Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Wonderla Holidays Ltd

Strong performance in a seasonally weak quarter

Consumer Discretionary	Sharekhan code: WONDERLA
Reco/View: Buy ↔	CMP: Rs. 370 / Price Target: Rs. 425 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

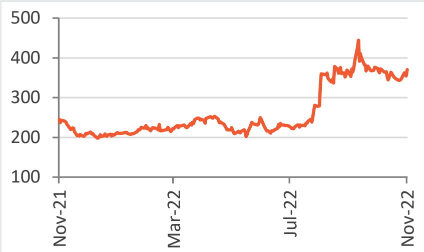
Company details

Market cap:	Rs. 2,093 cr
52-week high/low:	Rs. 455 / 196
NSE volume: (No of shares)	2.7 lakh
BSE code:	538268
NSE code:	WONDERLA
Free float: (No of shares)	1.7 cr

Shareholding (%)

Promoters	69.7
FII	11.1
DII	0.7
Others	18.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.7	2.8	74.9	50.6
Relative to Sensex	-5.3	0.9	60.3	50.2

Sharekhan Research, Bloomberg

Summary

- Wonderla Holidays Limited (WHL) posted a strong performance in a seasonally weak quarter by registering footfalls of 4.7 lakh as against 3.57 footfalls achieved in Q2FY2020. Revenues grew by 3.8x y-o-y to Rs. 66 crore, while EBIDTA and PAT stood at Rs. 19.4 crore and Rs. 10.5 crore.
- Average revenue per user (ARPU) grew by 61% compared to Q2FY2020 to Rs. 1,321. Resort also witnessed strong recovery, with the occupancy ratio standing at 76%.
- In the medium term (2-3 years), the company expects footfalls to be higher by 1.5x, ~7% annual growth in ARPU and two additional parks to be operational, which will aid in strong revenue growth coupled with improved profitability.
- With better business fundamentals and a lean balance sheet, WHL is well-placed to achieve good earnings growth in the medium term. We maintain Buy with an unchanged PT of Rs. 425.

Wonderla Holidays Limited (WHL) delivered strong performance in Q2FY2023, which is seasonally a weak quarter for the business. Revenues grew by 3.83x y-o-y (35% growth over Q2FY2020) to Rs. 66.0 crores. Footfalls at 4.7 lakh in Q2FY2023 vs. 1.5 lakh in Q2FY2022 (3.57 lakh footfall in Q2FY2020). ARPU for the quarter came in at Rs. 1,321 per visitor, which is ahead of Rs. 1,300 per visitor in Q1. The Bengaluru resort registered a strong recovery in occupancy to 76% with strong revenue growth of 56% in Q2 (vs Q2FY2020). EBITDA/PAT came at Rs. 19.4/10.5 crore as against a loss in Q2FY2022. For H1FY2023, the footfalls stood at 15.9 lakhs against 12.6 lakhs during H1FY2020. Revenues and EBIDTA grew by 36% and 49%, respectively over H1FY2020. The company is adding a new park in Odisha and expects to add another one in Chennai.

Key positives

- Registered strong footfall of 4.7 lakh in the seasonally weak quarter; Bengaluru Park registered a footfall of 1.91 lakhs, Kochi Park 1.72 lakhs, and Hyderabad Park recorded a footfall of 1.06 lakh.
- Park revenues grew by 61% compared to Q2FY2020, recording a healthy ARPU of Rs. 1,321 per visitor.
- EBIDTA margins in Q2FY2023 stood at 29.1% vs 13.4% in Q2FY2020.

Key negatives

- Bengaluru resort occupancy stood at 76% lower than 78% in Q2FY2020.

