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Stock Update

Company Update

Wonderla Holidays Ltd

Strategies in place to drive consistent footfalls

Consumer Discretionary	Sharekhan code: WONDERLA
Reco/View: **Buy** ↔	CMP: **Rs. 365**
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		↔	

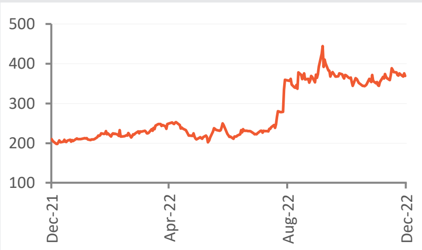
Company details

Market cap:	Rs. 2,064 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	3.1	-7.1	69.1	73.8
Relative to Sensex	3.3	-12.2	49.1	66.9

Sharekhan Research, Bloomberg

Summary

- We reiterate Buy on Wonderla Holidays Limited (Wonderla) with a PT of Rs. 425. The stock is our preferred pick in the small-cap discretionary space with a strong brand presence in the amusement park space coupled with a lean balance sheet despite an asset-heavy model. The stock trades at 12.3x/10.5x its FY2023/FY2024E EV/EBIDTA.
- Wonderla's footfalls stood almost flat over FY2018-FY2020 at 24-25 lakhs. With strong demand and defined strategies, the company's footfalls are expected to register a CAGR of 8-9% over FY2023-FY2025 to close to 30 lakh footfalls. Further, operations of the new park in Odisha/Chennai will add incrementally (likely from FY2025-FY2026).
- EBIDTA margin is expected to touch 40% in FY2023 and will consistently improve in the coming years on account of better operating leverage.
- The company has cash of close to Rs. 200 crore and is likely to generate cash of Rs. 100 crore incrementally every year. Thus, capex for Chennai/Odisha will be done through internal accruals without giving stress to the balance sheet.

We interacted with Mr. Satheesh Sheshadri, CFO of Wonderla Holidays Limited (Wonderla), to understand the current trend in footfalls, strategies to build up consistent growth in footfalls, and update on new projects in Chennai and Odisha. Wonderla's footfalls stood at 15.9 lakh in H1FY2023 (26% higher compared to H1FY2020). With strong footfalls during the festive/holiday season and higher footfalls during weekends, we expect Wonderla to achieve 26-27 lakh footfalls by the end of FY2023 (20%+ footfalls compared to FY2020). Management has implemented strategies (arranging events in parks, digital marketing, and tie-ups with tour operators of other states) to drive consistent footfalls in the coming years. Overall footfalls are expected to report a CAGR of 8-9% over FY2023-FY2025. EBIDTA margin is expected to touch 40% in FY2023 and will consistently improve with incremental footfalls as 75% cost is direct in nature. New parks in Chennai and Odisha will be operational on specified time and the company will look for other regions to expand in the coming years.

- **Footfalls likely to touch 27 lakh in FY2023; Revenue to grow by 30%+ over FY2020:** Business has sustained the momentum in Q3FY2023 with strong footfalls during holidays and weekends (largely driven by walk-ins). The company reported footfalls of 16 lakhs in H1FY2023. With the sustenance of strong growth momentum, we expect footfalls to touch 27 lakhs in FY2023. This, along with higher ARPUs (increased by Rs. 150 over FY2020 ARPUs), we expect revenue to reach Rs. 390 in FY2023. With defined strategies to drive footfalls and 7-8% increase in ARPUs, revenue is expected to post a CAGR of 15% over FY2023-FY2025. Further, addition of two new parks in Chennai/Odisha will lead to incremental footfalls and will add to revenue in the medium to long run.
- **Strategies in place to increase footfalls in the coming years:** In recent times, the company has enhanced its focus on improving the experience by arranging special events twice every month. Sunburn event in Kochi Park in September got strong response (achieved 3,000 footfalls on the day of the event; Rs. 60 lakh business on the day of the event). The company is banking on the digital marketing strategy to gain strong traction in key parks and investing in new markets through tie-ups with tour operators in some of the key western markets. The company has a dedicated team to attend the group business and a dedicated team for market activities. Thus, footfalls are expected to consistently post a CAGR of 9% over FY2023-FY2025. The company is likely to report 30 lakh footfalls by FY2025 as against flat footfalls over FY2018-FY2020 at 24-25 lakh.
- **High cash generation will take care of future capex; Balance sheet will remain lean:** The company has outlined capex of Rs. 330 crore for Chennai park (already spent around Rs. 120 crore) and Rs. 125 crore for construction of Odisha park (Rs. 7-8 crore already spent). The balance capex of Rs. 320-325 crore will be done through internal accruals over the next two years. The company will be generating around Rs. 100 crore of cash every year and is currently sitting with ~Rs. 200 core cash on books. If required, it can take little debt to complete the capex. Chennai park will get the required approvals in the coming months and the park's construction is expected to start soon. It will be operational in early FY2025. Odisha park has already received the required approvals and the park is expected to start at the end of FY2025. Once the new park attains certain stability, it will enter new markets (probably western and eastern parts of India).

