Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Wonderla Holidays Ltd

Growth all set for a long joyride

Consumer Discretionary	Sharekhan code: WONDERLA
Reco/View: Buy ↔	CMP: **Rs. 562** / Price Target: **Rs. 710** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We re-iterate a Buy on Wonderla Holidays (WHL) with a revised price target of Rs. 710. Attractive valuations of 13.0x/11.0x its FY24E/FY25E EV/EBIDTA, a sturdy balance sheet despite a huge capex and strong earnings visibility makes WHL a comfortable play in discretionary space.
- Construction of new Odisha Park has begun and it will be operational by FY2025/26. Chennai park's construction is set to begin soon with the Tamil Nadu state government waiving local body tax for 10 years.
- Internal accruals would fund capex of Rs. 350-400 crore with operating cash flow being healthy at ~Rs. 400 crore over the next two years (besides existing cash balance of Rs. 250 crore).
- Commencement of new parks will add to footfalls from FY26E/FY27E. Existing park footfalls are expected to grow by 5-8% and ARPUs are likely to grow by 8-10% in the coming years.

Wonderla Holidays Ltd (WHL) posted stellar numbers for FY2023 with revenues and footfalls growing by 58% and 39%, respectively, over FY2020. Sharp increase in footfalls was mainly on account of people venturing out-of-home after two years of the pandemic, strong marketing activities, regular entertainment events (once/twice a week) in key parks. These efforts helped WHL achieve the highest-ever footfalls of 33.1 lakh in FY2023. The management expects the growth momentum to continue in the coming years led by robust marketing and introduction of new rides/attractions in some of the existing parks. The management is confident of achieving 5-8% footfall growth in the coming years while addition of new parks in Odisha and Chennai will substantially add to the footfalls from FY26/27E. WHL has a strong cash generation capability, which will take care of capex of Rs. 350-400 crore in the next two years.

- **Footfall growth to improve:** WHL's footfalls stood almost flat over FY2018-20 at around 24-25 lakhs (grew at CAGR of 2% over FY2015-19). In the recent times, the company has enhanced focus on improving the experience by arranging special events twice every month (Fathers' Day event and a food festival gained good traction). The company is banking on digital marketing strategy to gain strong traction in key parks. Footfalls grew by 39% to 33.1 lakh compared to FY2020. Events, digital marketing and addition of new attractions is boosting footfalls. Management is confident of achieving footfall growth of 5-8% in the coming years.
- **Chennai park construction will start soon; to add incremental footfalls from FY26-27:** Construction of the Chennai park is expected to start soon as government of Tamil Nadu has granted waiver of the Local Body Tax (LBT) of 10% for a period of 10 years from the commencement of commercial operations. Construction of Odisha Park has started, and the park will be operational by FY2025 end. Odisha and Chennai parks are expected to add incremental footfalls in FY2026 /FY2027 to the expected footfall growth in the existing parks.
- **Strong cash flows to fund capex:** WHL managed its cash flows very efficiently during the lull in the pandemic times without stressing the balance sheet by raising funds through debt. The company generated strong operating cash flows with low working capital requirement. As of FY2023-end, the company's cash balance on books stood at ~Rs. 250 crore. WHL is likely to generate cumulative operating cash flows of Rs. 400 crore over the next two years, which will take care of capex of Rs. 350-400 crore for the construction of Odisha and Chennai parks. Thus, we expect return profile to become strong in the coming years. Once the Odisha and Chennai parks become mature it will incrementally add on to the cash flows in years ahead.

Our Call

View – Retain Buy with a revised price target of Rs. 710: The management is optimistic about the medium-term outlook and expects consistent improvement in the footfalls in the coming years. Focus on asset-light model of entering new markets and improving the business model to international standards of 60:40 mix between ticketing and non-ticketing revenues provides a huge scope to strong earnings growth in the coming years. The stock is currently trading at 13.0x/11.0x its FY2024E/FY2025E EV/EBITDA. We maintain our Buy recommendation on the stock with a revised PT of Rs. 710.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	129	429	491	568
EBITDA margin (%)	16.5	49.3	46.4	46.8
Adjusted PAT	-9	149	152	177
Adjusted EPS (Rs.)	-1.7	26.3	27.0	31.2
P/E (x)	-	21.3	20.8	18.0
P/B (x)	4.0	3.3	2.9	2.5
EV/EBITDA (x)	-	13.8	12.9	10.9
RoNW (%)	-	17.0	15.0	15.1
RoCE (%)	-	21.0	18.6	19.0

