



3R MATRIX

| | | | |
|----------------------|---|---|---|
| Right Sector (RS) | + | = | - |
| Right Quality (RQ) | ✓ | ✓ | ✓ |
| Right Valuation (RV) | ✓ | ✓ | ✓ |

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

| | Old | | New |
|----|-----|---|-----|
| RS | ✓ | ↔ | ✓ |
| RQ | ✓ | ↔ | ✓ |
| RV | ✓ | ↔ | ✓ |

Reco/View

Change

| | |
|-----------------------|---|
| Reco: Buy | ↔ |
| CMP: Rs. 227 | |
| Price Target: Rs. 270 | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

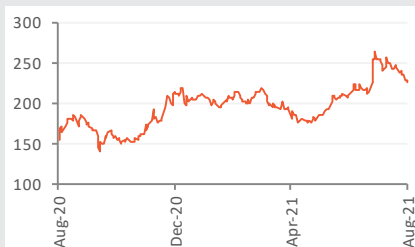
Company details

| | |
|-------------------------------|--------------|
| Market cap: | Rs. 1,283 cr |
| 52-week high/low: | Rs. 270/135 |
| NSE volume: (No of shares) | 1.8 lakh |
| BSE code: | 538268 |
| NSE code: | WONDERLA |
| Free float: (No of shares) | 1.7 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 69.8 |
| FII | 12.1 |
| DII | 1.5 |
| Others | 16.7 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-------|------|-----|------|
| Absolute | -11.4 | 22.2 | 8.0 | 45.2 |
| Relative to Sensex | -15.6 | 10.2 | 1.7 | 3.2 |

Sharekhan Research, Bloomberg

Summary

- Q1FY2022 performance was affected by disruption caused by second wave as all three parks were non-operational from mid-April due to state-level restrictions. WHL registered revenue of Rs. 4.4 crore and a loss of Rs. 13.3 crore.
- The Hyderabad Park started operating from August 5, while the Bangalore park would start operating from August 12, the Kochi park might take some time as COVID-19 cases are rising in Kerala.
- With pent-up demand, WHL expects footfalls to improve once lockdowns ease in FY2022 (in-line with strong recovery seen in Q4FY2021) and aims footfalls to reach close to FY2020 in the next two years.
- With a strong balance sheet and cash levels of Rs. 70 crore as of June 2021, WHL is well-placed to invest on improving footfalls in existing parks in the near term. We maintain a Buy on the stock with revised PT of Rs. 270.

Wonderla Holidays Ltd's (WHL) Q1FY2022 performance was affected by the second wave of COVID-19 as its amusement parks were operational for just 18 days in the quarter due to localised restrictions imposed by various states. In this limited period, the company achieved 34,485 footfalls (Bangalore - 11,171, Kochi - 12,012 and Hyderabad - 11,302). The company registered revenues of Rs. 4.5 crore in Q1FY2022 as compared to almost no revenues in the base quarter (affected by the first wave of COVID-19). As close to two-thirds of costs are fixed, the company posted an operating loss of Rs. 10.1 crore. However, y-o-y the loss shrunk by ~45% as other expenses stood almost flat at Rs. 3.8 crore during the quarter. As COVID-19 cases receded and state-wise lockdowns were eased, the Hyderabad park re-started operations from August 5, while the Bangalore Park will start operations from August 12. Both parks will be operating at an offer rate of Rs. 799 per visitor. With half of the country's COVID-19 cases coming from Kerala, we expect the Kochi park will take some more time to start operations. A special 50% discount offer for booking tickets to parks and resorts through online platform during 25th May to 13th June got encouraging response. Total tickets sold were 11,953 (Bangalore- 6,493; Kochi- 2,913 and Hyderabad- 2,547) resort rooms sold were 45. Considering the response to restricted operations at all parks and digital campaigns in Q4FY2021, we expect the footfalls will come back strongly in the coming quarters. Further, a large shift is expected towards open-ended entertainment options post the pandemic era, which will help WHL scale up footfalls in FY22/23. The company has put on hold the construction of the Chennai Park and expects to start construction from early FY2023. It is also focusing on an asset-light model by getting into discussion with various park owners in states to manage and operate their park under the revenue share model. It has cash of Rs. 70 crore on its books and has a bank overdraft facility of Rs. 30 crore, which it can utilise to improve footfalls in existing parks. The company is working on various digital and marketing projects to attract more visitors to its parks in the coming quarters. The company has managed to reduce operational cost to Rs. 3.5 crore per month when parks are not operating. The same will go up to Rs. 9-10 crore when parks are operational for four days a week and will further increase to Rs. 13-14 crore per month in case of seven days of operations.

Key positives

- The Hyderabad Park started operating from August 5, 2021 and the Bangalore park to start operating from August 12, 2021.
- Other expenses stood almost flat on a y-o-y basis to Rs. 3.8 crore, despite parks were operational for 18 days during the quarter as compared to a complete shutdown in Q1FY2021.
- Advance booking for tickets to parks and resorts at a 50% discount got an encouraging response.

