

Sector: Consumer Discretionary
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 127	
Price Target: Rs. 145	↓
↑ Upgrade ↔ No change ↓ Downgrade	

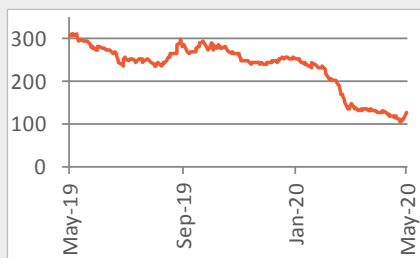
Company details

Market cap:	Rs. 718 cr
52-week high/low:	Rs. 316/105
NSE volume: (No of shares)	0.3 lakh
BSE code:	538268
NSE code:	WONDERLA
Sharekhan code:	WONDERLA
Free float: (No of shares)	1.7 cr

Shareholding (%)

Promoters	69.6
FII	15.4
DII	1.1
Others	14.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	-42.5	-50.0	-58.9
Relative to Sensex	-1.8	-26.6	-28.3	-39.9

Sharekhan Research, Bloomberg

Wonderla Holidays Limited's (WHL) Q4FY2020 numbers were severely affected by the shutdown of amusement parks and resorts in the last few days of March after the nationwide lockdown was imposed. Revenue declined by ~30% to Rs. 42.4 crore largely driven by a 31% reduction in footfalls, while operating profits fell significantly as majority of operating costs are direct in nature. The Bangalore, Kochi and Hyderabad parks saw drop in footfalls by 38%, 31% and 22% respectively led by fall in group bookings and walk-ins. Average revenue per visitor increased by 1.1% in Q4FY2020 driven by a 2.5% increase in non-ticketing revenue. According to the management, if the pandemic normalises, parks are expected to open up in H2FY2021 at a 40-50% capacity. The company is prepared to reopen the parks with appropriate sanitisation and social distancing measures. The company plans to provide higher discounts in the initial phase of reopening to drive higher footfalls. We expect FY2021 to remain sluggish for WHL, while a recovery might be seen in FY2022. The company is expected to optimise costs by reducing communication spends, reviewing annual maintenance contracts and obtaining vendor discounts. However, higher fixed costs and lower revenue will put pressure on the margins in the near to medium term.

Key positives

- Average revenue per visitor for the Bangalore and Kochi parks improved by 4.6% and 2%, respectively.
- The non-ticketing revenue for the Bangalore park increased by 9.5% y-o-y.

Key negatives

- Overall footfalls fell by 31% y-o-y on account of a decline in footfalls of Bangalore, Kochi and Hyderabad parks by 38%, 31% and 22%, respectively; net revenue declined by 30% in Q4FY2020.
- OPM declined significantly to 12% due to lower operating leverage.
- Adjusted loss stood at Rs. 1.8 crore in Q4FY2020 as against a profit of Rs. 7 crore in Q4FY2019.

Our Call

View - Maintain Hold with revised PT of Rs. 145: We have reduced our earnings estimates for FY2021 and FY2022 to factor in the subdued performance in Q4FY2020 as parks stayed shut at the fag end of the quarter. WHL is one of the leading amusement park players in India and its long-term growth prospects are intact with its focus on foraying into new states aided by government initiatives. The company has adequate liquidity of about Rs. 123 crore and also unoccupied land of ~130 acre including the land for the Chennai park (we have not accounted this in our valuations) which will help the company cover significant near-term obligations. The stock has corrected by ~43% and is currently trading at 8.1x its FY2022 EV/EBIDTA, which is at discount to its historical average and factors in the near-term headwinds. We maintain our Hold rating with a revised price target of Rs. 145. Normalisation of the pandemic and an improvement in footfalls would be a key re-rating trigger for the stock.

Key Risks

If the lockdown gets extended by a few more months, WHL will be unable to open its parks which would impact the footfalls thus affecting the performance in FY2021.