Source: Company; Sharekhan estimates

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		↔	

ESG Disclosure Score

NEW

ESG RISK RATING 27.96

Updated Jun 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

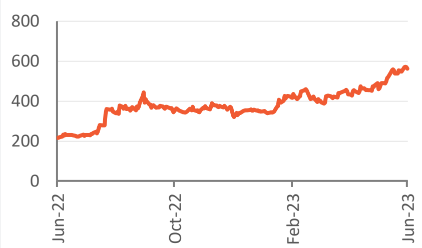
Company details

Market cap:	Rs. 3,178 cr
52-week high/low:	Rs. 580 / 213
NSE volume: (No of shares)	2.2 lakh
BSE code:	538268
NSE code:	WONDERLA
Free float: (No of shares)	1.7 cr

Shareholding (%)

Promoters	69.7
FII	7.8
DII	3.0
Others	19.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	22.2	42.8	71.2	159.2
Relative to Sensex	20.2	32.8	67.3	137.2

Sharekhan Research, Bloomberg

Stock Update

Company Update

Events attracting large footfalls

WHL's is focusing on improving customer experience by arranging special events twice every month. Marquee musical concerts, festivities and occasions continue to draw crowds with people gathering at large, with Wonderla as their preferred destination for events and making memories for lifetime. Such events are gaining 3,000-5,000+ footfalls per event per park and help in attracting walk-in crowds. The experience helps to generate good business which adds revenues to the ticketing as well as the non-ticketing business.

Father's Day event got good traction

Source: Company; Sharekhan Research

Food festival being celebrated in resort

Source: Company; Sharekhan Research

Company is adding new attractions to increase resort occupancy

WHL has announced the launch of four new attractions - Caribbean Whirl, Mai Kinda Place, Bar by the Pool and Lawn at its Bengaluru Resort on July 1. The addition of new wonders will help to enhance the experience of its customers and would help in improving resort occupancies during weekend and add incremental footfalls at parks. Resort occupancy stood at 69% in FY2023 vs. 58% in FY2020.

New attractions at Bengaluru resort

Source: Company; Sharekhan Research

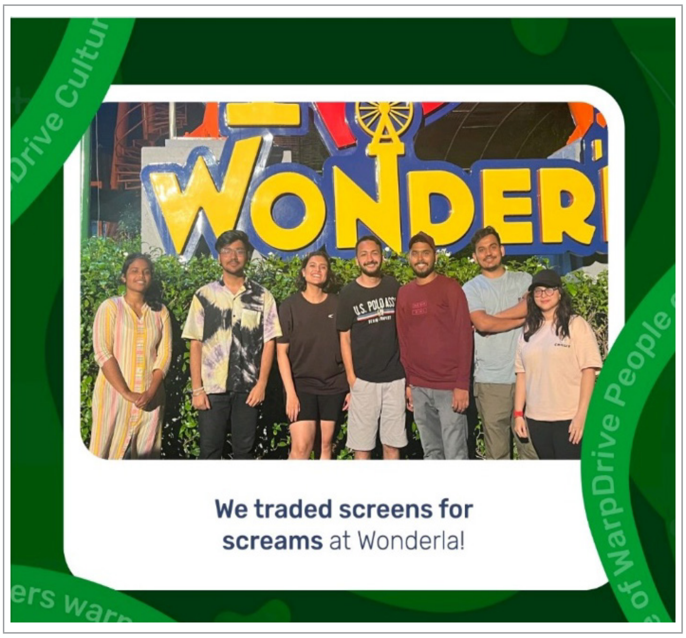
School groups & corporates added to footfalls

The company is focusing on large walk-ins business to gain higher ARPUs per visitor. However, groups such as tie-ups with corporates also play important role in improving the awareness and word-of-mouth promotion of the park.