Our Call

View: Retain Buy with an unchanged PT of Rs. 425: Wonderla's management is optimistic about the medium-term outlook and expects consistent improvement in footfalls in the coming years. This will boost profitability with EBIDTA margin expected to recover to historical levels of 40% by FY2023 and will consistently improve in the subsequent years. Focus on the asset-light model of entering into new markets and improving the business model to international standards of 60:40 mix between ticketing and non-ticketing revenue provide a huge scope to grow in the coming years. The stock is currently trading at 12.3x/10.5x its FY2023E/FY2024E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 425.

Key Risks

Any slowdown in footfalls in some of the existing parks due to unavoidable events or erratic weather condition or delay in the commencement of new parks would act as key risk to our earnings estimates.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	38	128	394	453	516
EBITDA margin (%)	-74.4	15.9	40.1	41.2	42.3
Adjusted PAT	-50	-9	92	109	126
Adjusted EPS (Rs.)	-8.8	-1.7	16.3	19.2	22.3
P/E (x)	-	-	22.4	19.0	16.4
P/B (x)	2.5	2.6	2.3	2.1	1.8
EV/EBITDA (x)	-	96.9	12.3	10.5	8.9
RoNW (%)	-	-	10.9	11.5	11.8
RoCE (%)	-	-	13.6	14.4	15.0

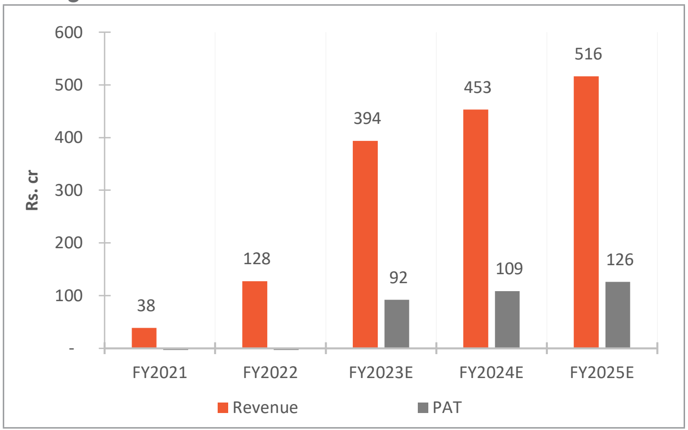
Source: Company; Sharekhan estimates

Key takeaways of management interaction

- **Footfalls to touch 27 lakh in FY2023:** Business has sustained the momentum in Q3FY2023 with strong footfalls during holidays and weekends (largely driven by walk-ins). The company reported footfalls of 16 lakhs in H1FY2023. With sustenance of strong growth momentum, we expect footfalls to touch 27 lakhs in FY2023. Footfalls in H2FY2023 are expected to grow by 20%+ compared to H2FY2020.
- **Steps undertaken to drive consistent footfalls in the coming years:** The company's focus is on improving the experience by arranging special events twice every month. The Sunburn event in Kochi Park in September received strong response (achieved 3,000 footfalls on the day of event; Rs. 60 lakh business done on the day of the event). The company is banking on the digital marketing strategy to gain strong traction in key parks. The company is investing in new markets through tie-ups with tour operators in key western markets (such as Maharashtra and Gujarat).
- **EBIDTA margin to touch 40% in FY2023:** The company's EBIDTA margin stood at around 41% in FY2019 and the company is targeting to cross 40% EBIDTA margin in FY2023. Investment in events and digital marketing activities will result in margins to remain flat or marginally increase. However, the benefits of digital marketing investment and improved experience will help the company to report strong footfalls in the medium terms, which will help margins to improve in the medium term, as a large part of the company's cost is fixed in nature.
- **Targeting walk-ins to improve:** The company is focusing on increasing the share of footfalls from walk-ins, which will help it to achieve higher ARPUs. The company is looking at lowering the contribution from school groups/colleges as ARPUs are lower.
- **Focus on increasing contribution of non-ticketing revenue:** Non-ticketing revenue contributes 26-27% to overall revenue of the company. Internationally, ticketing to non-ticketing ratio is 60:40. The company is focusing on increasing the contribution of non-ticketing revenue by improving the menu and introducing more events during the peak season in each park.
- **Resort occupancy improve to 78%:** Bangalore resort occupancy improved to 78% from the earlier rate of 64-65%. Strong weekend footfalls have aided the occupancy of the resort to improve. The company is looking at creating attractive staying options at its various parks, which can generate more revenue for the company.
- **Capex of Rs. 350 crore to be funded through internal accruals:** The company has outlined capex of Rs. 330 crore for Chennai park (already spent Rs. 120 crore) and Rs. 125 crore for construction of Odisha park (Rs. 7-8 crore already spent). The balance capex of Rs. 320-325 crore will be done through internal accruals over the next two years. The company will be generating around Rs. 100 crore of cash every year and is currently sitting with ~Rs. 200 core cash on books. If required, the company can take little debt to complete the capex. Chennai park will get the required approvals in the coming months and the park's construction is expected to start soon. It will be operational in early FY2025. Odisha park has already received the required approvals and the park is expected to start at the end of FY2025. Once the new park attains certain stability, it will enter new markets (probably western and eastern parts of India).
- **Targeting western and eastern markets to expand:** Wonderla has strong penetration in the southern market. The company is targeting western and eastern markets to develop new parks under the asset-light model.

