July 20, 2022

Wonderla Holidays Limited: Ratings reaffirmed; [ICRA]A+(Stable) assigned for enhanced amount

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]A+(Stable); reaffirmed
Long-term Fund-based – Term loan	80.00	80.00	[ICRA]A+(Stable); reaffirmed
Long-term Fund-based – WCDL	-	5.00	[ICRA]A+(Stable); assigned
Long-term Interchangeable – Overdraft	-	(1.00)	[ICRA]A+(Stable); assigned
Short-term Non Fund-based	15.00	15.00	[ICRA]A1; reaffirmed
Total	**105.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings reflects Wonderla Holidays Limited's (WHL) established position in the amusement park industry as well as its healthy financial profile following the Covid-19 abatement. The ratings factors in improvement in footfalls in FY2022 supported by parks re-opening, marketing campaigns, scaling contents, thematic events, and attractions. However, the overall annual footfalls in FY2022 remained lower than pre-Covid level. The ratings also factor in significant improvement in its operating income by 232.0% in FY2022, in-line with improvement in footfalls across all the parks. The company was also able to achieve operational profit in FY2022 (OPM 15.9%) against operating loss (OPM -74.4%) in FY2021 owing to increased scale of operations. However, the PAT continued to remain negative in FY2022 at -7.4% (-130.0% in FY2021). Going forward, the company is expected to drive its revenue growth supported by full recovery in footfalls and growth in revenues from non-ticket segment with improvement in operating margins to pre-Covid levels. The company's zero debt position and cash and liquid investment balance of Rs. 105.3 crore as on March 31, 2022, coupled with undrawn working capital of Rs. 15.0 crore, provide further cushion to its financial profile.

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, the overall annual footfalls in FY2022 remained lower than pre-Covid levels. ICRA also notes the company's plan to construct a new park in Bhubaneswar at an estimated cost of Rs. 125.0 crore. WHL is also constructing a new park in Chennai at an estimated cost of Rs. 330.0 crore, of which it has already invested Rs. 114.2 crore as on March 31, 2022. The construction work was delayed due to the Covid-19 pandemic and the Company has sought further extension of the exemption period from the State Government of Tamil Nadu (GoTN) for local body tax (LBT)/entertainment tax (10% over and above the 18% GST) on entry fees to the amusement park. In case the company receives the LBT exemption, the residual capex of ~Rs. 220 crore is expected to be incurred between FY2023 and FY2025. The company is expected to fund the Odisha Park and maintenance capex for other parks through internal accruals and cash reserves. However, in the case WHL receives the LBT exemption from GoTN, and capex for both the Tamil Nadu and Odisha projects need to be incurred together, it will then opt for partially funding them through a term loan. In case WHL opts for partially debt-funded capex, the impact on its debt metrics will be a key monitorable.

Key rating drivers and their description

Credit strengths

Financial profile characterised by increasing revenue, improving profitability margins and healthy cash reserves – WHL reported a healthy growth of 232.0% in its operating income in FY2022 to Rs. 127.6 crore against Rs. 38.4 crore in FY2021 owing to improvement in footfalls across all parks. Also, the company achieved an operating profit of Rs. 20.2 crore in FY2022 against operating loss of Rs. 28.6 crore in FY2021 in line with its increased scale of operations. The OPM stood at 15.9% in FY2022 over -74.4% in FY2021. Going forward, the company is expected to drive its revenue growth supported by full recovery in footfalls and growth in revenues from non-ticket segment with improvement in operating margins to pre-Covid levels. WHL has a fund-based working capital cash credit line of Rs. 10.0 crore and additional WCDL limit of Rs. 5.0 crore; although this is seldom utilised. Further, it has remained net debt negative for the last several years. WHL's cash and liquid investments (mutual funds and bank fixed deposits) of Rs. 105.3 crore, as on March 31, 2022, provide further cushion to its financial profile.

