Wonderla Holidays Limited

October 04, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	315.00	CARE AA-; Stable	Assigned
Long-term / short-term bank facilities	50.00	CARE AA-; Stable / CARE A1+	Assigned
Short-term bank facilities	15.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Wonderla Holidays limited (Wonderla) considers the existence of experienced promoters having more than two decades of experience and strong credit profile with nil scheduled debt repayments, which provides financial flexibility. Additionally, the company enjoys strong brand recall and an established track record of operations, further solidifying its market position. Although there was a slight moderation in sales in Q1FY25, the overall operating performance remains robust, demonstrating the company's resilience and ability to maintain operational strength. The company's revenue was ₹483 crore in FY24, an increase of 13% compared to FY23 figures owing to increase in average revenue per user (ARPU) by about 15%. Wonderla has one of the highest margins within the industry at around 45-50%. The company's asset light model, which includes utilising its in-house ride designing and manufacturing capabilities, has been a key driver towards cost efficiencies.

By virtue of operating in the amusement park industry, the company is exposed to certain inherent risks such as cyclical revenues, capital intensive nature of operations, and high dependency on discretionary spending. The company also has plans to expand and establish five parks in the next 7-8 years and currently is undertaking construction of park in Chennai at a cost of ₹515 crore (of which as on August 31, 2024, ₹181 crore was expended). Based on available liquidity and internal accruals, the company might opt for external debt (not exceeding ₹300 crore) for setting up future capex. The ability of the company to achieve break even for Chennai park and funding pattern for new parks remains a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Healthy foot falls in all locations with consistent improvement in ARPU at around 10-15%.
- Significant increase in sales on sustainable basis, while maintaining PBILDT margins around 40%.
- Geographically diversified revenue streams.
- Successfully completing the planned projects and achieving anticipated revenue and cashflows without major cost or time overrun.

Negative factors

- Increase in debt resulting in overall gearing going beyond 0.35x or net debt/PBILDT increasing over 1x.
- Unexpected delay in execution of projects resulting in material cost or time overrun or failure to achieve anticipated sales from the newly inaugurated projects, resulting in reduction of PBILDT margin below 25%.
- Over 20% reduction of sales.
- Substantial reduction in footfalls or ARPU on a sustained basis.

Analytical approach: Standalone

The company does not have subsidiaries and hence standalone approach is considered.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that the company will continue to benefit from the existence of experienced promoters and strong brand recall in the near future.

Detailed description of key rating drivers:

Key strengths

Strong credit profile with no major term debt

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

The company's credit metrics are comfortable with nil scheduled term debt repayments as compared to expected gross cash accruals (GCA) of more than ₹200 crore. In the last 24 years, the company has been able to generate strong operating cash flows, with minimal working capital requirements. Wonderla also does not have any major term loans or working capital loans as on March 31, 2024, on the other hand, the company has cash and bank balance of ₹124 crore and investments in mutual funds of ₹90 crore (as on June 30, 2024: ₹224 crore). The leverage and coverage metrics are also comfortable with overall gearing at 0.01x as at March 31, 2024 and total debt to GCA (TD/GCA) of 0.03x.

Existence of experienced promoters

The promoters have over two decades of experience in the amusement park industry. In the last 24 years, the company has had more than 43 million visitors and enjoys a strong brand recall. The company was founded by Kochouseph Chittilappilly, who is also the founder of V Guard Industries (in 1977). Arun K. Chittilappilly (son of Kochouseph Chittilappilly), is currently the Managing Director of Wonderla and has done Masters in Industrial Engineering from Industrial Research Institute of Swinburne University (IRIS), Melbourne, Australia. He has been responsible for expanding Wonderla outside Cochin. The company also has a highly skilled management team who are qualified professionals with multiple decades of experience with a dedicated workforce processing a deep understanding of the industry's dynamics. The company has an in-house ride designing team and manufacturing capabilities, which enables them to modify the rides to maximise customer experience and easy maintenance and upgradation, resulting in operational efficiencies.

Strong brand recall and established track record of operations

The company has an established track record of more than 20 years in the amusement park industry. While most of its competitors have not been able to successfully sustain, Wonderla has been able to generate and accumulate strong operating cash flows which were in-turn used to undergo expansion in new cities like Hyderabad, Bhubaneshwar, and Chennai. Some of the unique strategies that the management operates with are as follows:

1. Funding capex through internal accruals.
2. In-house team to modify the rides per the customers preference.
3. Constantly invest in modifying old rides to attract footfalls.
4. Focusing on quality and ensuring proper maintenance of rides.

The company has a strong market position in south India and is now looking for expansion in the northern regions as well. It is one of the largest amusement park operators in India. The brand also has a strong recall value among the local population.