Valuation (Standalone)

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	271	282	271	116	240
OPM (%)	33.0	40.5	38.4	27.0	36.2
Adjusted PAT	38	55	46	2	37
Adjusted EPS (Rs.)	6.8	9.8	8.1	0.3	6.6
P/E (x)	18.6	13.0	15.6	-	19.2
P/B (x)	0.9	0.9	0.8	0.9	0.9
EV/EBIDTA (x)	7.6	5.5	5.8	20.7	8.1
RoNW (%)	5.1	7.0	5.5	0.2	4.5
RoCE (%)	7.2	9.7	8.0	0.4	5.5

Source: Company; Sharekhan estimates

Revenues declined due to fall in footfalls; Margins affected by lower operating leverage: For Q4FY2020, net revenue declined by 30% y-o-y to Rs. 42.4 crore affected by a 31% decline in overall footfalls as parks stayed shut in the last 15 days on March. Total ticketing revenue declined by 31% y-o-y and total non-ticketing revenue declined by 29% y-o-y. Higher direct operating and employee expenses and a decline in revenue dragged down OPM significantly to 12%. Operating profit declined to Rs. 5.1 crore in Q4FY2020 from Rs. 17.9 crore in Q4FY2019. Subdued operating performance and slightly higher depreciation resulted in a pre-tax loss of Rs. 2.9 crore. Adjusted loss came in at Rs. 1.8 crore in Q4FY2020 as against a profit of Rs. 7 crore in Q4FY2019. There was an exceptional item of Rs. 3.4 crore pertaining to reversal of provision for service tax and other local body taxes created during earlier years. Hence, the company reported a profit of Rs. 1.6 crore in Q4FY2020 as against Rs. 7 crore in Q4FY2019.

Footfalls of all parks plummet due to COVID-19: The Kochi park was largely affected as footfalls declined by 38% y-o-y, affecting revenue, which declined to Rs. 15.7 crore. Footfalls of the Bangalore park fell by 31% dragging down revenue by 30% y-o-y to Rs. 11.8 crore. However, the non-ticketing revenue for the Bangalore park rose by 9.5%. Hyderabad park revenue fell by 24% y-o-y to Rs. 12.8 crore, led by a 22% decline in footfalls. Average ticket revenue per visitor for the Kochi and Bangalore parks grew by 2.9% and 2.7%, respectively and declined by 2.3% for the Hyderabad park. Overall, the average revenue per visitor rose by 4.6% and 2%, respectively for the Kochi and Bangalore parks and declined by 2.4% for the Hyderabad park. Revenue from the Bangalore resort declined by 29% y-o-y to Rs. 2.2 crore as occupancy rate fell to 33% in Q4FY2020 from 52% in Q4FY2019.

Other conference call highlights:

- ◆ All the three parks - Kochi, Bangalore and Hyderabad as well as the Bangalore resort were shut in the last 15 days of March which impacted the footfalls and revenue performance.
- ◆ The company will reopen the parks post the required government approvals and in compliance with safety/social distancing guidelines. Only land parks are expected to open first while water parks are expected to remain shut initially. The company has a drafted a reopening strategy for the same.
- ◆ Each park has an average capacity of 8,000-10,000 visitors per day. The company has assumed that the parks would be allowed to open with ~25-30% capacity utilisation. Thus, the company is projecting footfalls of 2,500-3,000 visitors per day on reopening.
- ◆ WHL is planning to implement penetrative pricing for the first 15 days after the parks reopen. Accordingly, the company will sell the tickets at a 40% discount to the normal rates (which would be ~60% of the earlier rates) for the first 15 days to drive footfalls.
- ◆ The extra cost for sanitisation measures and provision of masks is estimated to be at Rs. 50 per visitor. According to the management, the company will break even at 1,300 visitors.
- ◆ The company expects to discourage walk-in bookings and is thus, planning to ramp up its online booking platform.
- ◆ WHL has decided to undertake sanitisation measures such as sanitisation of each ride before and after each operation, setting up of sanitisation tunnels across all its parks, thermal screening of visitors, supply of masks and training of employees.
- ◆ WHL currently has total operating costs of about Rs. 13.5-15 crore per park per month. It is planning to bring down the operating costs to Rs. 4-5 crore per park per month till parks remain shut. Costs will be optimised by controlling communication spends, reviewing AMCs and obtaining vendor discounts (of 30-35%).
- ◆ The company does not expect to incur any major capex for adding new rides in FY2021.
- ◆ With regards to the Chennai park, the company has obtained NOCs from various departments to start the construction of the park, which was earlier expected to be completed by October 2020. However, because of disruptions due to COVID-19, WHL is expected to commence construction once the lockdown is lifted. The company expects construction to be completed in 18 months. Thus, the park is expected to begin operations by H2FY2022.
- ◆ The company has not incurred any expenses on the Odisha park yet and is not into a binding agreement with the state government. However, the offer is still open and the company will take a call once the situation normalises.