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 nearly 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, discretionary spends; seasonal demand results in fluctuations in earnings – In FY2020, WHL's overall footfalls were impacted by the decline in footfalls in the Bengaluru Park (14.7% YoY decline) due to heavy rains in H1 FY2020, general economic slowdown, retrenchment in the auto sector and the pandemic in Q4 FY2020. The footfalls for the park declined to 3.5 lakh in FY2021 from 23.9 lakh in FY2020 with parks remaining shut for most months during FY2021 due to the first wave of the Covid-19 pandemic. The footfalls starting to recover from mid-Q2 FY2022 and the company achieved 10.6 lakh footfalls in FY2022. However, the overall annual footfalls in FY2022 remained lower than pre-Covid level due to loss of footfalls in the Q1 and Q2 FY2022 on account of covid induced lockdown and Q1 being the seasonally peak quarter of the company. Also, owing to the discretionary nature of consumer spending and other factors as mentioned above, footfalls at WHL's parks remain volatile and will continue to remain susceptible to these factors, going forward.

Sizable capex plan which could affect WHL's debt metrics – At present, WHL is constructing a new park in Bhubaneswar at an estimated cost of Rs. 125.0 crore. WHL is also constructing a new park in Chennai at an estimated cost of Rs. 330.0 crore, of which it has already invested Rs. 114.2 crore as on March 31, 2022. The construction work was delayed due to the Covid-19 pandemic and the Company has sought further extension of the exemption period from the State Government of Tamil Nadu (GoTN) for local body tax (LBT)/entertainment tax (10% over and above the 18% GST) on entry fees to the amusement park. In case the company receives the LBT exemption, the residual capex of ~Rs. 220 crore is expected to be incurred between FY2023 and FY2025. The company is expected to fund the Odisha Park and maintenance capex for other parks through internal accruals and cash reserves. However, in the case WHL receives the LBT exemption from GoTN, and capex for both the Tamil Nadu and Odisha projects need to be incurred together, it will then opt for partially funding them through a term loan. In case WHL opts for partially debt-funded capex, the impact on its debt metrics will be a key monitorable.

Liquidity position: Adequate

WHL's liquidity position is adequate with cash and liquid investments of Rs. 105.3 crore and an undrawn working capital limit of Rs. 15.0 crore as on March 31, 2022. WHL is in the process of constructing a new park in Odisha and will be investing ~Rs. 125.0 crore between FY2023 and FY2025 for the same, along with maintenance capex of Rs. 30.0 crore each year. In case the company receives the LBT exception from the GoTN, it will be incurring partially debt-funded capex of ~Rs. 220.0 crore for the Chennai project between FY2023 and FY2025. Going forward, ICRA expects WHL to be able to meet its capex commitments through its internal accruals and cash reserves. However, if capex for both the Tamil Nadu and Odisha projects need to be incurred together, the company will then opt for partially funding the same through a term loan.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates sustained increase in footfalls over pre-pandemic levels resulting in growth in revenues and margins while maintaining strong debt coverage metrics.

Negative factors – 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 capex without the desired level of accruals, thus impacting its credit metrics on a sustained basis. A specific credit metric for a downgrade includes a DSCR ratio of less than 2.0 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 Bengaluru, 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 the VGuard 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 new park in Hyderabad in April 2016, and it plans to open another 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 seasons, accounting for a combined ~60% of its total 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 of the company. Mr. Arun Chittilappilly, Managing Director, spearheads the day-to-day operations. WHL's other Group companies are VGuard Industries Limited [rated [ICRA]AA(Stable)/A1+] and V-Star Creations Private Limited.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022
Operating income	38.4	127.6
PAT	-49.9	-9.5
OPBDIT/OI	-74.4%	15.9%
PAT/OI	- 130%	-7.4%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	-0.1	0.1
Interest coverage (times)	-59.6	64.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Jul 20, 2022	Jul 29, 2021	Jun 29, 2020	Apr 14, 2020	-
1	Cash Credit	Long term	10.00	--	**[ICRA]A+ (Stable)**	**[ICRA]A+(Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**	-
2	Term loans	Long term	80.00	--	**[ICRA]A+ (Stable)**	**[ICRA]A+(Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**	-
3	Fund-based – WCDL	Long term	5.00	--	**[ICRA]A+ (Stable)**	-	-	-	-
4	Interchangeable – Overdraft	Long term	(1.00)	--	**[ICRA]A+ (Stable)**	-	-	-	-
5	Non Fund-based	Short term	15.00	--	**[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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	NA	NA	NA	10.00	[ICRA]A+(Stable)
	Term loans - Proposed	NA	NA	NA	80.00	[ICRA]A+(Stable)
	Fund-based – WCDL	NA	NA	NA	5.00	[ICRA]A+(Stable)
	Interchangeable – Overdraft	NA	NA	NA	(1.00)	[ICRA]A+(Stable)
	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:

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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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