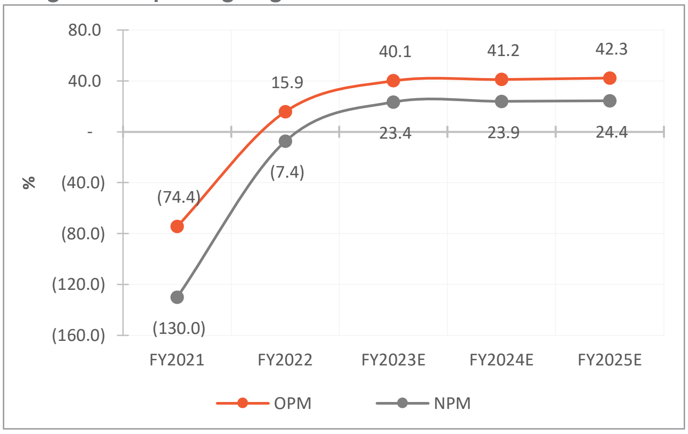
Financials in charts

Steady increase in revenue and PAT



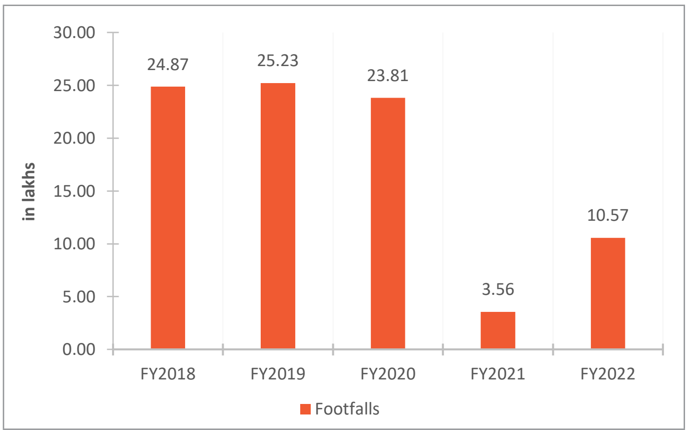
Source: Company, Sharekhan Research

Margins to improve going ahead



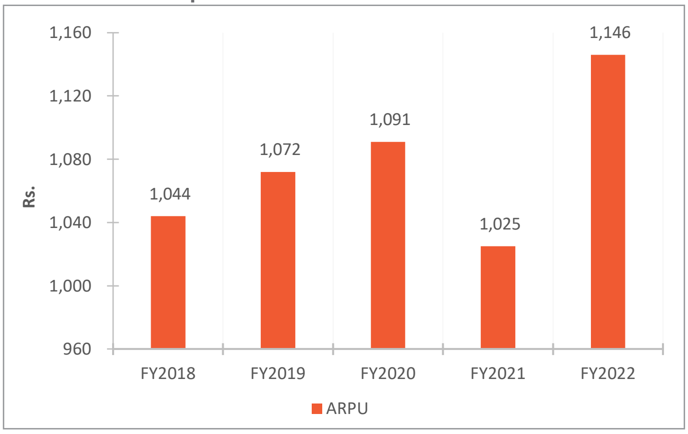
Source: Company, Sharekhan Research

Trend in annual footfalls



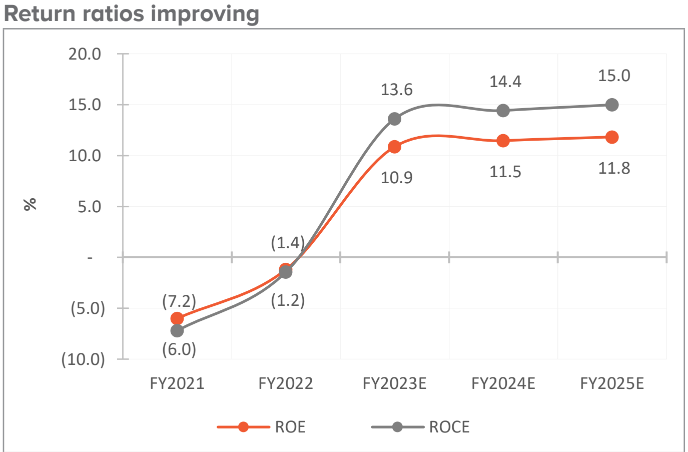
Source: Company, Sharekhan Research

ARPU recovered post COVID



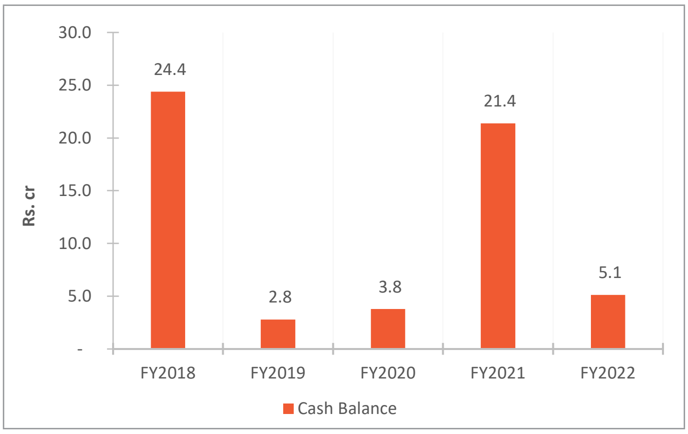
Source: Company, Sharekhan Research

Return ratios improving



Source: Company, Sharekhan Research

Trend in cash balance



Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Times of high footfalls ahead

The amusement park industry's performance was affected by the pandemic in FY2021 and FY2022, resulting in lower footfalls due to restrictions imposed by the government to curb the spread of Covid-19 virus. 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 backed by strong growth in footfalls

In H1FY2023, footfalls stood at 15.9 lakhs as against 12.6 lakhs during H1FY2020. Revenue and EBIDTA grew by 36% and 49%, respectively, over H1FY2020. The company expects strong growth in FY2023, as pent-up demand is strong; and with help of strong marketing activities, addition of new attractions and improved traction on its digital platform, footfall recovery would be faster in the coming months. We expect the company's revenue to post a CAGR of 74% over FY2022-FY2024, while PAT is expected to be around Rs. 100-110 crore in FY2024.

Valuation – Retain Buy with an unchanged PT of Rs. 425