Management Commentary

- The management has guided that three years from now, the company expects footfalls to be higher by 1.5x, ~7% annual growth in ARPU and two additional parks to be operational, which will aid in strong revenue growth coupled with improved profitability.
- WHL is working towards technological development in the Bengaluru park through the introduction of wearables. The wearables will be used to track the visitor's location and enable visitors to make payments. The cost involved for the development is ~Rs. 5 crores and is expected to be completed in 1 year (Q2FY24).
- The company is working with the government for approval for the Chennai park and expects positive update in the near term. Once approvals are received, then it will take 18-24 months to open the park. Including time for approvals, WHL expects the Chennai park to open in 2.5 years. Out of the total capex of Rs. 330 crores for Chennai, Rs. 115 crores have already been spent.
- For the Odisha park, ground work has commenced, and WHL has entered into an agreement with the Odisha government to develop an amusement park project in Bhubaneshwar. In Odisha, out of the Rs. 120 crores, Rs. 78 crores are already spent.
- Costs were brought down to Rs. 3.5 crore per month during covid. Since park operations are back to normal, costs have also normalised. WHL expects margins to be better than pre-pandemic in FY23.

Revision in estimates – We have raised our earnings estimate for FY2023E and FY2024E to factor in higher-than-expected footfalls in all three parks in a seasonally weak quarter. We have introduced FY2025E earning estimates through this note.

Our Call

View – Maintain Buy with an unchanged of Rs. 425: WHL registered yet another quarter of strong performance in Q2FY2024 with footfalls remaining high in a seasonally weak quarter. The management is confident that footfall will maintain a good growth momentum due to pent-up demand and various promotional events conducted by the company to attract more footfall. This will boost profitability in FY2023/FY2024. The company plans to add more parks to its portfolio, which will further aid in growth. The stock is currently trading at 11.3x/9.8x its FY2023E/FY2024E EV/EBITDA. We like the management's focus on regaining footfall, stringent cost management, and maintaining a lean balance sheet in an uncertain environment. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 425.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	38	128	400	440	506
EBITDA margin (%)	-74.4	15.9	43.2	43.4	44.1
Adjusted PAT	-50	-9	103	113	134
Adjusted EPS (Rs.)	-8.8	-1.7	18.3	20.0	23.6
P/E (x)	-	-	20.2	18.5	15.7
P/B (x)	2.6	2.6	2.3	2.1	1.8
EV/EBITDA (x)	-	98.3	11.3	9.8	7.9
RoNW (%)	-	-	12.1	11.8	12.3
RoCE (%)	-	-	15.2	14.8	15.6

Source: Company; Sharekhan estimates

Strong Q2– Revenue growth at 3.8x; EBIDTA margins stood high at 29%

WHL revenue grew by 3.8x y-o-y on a low base of Q2FY2022 (grew by 59% vs. Q2FY2020) to Rs. 66 crore driven by strong growth in footfalls coupled with higher ticket prices. Revenue was ahead of our expectation of Rs. 56.4 crore. Aided by strong growth in revenue, EBITDA margin increased to 29.4% against a loss in Q2FY2022. EBITDA came in at Rs. 19.4 crore against a loss of Rs. 3.5 crore in Q2FY2022.The company reported a profit of Rs. 10.5 crore in Q2FY2023, against a loss of 9.3 crore in Q2FY2022. PAT was lower than our estimate of Rs. 13.5 crore. Footfalls at 4.7 lakh in Q2FY2023 vs. 1.5 lakh in Q2FY2022 (3.57 lakh footfall in Q2FY2020). ARPU for the quarter came in at Rs. 1,321 per visitor which is ahead of Rs1300 per visitor in Q1. The Bengaluru resort registered strong recovery in occupancy to 76% with strong revenue growth of 56% in Q2. For H1FY2023, the footfalls stood at 15.9 lakhs as against 12.6 lakhs during H1FY2020. Revenues and EBIDTA grew by 36% and 49% respectively over H1FY2020. The company is adding a new park in Odisha and expects to add another one in Chennai as well.