Results (Standalone)

Particulars	Rs cr				
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Net Sales	42.4	60.7	-30.1	70.0	-39.4
Total expenditure	37.3	42.8	-12.7	45.1	-17.1
Operating profit	5.1	17.9	-71.6	25.0	-79.7
Other income	2.5	2.9	-14.2	2.7	-8.9
Interest cost	0.1	0.0	-	0.2	-17.1
Depreciation	10.4	9.9	4.8	10.5	-1.2
PBT	-2.9	10.9	-	17.0	-
Tax	-1.1	3.9	-	11.6	-
Adjusted PAT	-1.8	7.0	-	5.5	-
Extraordinary item	3.4	0.0	-	15.6	-78.5
Reported PAT	1.6	7.0	-77.7	21.0	-92.6
OPM(%)	12.0	29.5	-	35.6	-
EPS (Rs.)	-0.3	1.2	-	1.0	-

Source: Company; Sharekhan Research

Performance of the Kochi Park

Particulars	Q4FY20	Q4FY19	yoy%
Revenues (Rs.cr)	15.7	24.1	-34.7
Footfalls ('000)	137.1	219.3	-37.5
Avg. realisation (Rs.)	1148	1098	4.6
Avg. ticket rev. per visitor (Rs.)	848	824	2.9
Avg. non-ticket rev. per visitor (Rs.)	300	274	9.5

Source: Company; Sharekhan Research

Performance of the Bengaluru Park

Particulars	Q4FY20	Q4FY19	yoy%
Revenues (Rs.cr)	11.8	16.7	-29.7
Footfalls ('000)	132.7	192.7	-31.1
Avg. realisation (Rs.)	886	869	2.0
Avg. ticket rev. per visitor (Rs.)	655	638	2.7
Avg. non-ticket rev. per visitor (Rs.)	231	231	0.0

Source: Company; Sharekhan Research

Performance of the Hyderabad Park

Particulars	Q4FY20	Q4FY19	yoy%
Revenues (Rs.cr)	12.8	16.9	-24.1
Footfalls ('000)	135.3	174.0	-22.2
Avg. realisation (Rs.)	946	969	-2.4
Avg. ticket rev. per visitor (Rs.)	675	691	-2.3
Avg. non-ticket rev. per visitor (Rs.)	271	278	-2.5