Key negatives

- Q1FY2022 was a washout quarter due to lockdown restrictions imposed in southern states.

Our Call

View- Retain Buy with revised price target of Rs. 270: WHL's footfalls recovered to ~75% of pre-COVID level in end of FY2021. The management is confident that footfalls will regain momentum as a large shift is expected towards open-ended entertainment options (including amusement parks, gardens or beaches) in the post-pandemic era. Better footfalls would also lead to an improvement in the profitability as 70-75% cost is direct in nature. Despite two years of disruption, the company managed to maintain a strong liquidity position with cash levels of ~Rs. 70 crore on books. The stock is currently trading at 13.4x its FY2023E EV/EBIDTA. We like management's focus on regaining footfalls, stringently managing the cost and keep the balance sheet lean in an uncertain environment. We maintain a Buy on the stock with a revised price target of Rs. 270.

Key risk

Any sudden spike in COVID-19 cases from the current level would act as a key risk to our near-term earnings estimates as the government might make lockdown norms stringent.

Valuation (standalone)

| Particulars | FY20 | FY21 | FY22E | FY23E |
|--------------------|------|-------|-------|-------|
| Revenue | 271 | 38 | 86 | 236 |
| OPM (%) | 38.4 | -74.4 | 12.1 | 36.5 |
| Adjusted PAT | 46 | -50 | -22 | 33 |
| Adjusted EPS (Rs.) | 8.1 | -8.8 | -3.9 | 5.9 |
| P/E (x) | 28.0 | - | - | 38.6 |
| P/B (x) | 1.5 | 1.6 | 1.6 | 1.6 |
| EV/EBIDTA (x) | 11.3 | - | - | 13.4 |
| RoNW (%) | 5.5 | - | - | 4.1 |
| RoCE (%) | 8.0 | - | - | 5.1 |

Source: Company; Sharekhan estimates

Q1FY2022 hit by second wave of COVID-19: Q1FY2022 was affected by closure of parks during the most part of the quarter due to emergence of second wave. Park operated for just 18 days of April and was closed for remaining quarter due to lockdown restrictions imposed by various states. Revenues stood Rs. 4.4 crore. In this limited period of operations, the company achieved footfalls of 34,485 (Bangalore 11,171, Kochi 12,012 and Hyderabad 11,302). Average ticket price per visitor as per our calculation stands at around Rs. 730 per visitor. As close to two third of costs are fixed in nature, the company posted a loss of Rs. 10.1 crore at operating level. However, on a y-o-y basis the loss decreased by ~15% as other expenses stood almost flat at Rs. 3.8 crore during the quarter. Reported loss stood at around Rs. 13.3 crore lower than Rs. 14.5 crore in Q1FY2021 (our expectation was Rs. 14.1 crore).

Key Conference call takeaways

- ♦ **Hyderabad park resumed operations; Bangalore park to start soon:** With easing of state-wise lockdown norms post receding of cases, Hyderabad park started operations from August 5, 2021 and Bangalore park to start operations from August 12, 2021. As an introductory offer, both parks will be operational from Thursday to Sunday /public holidays with a special price of Rs. 799/- for all categories of tickets. The park will be operational four days a week with 50% capacity. With COVID-19 cases remaining higher in Kerala. It will take some time for Kochi park to start operations.
- ♦ **International parks are gaining good traction:** Amusement parks have gained good traction in regions such as US and Europe where lockdown norms have substantially reduced and mobility is allowed without much of restriction. Looking at encouraging response, some of the parks are investing behind adding more rides or renovate some of the existing rides. Global trends give us an indication of sharp recovery in the domestic market (especially for open-ended entertainment options).
- ♦ **Good success to online initiative:** The company had launched a special 50% discount offer for booking tickets to parks and resort through its online platform during period May 25 to June 13. Park tickets were sold at Rs. 699 and resort rooms were sold at Rs. 2,999/- with a validity up to March 31, 2022. The initiative received good response with 11,953 total tickets sold (Bangalore – 6,493; Kochi- 2,913 and Hyderabad – 2,547) and 45 resort rooms sold.
- ♦ **Focus on cost reduction:** WHL reduced operational costs to Rs. 3.3 crore per month, when parks are not operational through the month. This was done by reducing variable costs and reducing employee salaries. The operational costs are expected to go up to Rs. 9-10 crore per month when parks will be operational for four days a week. It will further increase to Rs. 14-15 crore per month when parks will be operational throughout the month with extended capacities.
- ♦ **No plans to monetise excess land:** The company does not have any immediate plan to monetise excess land in the existing parks. Excess land will be utilised for adding more rides or add other forms of outdoor entertainment themes.
- ♦ **No major capex in FY022:** There is no major capex planned in the near term. Work on the Chennai park will be undertaken in FY2023 and decision on the Odisha park also will be taken once the situation stabilises. It is also focusing on asset-light model by getting into discussion with various park owners in states to manage and operate their park under the revenue share model.
- ♦ **Cash & cash equivalents:** As on June 2021, the company had cash and liquid investments of ~Rs. 70 crore. Further the company has bank overdraft facility of Rs. 30 crore, which can be utilized as per future requirements.