Footfalls stood high in the seasonally weak quarter

Total footfalls in Q2FY2023 at 4.7 lakh stood 32% ahead of pre-pandemic footfalls led by all-round performance from all three parks. Bengaluru Park recorded 1.91 lakhs footfalls (35% above Q2FY20), Kochi Park recorded 1.72 lakhs footfalls (38% above Q2FY20), and Hyderabad Park recorded 1.06lakhs footfalls (18% above Q2FY20). The higher footfalls can be attributed to the surge in domestic tourism and the phenomenon of 'revenge travel'.

Key conference call highlights

- **Strong growth in Bengaluru** - The Bengaluru park registered revenue of Rs. 26.7 crore, up by 56% from Q2FY2020. Footfalls grew by 35% to 1.91 lakhs. Average ticket/non-ticket revenue grew by 17% each to Rs. 1,027/Rs. 364. Bengaluru resort reported revenue growth of 78% over Q2FY2020 with occupancy at 78%. Average room rental grew by 7% to Rs. 4,798. WHL is working towards technological development in the Bengaluru park through introduction of wearables. The wearables will be used to track the visitor's location and enable visitors to make payments. The cost involved for the development is ~Rs. 5 crore and is expected to be completed in 1 year (Q2FY24). The wearable will help the company to collect more data about ordering behaviour, how visitors spend time in the park, etc. WHL also plans to monetise vacant land in the Bengaluru park for adventure activities, etc.
- **Strong pick up in Kochi** - The Kochi park registered revenue of Rs. 21.3 crore, up by 77% from Q2FY2020. Footfalls grew by 38% to 1.72 lakhs. Average ticket/non-ticket revenue grew by 30%/22% to Rs. 935/Rs. 290. Kochi park hosted the first-ever Sunburn event in the city, an electronic music extravaganza headlined by the globally renowned DJ Nucleya. The event was attended by ~3,000 people.
- **Hyderabad park gaining momentum** - The Hyderabad park registered revenue of Rs. 14.5 crore, up by 46% from Q2FY2020. Footfalls grew by 18% to 1.06 lakhs. Average ticket/non-ticket revenue grew by 24% each to Rs. 972/Rs. 393. The company is working towards improving the group footfalls in the Hyderabad park.
- **Update on upcoming parks** - The company is working with the government for approval for the Chennai park and expects positive update in the near term. Once approvals are received, then it will take 18-24 months to open the park. Including time for approvals, WHL expects the Chennai park to open in 2.5 years. In case of the Odisha park, ground work has been commenced and WHL has entered into an agreement with the Odisha government to develop an amusement park project in Bhubaneshwar. Out of the total Capex of Rs. 330 crore for Chennai, Rs. 115 crore is already spent, while in Odisha, out of the Rs. 120 crore, Rs. 78 crore is spent.
- **Adding attractions as another growth driver** - The management has guided that besides increasing footfalls and ticket prices, the focus will be on adding new attractions and renewing the food & beverage (F&B) offerings to drive growth going ahead. Currently new attractions are being added to the Bengaluru park. If this strategy is successful, then the company will follow the same in other parks as well.

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Revenue	**66.0**	**17.2**	**283.8**	**149.4**	**-55.8**
Raw material	7.2	1.8	296.2	14.1	-48.6
Employee Cost	11.3	7.7	46.3	14.3	-21.3
Other expenses	28.1	11.2	151.9	29.7	-5.4
Total expenditure	46.6	20.7	125.3	58.1	-19.8
EBITDA	**19.4**	**-3.5**	**-**	**91.3**	**-78.7**
Other income	3.7	1.1	-	2.9	28.0
Interest cost	0.0	0.1	-41.7	0.1	-14.8
Depreciation	8.6	9.6	-9.7	9.1	-4.5
Profit before tax	**14.4**	**-12.0**	**-**	**85.1**	**-83.1**
Tax	3.9	-2.8	-	20.7	-81.2
Adjusted PAT	**10.5**	**-9.3**	**-**	**64.4**	**-83.6**
EPS (Rs.)	1.9	-1.6	-	11.4	-83.6
			bps		**bps**
GPM (%)	89.0	89.4	-34	90.6	-153
EBITDA margin (%)	29.4	-20.3	-	61.1	-
NPM (%)	15.9	-53.9	-	43.1	-
Tax rate (%)	27.0	22.9	403	24.3	262

