

July 29, 2021

## Wonderla Holidays Limited: Ratings downgraded to [ICRA]A+ (Stable)/A1

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based/CC	10.00	10.00	[ICRA]A+ (Stable); downgraded from [ICRA]AA-(Negative)
Long Term – Term Loan	80.00	80.00	[ICRA]A+ (Stable); downgraded from [ICRA]AA-(Negative)
Short Term – Non-fund based	15.00	15.00	[ICRA]A1; downgraded from [ICRA]A1+
<b>Total</b>	<b>105.0</b>	<b>105.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating revision factors in significant decline in operational performance of Wonderla Holidays Limited (WHL) in FY2021 and the same being susceptible to evolving nature of the pandemic in FY2022. The operating income of the company declined by 85.8% in FY2021 to Rs. 38.4 crore from 270.9 crore in FY2020 owing to decline in footfall with parks remaining shut in Q1 and Q2 of FY2021 and majority of days in Q3 FY2021 due to the first wave of Covid-19 pandemic. The company incurred operational loss in FY2021 owing to significant decline in scale of operations. The company's parks have remained shut from April 18, 2021 owing to the second wave of the Covid-19 pandemic (only the Bangalore resort has been allowed to open from July 5, 2021 at 50% capacity and the Hyderabad park will be open from August 5, 2021) and consequently, the company's performance is expected to remain subdued in the near-term. While ICRA takes cognisance of the company's healthy cash balances which are available to fund the operating losses while the parks are shut, it expects the industry recovery to be slower than previously anticipated.

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. 3.5 crore (from ~Rs. 15.0 crore earlier) when the parks are closed. During Q4 FY2021, in January, parks were functional only from Thursday to Sunday and in February, from Wednesday to Sunday and all the parks were opened on all the days in the month of March. The company achieved a footfall of 3.11 lakhs in Q4 FY2021 (77.5% of footfall achieved in Q4 FY2020) and revenue of Rs. 33.3 crore. In Q4 FY2021, the company achieved an operating margin of 11.6%, an improvement from negative OPBIDTA achieved in Q3 FY2021 on the back increase in footfall in Q4 FY2021. However, the operating margins of 11.6% in Q4 FY2021 is lower than 16.8% achieved in Q4 FY2020 owing to relatively lower scale of operations. As on March 31, 2021, the company had cash and liquid investments of Rs. 92.9 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.

The ratings remain constrained by WHL's moderate scale of operations in a highly fragmented industry and the vulnerability of footfalls to exogenous factors and discretionary spends by consumers. 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. 113.2 crore as on March 31, 2021. The construction work of the Chennai park is currently on hold due to the Covid-19 pandemic. The residual cost is expected to be incurred during FY2023 and FY2024 period, once the operation of three parks stabilize post the pandemic.

## Key rating drivers and their description

### Credit strengths

**Financial profile characterised by healthy cash reserves and nil debt position:** 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. 92.9 crore, as on March 31, 2021, provide further cushion to its financial profile.

**Established market position of WHL:** 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 supported by WHL's long-standing presence and established 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 the 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 shock, 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 economic slowdown, retrenchment in the auto sector and the pandemic in Q4 FY2020. The footfalls for the park declined to 3.5 lakhs in FY2021 from 23.9 lakhs achieved in FY2020 with parks remaining shut in Q1 and Q2 of FY2021 and majority of days in Q3 FY2021 due to the first wave of Covid-19 pandemic. Owing to the discretionary nature of spend and other factors as mentioned above, footfalls at the company's parks remain volatile and will continue to remain susceptible to these factors in the future.

**Steep decline in Revenue and margins in FY2021; the same continues to remain susceptible to evolving nature of Covid-19 pandemic in FY2022:** The operating income of the company declined by 85.8% in FY2021 to Rs. 38.4 crore from 270.9 crore in FY2020 owing to decline in footfall (the company achieved a footfall of 3.5 lakhs in FY2021 as compared to 23.9 lakh footfall achieved in FY2020) due to the first wave of Covid-19 pandemic and the resultant lockdown. The company incurred operational loss in FY2021 owing to significant decline in scale of operations. However, During Q4 FY2021, in January, parks were functional only from Thursday to Sunday and in February, from Wednesday to Sunday and all the parks were opened on all the days in the month of March. The company achieved a footfall of 3.11 lakhs in Q4 FY2021 (77.5% of footfall achieved in Q4 FY2020) and revenue of Rs. 33.3 crore. In Q4 FY2021, the company achieved an operating margin of 11.6%, an improvement from negative OPBIDTA achieved in Q3 FY2021 on the back increase in footfall in Q4 FY2021. The company's parks have remained shut from April 18, 2021 owing to the second wave of the Covid-19 pandemic (only the Bangalore resort has been allowed to open from July 5, 2021 at 50% capacity) and consequently, the company's performance is expected to remain subdued in the near-term.

**Stagnation in footfalls across mature parks; company to set up a park in Chennai with sizeable capex to be incurred** – The footfalls at the company's Bangalore and Kochi parks before the Covid-19 pandemic were relatively lower than the historical average of the last 5 years. To support footfalls across the parks, WHL undertook several measures such as tying up with various travel agents, shifting to video-led marketing, pitching directly to crowds in districts during festivals, etc. Further, WHL is also constructing a new park in Chennai at an estimated total cost of Rs. 330.2 crore, of which it has already invested Rs. 113.2 crore as on March 31, 2021. The construction work of the Chennai park is currently on hold due to the Covid-19 pandemic. The residual cost is expected to be incurred during FY2023 and FY2024 period, once the operation of three parks stabilize post the pandemic. The residual cost is expected to be incurred from FY2023 to FY2024 period, once the operation of three parks stabilizes, 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.

## Liquidity position: Adequate

WHL's liquidity position is adequate with cash and liquid investments of Rs. 92.9 crore and an undrawn working capital limit of Rs. 10.0 crore as on March 31, 2021. The company incurs a monthly expenditure of ~Rs. 3.5 crore per month when the parks are closed and given the current cash balance and undrawn working capital, the company will be able to cover the operating loss for several months. WHL is in the process of constructing a new park in Chennai and will be investing ~Rs. 188.0 crore in FY2023 and FY2024 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 factors** - 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 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 capital expenditure without the desired level of accruals, thus impacting its liquidity position.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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, 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. 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 4 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. Arun Chittilappilly, 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)

Blue Standalone	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	282.0	270.9	38.4
PAT (Rs. crore)	55.4	64.8	-49.9
OPBDIT/OI (%)	40.7%	39.0%	-74.4%
RoCE (%)	10.0%	10.8%	-7.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.1	0.1
Total Debt/OPBDIT (times)	0.0	0.0	0.0
Interest Coverage (times)	678.5	55.5	-59.6
DSCR (times)	23.8	63.1	-47.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in Jul 29, 2021	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						29-Jun-2020	14-Apr-2020		
1	Term Loan	Long-term	80.0	-	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)		[ICRA]AA- (Stable)
2	Long-term Fund Based	Long-term	10.0	-	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)		[ICRA]AA- (Stable)
3	Short-term Non-fund Based	Short term	15.0	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+

### Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long Term – Fund based/CC	Simple
Long Term – Term Loan	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: [www.icra.in](http://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	NA	NA	NA	80.00	[ICRA]A+ (Stable)
NA	Long-term Fund Based	NA	9.00%	NA	10.00	[ICRA]A+ (Stable)
NA	Short-term Non-fund Based	NA	NA	NA	15.00	[ICRA]A1

*Source: Company*

**Annexure-2: List of entities considered for consolidated analysis**

*Not Applicable*

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