY2020	FY2019	FY2018
					29-Jun-2020	14-Apr-2020	-	28-Dec-2018	22-Sep-2017
1	Term Loan	Long Term	80.0	0.0	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Long-term Fund Based	Long Term	10.0	NA	[ICRA]AA- (Negative)	[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+	[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-(Negative)
NA	Long-term Fund Based	NA	9.00%	NA	10.00	[ICRA]AA-(Negative)
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.

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