Source: Company; Sharekhan Research

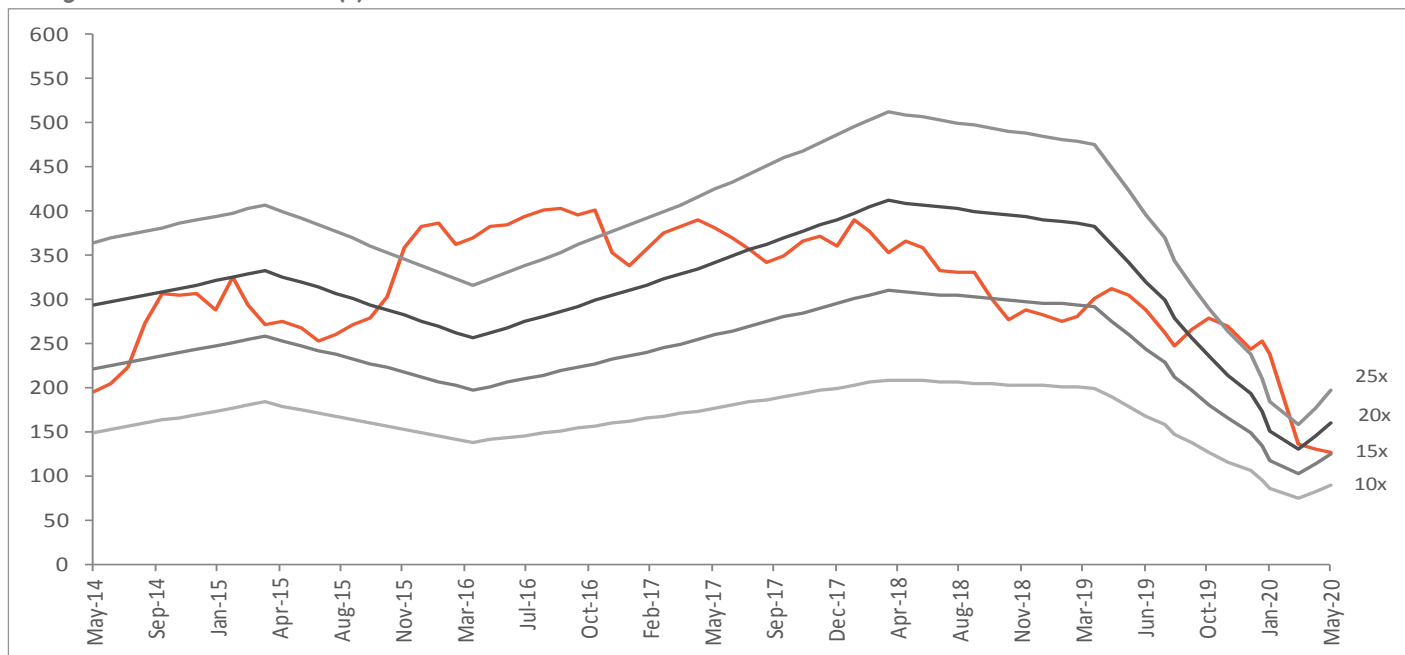
Outlook

Footfalls likely to improve in FY2022: WHL's overall footfalls declined by 5.6% in FY2020 affected by a slowdown in discretionary demand, excessive rains that affected footfalls in key parks and the shutdown of parks in March due to COVID-19. We expect H1FY2021 to remain subdued as parks are likely to stay shut for most part of H1FY2021. If the pandemic normalises, some recovery might be seen in H2FY2021. The company is prepared to reopen the parks with appropriate sanitisation and social distancing measures. Thus, we expect FY2021 to remain sluggish for WHL and a recovery might be seen in FY2022. The company is expected to optimise costs by reducing communication spends, reviewing AMCs and obtaining vendor discounts. However, higher fixed costs and lower revenue will put pressure on the margins in the near to medium term.

Valuation

Maintain Hold with revised PT of Rs. 145: We have reduced our earnings estimates for FY2021 and FY2022 to factor in the subdued performance in Q4FY2020 as parks stayed shut at the fag end of the quarter. WHL is one of the leading amusement park players in India and its long-term growth prospects are intact with its focus on foraying into new states aided by government initiatives. The company has adequate liquidity of about Rs. 123 crore and also unoccupied land of ~130 acre including the land for the Chennai park (we have not accounted this in our valuations) which will help the company cover significant near-term obligations. The stock has corrected by ~43% and is currently trading at 8.1x its FY2022 EV/EBIDTA, which is at discount to its historical average and factors in the near-term headwinds. We maintain our Hold rating with a revised price target of Rs. 145. Normalisation of the pandemic and an improvement in footfalls would be a key re-rating trigger for the stock.

One-year forward EV/EBITDA (x) chart



Source: Sharekhan Research

About company

WHL is one of the largest theme park operators in India and has been in the business for over 19 years. The company launched its first amusement park in Kochi, followed by parks in Bengaluru and Hyderabad and owns a resort located near its Bengaluru park. The company has an in-house facility in Kochi for manufacturing rides and attractions. The company has acquired land in Chennai for its fourth park and the construction is expected to commence soon.

Investment theme

WHL is one of the top entertainment companies in India with three amusement parks in Kochi, Bengaluru and Hyderabad. Despite an asset-heavy model, the company has a strong balance sheet with no debt on books as strong cash flows take care of incremental capex requirements. Recent performance was affected by events such as floods and epidemics in Kerala and the general slowdown in discretionary demand. Any sustained improvement in footfalls will act as a re-rating trigger for the stock.

Key Risks

- ◆ Muted footfalls in the near to medium would affect revenue growth.
- ◆ Any natural calamity or spread of epidemics act as key risk to the footfalls and would affect performance for a quarter or two.

Additional Data

Key management personnel

Arun K Chittilappilly	Managing Director
M Ramachandran	Chairman
George Joseph	Vice Chairman
Srinivasulu Raju Y	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	K Chittilappilly Trust	4.9
2	Arav Chittilappilly Trust	4.7
3	Steinberg India EM OP Fund	4.3
4	Handelsbanken Tillvaxtmark	2.2
5	Svenska Handelsbanken	2.2
6	Valuequest India Moat Fund	2.0
7	Union Mutual Fund/India	1.0
8	FIL Ltd	0.5
9	Lloyd George Investment Mgmt	0.3
10	Dimensional Fund	0.3

Source: Bloomberg

*as on March 17, 2020

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