| Result (standalone) | | | | | Rs cr |
|-------------------------|--------------|--------------|--------------|-------------|--------------|
| Particulars | Q1FY22 | Q1FY21 | y-o-y (%) | Q4FY21 | q-o-q (%) |
| Revenues | 4.4 | 0.0 | - | 33.3 | -86.9 |
| Raw material | 0.5 | 0.0 | - | 3.8 | -86.6 |
| Employee Cost | 7.2 | 5.4 | 34.3 | 9.1 | -21.2 |
| Other expenses | 6.8 | 6.5 | 3.8 | 17.8 | -62.0 |
| Total expenditure | 14.5 | 11.9 | 21.7 | 30.8 | -52.9 |
| Operating profit | -10.1 | -11.9 | -14.7 | 2.5 | - |
| Other income | 1.1 | 1.8 | -40.8 | 1.5 | -27.5 |
| Interest cost | 0.1 | 0.1 | -36.7 | 0.1 | -71 |
| Depreciation | 9.8 | 10.4 | -5.5 | 10.2 | -4.0 |
| PBT | -19.0 | -20.6 | - | -6.3 | - |
| Tax | -5.7 | -6.1 | - | -1.4 | - |
| Reported PAT | -13.3 | -14.5 | - | -4.9 | - |
| EPS (Rs.) | -2.3 | -2.6 | - | -0.9 | - |
| | | | | | |
| | | | bps | | bps |
| GPM (%) | 88.3 | 28.4 | - | 88.6 | -31 |
| OPM (%) | - | - | - | 7.7 | - |
| NPM (%) | - | - | - | - | - |
| Tax rate (%) | 30.1 | 29.5 | | 22.5 | |

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Footfalls to recover once scare of virus recedes

Amusement park industry performance was affected by first and the second wave of covid-19 restrictions. However with the drop in cases and easing of state-wise lockdown norms the footfalls are expected to come back strong (especially during the weekends). Some of the international top rated parks in US, Europe and China restarting its operations post easing of the virus scare got encouraging response with huge pent-up demand. With the risk of the second wave receding and vaccination is happening at good pace in the country, we expect a strong pullback in the footfalls in the coming quarters.

■ Company Outlook – Pent-up demand would lead to higher footfalls in FY2022/23

Q1FY2022 was a washout quarter due to the second wave of COVID-19. However, we expect the footfalls to improve in the coming quarters as cases reduce and lockdown restrictions ease. Considering the initial response to restricted operations at all parks and digital campaigns done by the company, the management is confident of achieving incremental footfalls in the coming quarters. Further, a large shift is expected happen to open ended entertainment options in post pandemic era, which will help WHL scale-up footfalls in FY22/23. We expect footfalls to reach close to FY2020 by FY2023. With gradual recovery in footfalls we expect good recovery in FY2022 (with EBIDTA positive with OPM of 12.4%) and expect growth momentum to sustain in FY2023 (expect OPM of ~36%).

■ Valuation – Retain Buy with revised price target of Rs. 270

WHL's footfalls recovered to ~75% of pre-COVID level in end of FY2021. The management is confident that footfalls will regain momentum as a large shift is expected towards open-ended entertainment options (including amusement parks, gardens or beaches) in the post-pandemic era. Better footfalls would also lead to an improvement in the profitability as 70-75% cost is direct in nature. Despite two years of disruption, the company managed to maintain a strong liquidity position with cash levels of ~Rs. 70 crore on books. The stock is currently trading at 13.4x its FY2023E EV/EBIDTA. We like management's focus on regaining footfalls, stringently managing the cost and keep the balance sheet lean in an uncertain environment. We maintain a Buy on the stock with a revised price target of Rs. 270.

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, which is in the process of construction, and another park is expected to commence construction in Odisha.

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 cashflows take care of incremental capex requirements. Recent performance was affected by closure of amusement parks and resorts due to the spread of the pandemic. 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.
- ♦ Continuation of lockdowns leading to a sustained closure of parks would act as a 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 | Steinberg India EM OP Fund | 7.4 |
| 2 | K Chittilappilly Trust | 4.9 |
| 3 | Arav Chittilappilly Trust | 4.7 |
| 4 | Handelsbanken Tillvaxtmark | 2.2 |
| 5 | Svenska Handelsbanken | 2.2 |
| 6 | Valuequest India Moat Fund | 1.8 |
| 7 | Old Well Emerging Markets | 1.5 |
| 8 | Union Mutual Fund/India | 1.0 |
| 9 | Lloyd George Investment Mgmt | 0.3 |
| 10 | BMO Investments II Ireland PLC | 0.2 |

Source: Bloomberg (Old data)

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Understanding the Sharekhan 3R Matrix

| Right Sector | |
|-----------------|--|
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet |
| Right Valuation | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Sharekhan Research

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