UdifyTechnologies team having good time at park

Source: Company, Sharekhan Research

WarpDrive Tech works team had great experience



Source: Company, Sharekhan Research

Karnataka public school trip to Wonderla Bengaluru

Source: Company; Sharekhan Research

Strong cash flows to fund capex going ahead

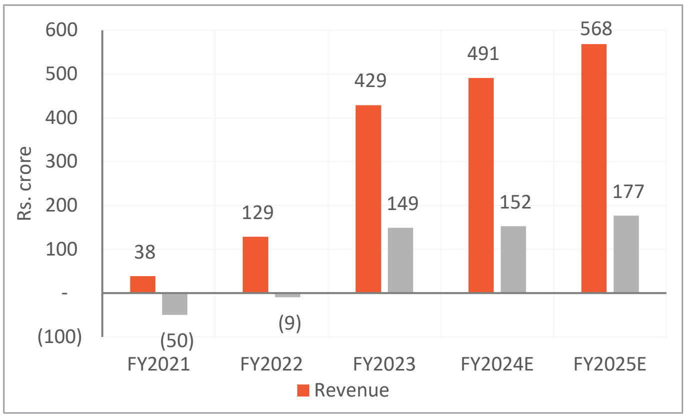
WHL managed its cash flows very efficiently during lull Covid-19 period without giving any stress to the balance sheet by raising funds through debt. The company generated strong operating cash flows with low working capital requirement. In FY2023, the company's cash balance on books stood at ~Rs. 250 crore. The company is likely to generate cumulative operating cash flows of Rs. 400 crore over the next two years, which will take care of capex of Rs. 350-400 crore for the construction of Odisha and Chennai parks. Thus, we expect return profile to become strong in the coming years. Once Odisha and Chennai parks become mature it will incrementally add on to the cash flows in years ahead.

Footfalls to grow consistently

In FY2023, footfalls surpassed 33.1 lakh versus 11 lakh in FY2022 (23.8 lakhs during FY2020). This was on back of strong footfall addition in H2FY2023 with footfalls in Q4FY2023 standing at 8.04 lakh, highest in several quarters. Management is confident to achieve a footfall growth of 5-8% in the coming years as new initiatives (including fortnightly events) are helping the company to gain incremental footfalls in each park.