Source: Company, Sharekhan Research

Park-wise operational performance

Particulars	Footfalls ('000)		Average Ticket Revenue (Rs.)		Average Non-Ticket Revenue (Rs.)	
	Q2FY23	Q2FY20	Q2FY23	Q2FY20	Q2FY23	Q2FY20
Bengaluru park	191	142	1027	875	364	311
Kochi park	172	125	935	718	290	237
Hyderabad park	106	90	972	781	393	316

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Times of high footfalls ahead

The amusement park industry's performance was affected by the third wave of Covid-19 restrictions in Q4FY2022. However, with a drop in cases and faster recovery thereafter, footfalls grew strongly in Q1FY2023, and the growth momentum is expected to continue in the coming quarters. Some international top-rated parks in the US, Europe, and China, which restarted their operations post easing of the virus scare, got encouraging response with huge pent-up demand. With a gradual comeback in travel and tourism, we expect a strong pullback in footfalls in the coming quarters.

■ Company outlook - Robust growth in FY2023 back by strong growth in footfalls

In H1FY2023, the footfalls stood at 15.9 lakhs as against 12.6 lakhs during H1FY2020. Revenues and EBIDTA grew by 36% and 45%, respectively, over H1FY2020. The company expects strong growth in FY2023, as pent-up demand is strong. With the help of strong marketing activities, addition of new attractions and improved traction on its digital platform, the footfall recovery would be faster in the coming months. We expect the company's revenue to post a CAGR of 58% over FY2022-25, while PAT is likely to be at ~Rs. 130 crores in FY2025.

■ Valuation - Maintain Buy with an unchanged price target of Rs. 425

WHL registered yet another quarter of strong performance in Q2FY2024, with footfalls remaining high in a seasonally weak quarter. The management is confident that footfall will maintain a good growth momentum due to pent-up demand and various promotional events conducted by the company to attract more footfall. This will boost profitability in FY2023/FY2024. The company plans to add more parks to its portfolio, which will further aid in growth. The stock is currently trading at 11.3x/9.8x its FY2023E/FY2024E EV/EBITDA. We like the management's focus on regaining footfall, stringent cost management, and maintaining a lean balance sheet in an uncertain environment. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 425.

About company

WHL is one of the largest theme park operators in India and has been in 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 near its Bengaluru Park. The company has an in-house facility in Kochi for manufacturing rides and attractions. The company has three parks with 161 rides and 15 restaurants in its portfolio. WHL has acquired land in Chennai for its fourth park 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 cash flows take care of incremental capex requirements. During the pandemic, performance was affected by closure of amusement parks and resorts. However, the company has been gaining strong momentum in the past two quarters, aided by preference of customers for leisure activities coupled with strong pent-up demand. With the company's aim to add more parks to its portfolio, increase marketing initiatives and add new attractions to existing parks, strong growth is expected in the near-medium term.

Key Risks

- Muted footfall in the near to medium would affect revenue growth.
- Any further lockdowns leading to sustained closure of parks would act as key risk to footfall.

Additional Data

Key management personnel

M Ramachandran	Chairman
Arun K Chittilappilly	Managing Director
Satheesh Seshadri	Chief Financial Officer
Srinivasulu Raju Y	Company Secretary

Source: Company

Top 6 shareholders

Sr. No.	Holder Name	Holding (%)
1	Societe Generale SA	1.18
2	Investment Trust of India	0.68
3	Svenska Handelsbanken AB	0.54
4	Dimensional Fund Advisors LP	0.19
5	SEI Investments	0.08
6	Joshan Johnson Thomas	0.01

Source: Bloomberg

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 detoriating 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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