Robust operating performance, despite slight moderation in Q1FY25

The company's revenue was ₹483 crore in FY24, an increase of 13% compared to FY23 figures owing to increase in ARPU of ₹1,430 across its parks (15% year-over-year increase). Wonderla has one of the highest margins within the industry of 45-50%. The company's asset light model, which utilises its in-house ride designing and manufacturing capabilities, has been a key driver towards cost efficiencies. In FY24, there was slight moderation to 47% from 50% in FY23 owing to higher employee costs.

The revenue from operations in Q1FY25 amounted to ₹177 crore, representing a 9% YoY decrease. The quarter also saw the decline in footfall numbers, which stood at 10.02 lakhs, a decrease of 9%, mainly affected by an unprecedented heat wave, water shortages and disruptions related to election activities, in the key markets like Bangalore and Kochi, leading to the decline. CARE Ratings expects that in FY25, the sales will improve to ₹550-₹600 crore range on the back of increase in ARPU and PBILDT margin of ~40% owing to increased marketing spends and lower absorption of fixed costs for the newly inaugurated parks. The company's ability to achieve the anticipated sales and profitability from the Bhubaneshwar park would be a key monitorable.

Key weaknesses

Capital intensive business requiring ongoing investments

The typical capex for a new park is ~₹200 crore to ₹500 crore including land cost (₹200 crore for smaller park and ₹500 for smaller ones). It takes two to four years to complete the construction and two years to achieve break even, provided there is no major economic downturns. The investment has to be made upfront while the operating cash inflows will start flowing in after two to three years. The installed rides also involve continuous maintenance and upgradation in line with changing customer preferences. The maintenance costs are ₹25 - 30 crore (around 5% of revenue). To attract more customers and increase footfalls, the company has to constantly invest in new machines or modify the old ones and adapt themselves to the changing customer needs. Wonderla earmarks 10% of the topline for adding new rides.

Cyclical cash inflows with high dependency on discretionary spending

The amusement park industry is highly cyclical with volatile cashflows. Around 35% - 40% of the revenue for a financial year comes from Q1, being a seasonally strong quarter owing to summer holidays. Q2 is a lean season but again Q3 is seasonally strong. 45% to 50% of the EBITDA for a financial year also comes from Q1 and about 25% from Q3. However, the salary and other fixed costs needs to be paid throughout the year. Also, the cashflows highly depend on the discretionary spending capability of customers, which are also susceptible to macro-economic factors. This combined with the material initial outlay for constructing the theme parks, acts as a headwind for the industry.

The company's profits were severely affected owing to the COVID-19-related lockdowns in FY21 and FY22. The FY23 and FY24 results reported strong rebound in demand owing to revenge spending patterns. The management also observed some sluggishness in demand and discretionary spending patterns in Q1FY25, which has historically been the strongest quarter for the company. The revenue decreased by 9% YoY on the back of a 9% YoY fall in footfalls in Q1FY25.

Project execution and take off risk, despite same being mitigated given past successful track record
The company has been slowly diversifying into other states and has recently inaugurated a new park in Bhubaneshwar in May 2024 (three months before its initial launch date). The company is also currently undertaking the construction of new park in Chennai, and actively exploring opportunities to establish parks in other strategic geographies. As of Q1FY25, preliminary construction work such as site levelling, workshop setup has been commenced in Chennai and is expected to become operational by December 2025-January 2026.

Mode of funding:
The Chennai park is estimated to be constructed at a total outlay of ₹515 crore (of which ₹181 crore have been spent as of August 2024) and the management envisages to fund it through internal accruals and cash/liquid asset balance (₹224 crore as on June 30, 2024). However, the board has given its in-principle approval for exploring fund raising options by way of equity/ debt/ instruments or combination thereof to fund expansion plans for the next seven to eight years. There is an earlier shareholder approval that the borrowing, other than temporary loans, must not exceed ₹300 crore.
Also, the company plans to construct five new parks in the next 7-8 years. The management is in talks with different state governments regarding new parks such as Indore, Mohali, Noida, Goa, and Ahmedabad, but no official plans have been announced as on August 31, 2024.

Past track record of successful project execution:
The company has inaugurated the new park (on May 2024) in Odisha with an outflow of around ₹190 crore within 13 months owing to single window clearance from the state government. The park has recorded a footfall of 70,000 in Q1FY25. The management expects the footfall for FY25 at around 4-4.5 lakh from this park. Given the asset light model wherein the spending was less than ₹200 crore, the company is expecting it will be EBITDA positive from FY25, and at the profit after tax (PAT) level, from FY26/FY27.
The Hyderabad Park, which generated revenue of ₹135 crore (28% of FY24 total revenue) was inaugurated in Q1FY16.
The successful execution of past projects and management capability mitigates the project execution risk to some extent. However, the cost of constructing and mode of funding for the additional parks planned to be constructed in the next 7-8 years remains a key monitorable.