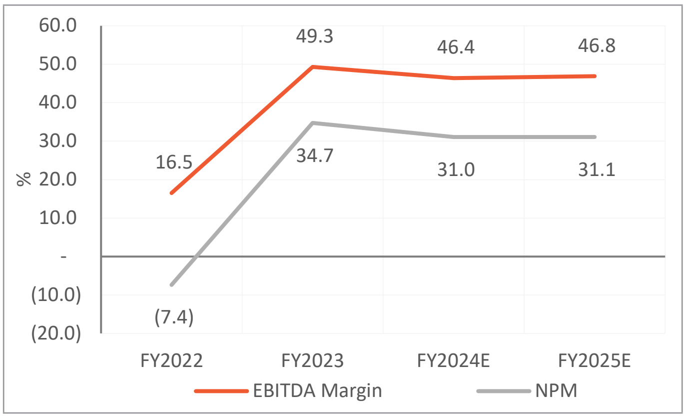
Financials in charts

Sharp improvement in revenue and PAT



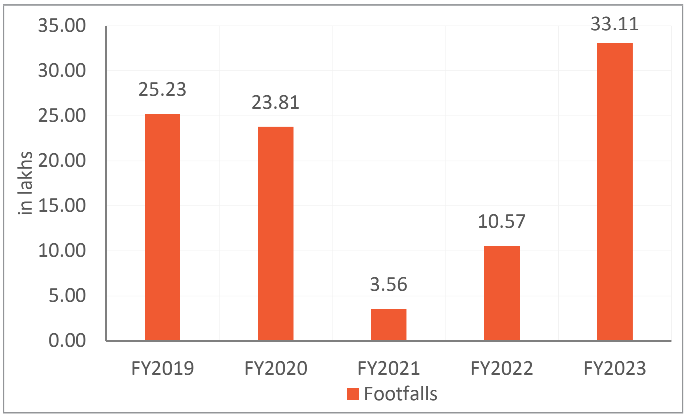
Source: Company, Sharekhan Research

Trend in margins



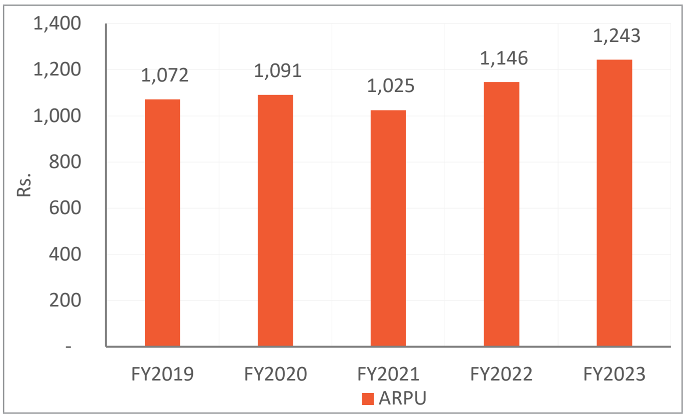
Source: Company, Sharekhan Research

Trend in annual footfalls



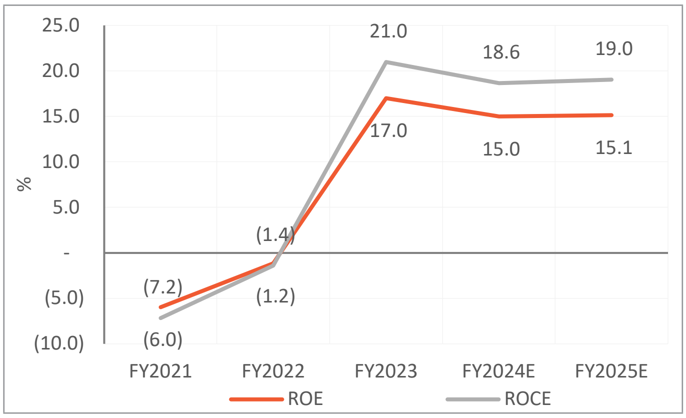
Source: Company, Sharekhan Research

ARPU recovered post COVID



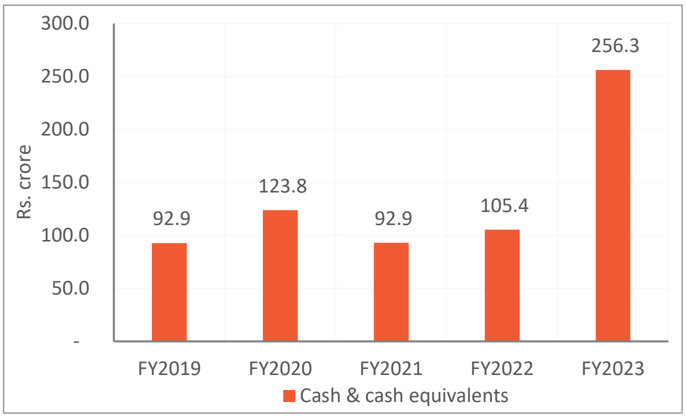
Source: Company, Sharekhan Research

Trend in return ratios



Source: Company, Sharekhan Research

Trend in cash & cash equivalents



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Times of high footfalls ahead

The amusement park industry's performance was affected by COVID-19 restrictions in FY2021 and FY2022. However, footfalls grew strongly in FY2023 led by recovery in travel and the growth momentum is expected to continue in FY2024. Some international top-rated parks in the US, Europe, and China, which restarted their operations post easing of the virus scare, got an encouraging response with huge pent-up demand. With a gradual comeback in travel & tourism, we expect a strong pullback in footfalls in the coming years.

■ Company Outlook – Robust growth in FY2023 back by strong growth in footfalls

In FY2023, footfalls stood at 33 lakh as against 23.8 lakhs during FY2020. Revenues and EBIDTA grew by 58% and 2x, respectively over FY2020. The company expects strong growth momentum to continue in FY2024, aided by innovative marketing activities, event-based campaigns, addition of attractions and improved traction on its digital platform. Expected opening of Odisha park in 2025 will provide further boost to revenue growth in the years to come. We expect revenues to post a CAGR of ~60% over FY2022-25E, while PAT is likely to be at ~Rs. 145 crore in FY2025.

■ Valuation – Retain Buy with a revised price target of Rs. 710

The management is optimistic about the medium-term outlook and expects consistent improvement in the footfalls in the coming years. Focus on asset-light model of entering new markets and improving the business model to international standards of 60:40 mix between ticketing and non-ticketing revenues provides a huge scope to strong earnings growth in the coming years. The stock is currently trading at 13.0x/11.0x its FY2024E/FY2025E EV/EBITDA. We maintain our Buy recommendation on the stock with a revised PT of Rs. 710.

About company

WHL is one of the largest theme park operators in India and has been in business for over 20 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 few 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, increased marketing initiatives and addition of 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 delay in the commencement of new parks would act as key risk to our earnings estimates.

Additional Data

Key management personnel

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

Source: Company Website

Top 9 shareholders

Sr. No.	Holder Name	Holding (%)
1	Tata Asset Management Pvt. Ltd.	2.22
2	Societe Generale SA	1.18
3	Investment Trust of India	0.72
4	Dimensional Fund Advisors LP	0.28
5	SEI Investments Co.	0.11
6	Russell Investment Group Ltd.	0.09
7	Macquarie Group Ltd.	0.02
8	FMR LLC	0.02
9	American Century Cos. Inc.	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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