Wonderla's management is optimistic about the medium-term outlook and expects consistent improvement in footfalls in the coming years. This will boost profitability with EBIDTA margin expected to recover to historical levels of 40% by FY2023 and will consistently improve in the subsequent years. Focus on the asset-light model of entering into new markets and improving the business model to international standards of 60:40 mix between ticketing and non-ticketing revenue provide a huge scope to grow in the coming years. The stock is currently trading at 12.3x/10.5x its FY2023E/FY2024E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 425.

About company

Wonderla 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. The company also owns a resort located near its Bengaluru Park. The company has an in-house facility in Kochi for manufacturing rides and attractions. The company currently has three parks with 161 rides and 15 restaurants in its portfolio. Wonderla has acquired land in Chennai for its fourth park and another park is expected to commence construction in Orissa.

Investment theme

Wonderla 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 the closure of amusement parks and resorts. However, the company is gaining strong momentum since the past two quarters, aided by preference of customers for leisure activities coupled with strong pent-up demand. Strong growth is expected in the near-medium term with the company's aim to add more parks to its portfolio, increase marketing initiatives, and add new attractions to existing parks.

Key Risks

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

Top seven shareholders

Sr. No.	Holder Name	Holding (%)
1	Steinberg India EM Op Fund	5.48
2	Societe Generale SA	1.18
3	Investment Trust of India	0.75
4	Dimensional Fund Advisors LP	0.18
5	SEI Investments	0.11
6	Frank Russell Company	0.04
7	Macquarie Group Ltd	0.02

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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