Liquidity: Strong
The company's liquidity is strong marked with no major term debt and working capital borrowings as compared to healthy GCA of around ₹200 crore (FY24) and liquid assets balance of ₹214 crore (₹124 crore and investments in mutual funds of ₹90 crore (as on June 30, 2024: ₹224 crore)). Given that the company has negligible interest costs, owing to minimal debt profile, Wonderla was able to maintain PAT margins at 30-35%. The leverage and coverage metrics also remain attractive. In the past, the company has funded its capex primarily with internal accruals. Wonderla has been slowly diversifying into other states and plans to construct five new parks in the next 7-8 years. The management is in talks with different state governments regarding new parks like Indore, Mohali, Noida, Goa, and Ahmedabad, but no official plans have been finalised as on September 30, 2024. There is only one project currently undergoing which is in Chennai at a cost of ₹515 crore (₹181 crore spent as of August 2024). The company plans to fund the remaining cost using internal accruals and accumulated cash and liquid assets. However, the board (meeting held of July 2024) has given its in-principle approval for exploring fund raising options by way of equity/ debt/ instruments or combination thereof to fund expansion plans for the next seven to eight years. There is also an earlier shareholder approval that the borrowing (other than temporary loans) must not exceed ₹300 crore. The cost of construction and mode of funding for the additional parks planned to be constructed in the next 7-8 years remains a key monitorable.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks:
The main environmental concerns for amusement parks are their energy-intensive and resource-heavy nature of operations. Also, given the water shortages in urban areas could disrupt the supply of water-based theme parks. Amusement parks offer recreational benefits and provide job opportunities within communities. In the social factors include risks related to quality and proper maintenance of rides as failure to do so might result in fatal accidents, loss of reputation, financial losses, legal impact among others. Focusing on inclusivity in equipment design can help these parks stand out. Governance is a universal principle that impacts companies across all regions and sectors, including amusement parks.
Mitigation efforts taken by company:
Environment: Implementation of LED lights, in-house solar power plant, 100% water recycling through ZLDP (Zero Liquid Discharge Plant).
Social: Providing quality education, access to well-equipped classrooms, providing modern educational amenities and educational material, Merit-based financial assistance.
Measures taken to ensure safety of visitors:
• A robust safety-audit mechanism • Staff training on fire and all other emergency procedures. • Fire detecting and firefighting equipment are installed, checked and maintained per state legislative requirements. • All rides carry a daily maintenance check by qualified maintenance staff. The company also has a public liability insurance is in place to cover liabilities that may arise from accidents and injuries to guests.
The company has also received certifications such as ISO 14001 for eco-friendliness and OHSAS 18001 for safety.

Governance: The Risk Management and ESG Committee (RMEC) at Wonderla Holidays Limited is responsible for overseeing and approving the enterprise risk management framework, considering the complexity of the company. The Company conducts regular audits and implements strong quality control measures to ensure compliance with industry best practices. The company has also been prompt in renewing the park operating license and other regulatory requirements.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

Wonderla was incorporated in 2002 with the Registered Office at Bangalore and is engaged in amusement parks and resorts. In 2005, the company started its first amusement park at Bangalore. In 2008, pursuant to a scheme of amalgamation, Veega Holidays and Parks Private Limited, an entity under common control, which was running an amusement park at Kochi since April 2000, merged with the company. The Park at Hyderabad was commissioned in 2016. In May 2024, the company has inaugurated the Bhubaneshwar Park. As of September 2024, the company operates four parks (Kochin, Hyderabad, Bangalore, and Bhubaneshwar). There is also an ongoing project in Chennai at around ₹515 crore expected to be completed by Q3FY26.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	429.22	483.04	177.47
PBILDT	213.28	229.28	95.96
PAT	148.90	157.96	63.24
Overall gearing (times)	0.01	0.01	NA
Interest coverage (times)	133.66	96.06	NM

A: Audited UA: Unaudited NA: Not applicable NM: Not meaningful; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based-Working capital facilities - LT	-	-	-	-	15.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	50.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	15.00	CARE A1+
Term Loan-Long Term	-	-	-	-*	300.00	CARE AA-; Stable

*The limits are proposed.

Annexure-2: Rating history for last three years

Sr. No.	Name of Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Term Loan-Long Term	LT	300.00	CARE AA-; Stable	-	-	-	-
2	Fund-based-Working capital facilities - LT	LT	15.00	CARE AA-; Stable	-	-	-	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	50.00	CARE AA-; Stable / CARE A1+	-	-	-	-
4	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1+	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated facilities – Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Working capital facilities- LT	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-079 4026-5617 E-mail: Ranjan.Sharma@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-022- 6754 3505 E-mail: pulkit.agarwal@careedge.in Naveen Kumar Dhondy Associate Director **CARE Ratings Limited** Phone: +91-040-4010-2030 E-mail: dnaveen.kumar@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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