May 25, 2017

Wonderla Holidays (WONHOL)

₹ 364

Margins set to improve, going forward…

- Wonderla Holidays' (WHL) Q4FY17 results were below our estimates. Revenues increased 37.6% YoY to ₹ 61.2 crore (below I-direct estimate of ₹ 63.1 crore) led by 26.0% YoY increase in footfall led by addition of the new park at Hyderabad and 9.2% YoY increase in realisation
- Bengaluru park revenues declined 2.3% YoY to ₹ 25.2 crore while revenues from the Kochi park increased 11.5% YoY to ₹ 18.4 crore mainly led by higher realisation. Hyderabad park reported revenues of ₹ 15.3 crore. Resort revenues increased 2.8% YoY mainly led by improvement in occupancy to 49.0% vs. 45.0% in Q4FY16
- EBITDA margins declined from 24.7% in Q4FY16 to 16.2% (below I-direct estimate of 18.9%) led by increase in advertisement & marketing expenses and tax provisions

One of the best payback periods in amusement park industry…

With a higher disposable income and increase in discretionary spend, WHL has been able to increase its blended realisation at 14.8% CAGR in FY11-17. Further, with an in-house technical team and controlled cost structure, WHL has maintained average EBITDA margin of ~43% in FY11-17. Consequently, WHL has been able to reduce its payback period from nine years in Kochi to 7.5 years in Bengaluru. The payback period in Hyderabad is expected to further reduce to seven years.

Hyderabad park registers breakeven in first year, park to witness healthy traction in coming years

The new Hyderabad park became operational on April 20, 2016. In FY17, Hyderabad park registered revenue of ₹ 57.1 crore led by footfall of 6.2 lakh and average revenue per visitor of ₹ 921.0. Going forward, the company aims to achieve footfall of 10 lakh over the next three years. Further, we expect the park to register EBITDA margins of over 40.0% (in line with the matured parks) over the next few years. In addition, as the restaurants at the Hyderabad park are owned by Wonderla we believe WHL will realise higher gross margins (~45%) in F&B segment positively impacting overall margins.

Non ticket revenues to drive margins

WHL's non-ticket revenues/visitor increased 38.1% YoY in FY17. We believe there is significant scope for non-ticket revenues to increase as WHL charges for food & beverages (F&B) at MRP unlike other amusement parks that charge way above MRP. Apart from reasonable F&B charges, conservative pricing of merchandise by the company has kept its non-ticket revenues at ~24.9% of overall revenues vs. 34.0% globally. Thus, there is significant scope for the company to drive non-ticket revenues.

Stabilisation of new park, cost rationalisation to drive growth; maintain BUY

The new Hyderabad park has registered EBITDA break even in the first year of operations. Going forward, we expect the improvement in footfall coupled with operating leverage benefit at the Hyderabad park to result in improving margins in coming years. In addition, healthy monsoon and addition of new rides will continue to drive footfalls growth in coming years Also, the company's focus on increasing non-ticket revenues is expected to drive margins. Further, we believe a healthy balance sheet (0.3x D/E), strong cash flow generation and revenue & EBITDA CAGR of 19.9% and 53.7%, respectively, in FY17-19E demands premium valuations. We have arrived at a DCF based target price of ₹ 460.

Rating matrix

Rating	:	Buy
Target	:	₹ 460
Target Period	:	12-18 months
Potential Upside	:	26%

What's changed?

Target price	Unchanged
EPS FY18E	Changed from ₹16.4 to ₹ 13.3
EPS FY19E	Introduced at ₹ 16.5
Rating	Unchanged

Quarterly performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	61.2	44.5	37.6	70.1	(12.7)
EBITDA	9.9	11.0	(10.1)	13.3	(25.9)
EBITDA (%)	16.2	24.7	-857 bps	19.0	-288 bps
PAT	3.4	7.6	(54.5)	4.2	(18.2)

Key financials

	FY16	FY17	FY18E	FY19E
Net Sales	205.4	270.4	332.4	388.8
EBITDA	84.2	72.6	139.2	171.5
Net Profit	59.8	33.1	75.0	93.5
EPS	10.6	5.9	13.3	16.5

Valuation summary

(x)	FY16	FY17	FY18E	FY19E
P/E	34.1	61.7	27.2	21.8
Target P/E	43.4	78.6	34.7	27.8
EV / EBITDA	22.9	27.1	14.4	11.2
P/BV	5.1	4.8	4.1	3.5
RoNW (%)	14.8	7.7	15.2	16.3
RoCE (%)	21.5	11.1	20.3	23.6

Stock data

Particular	Amount
Market Capitalisation	₹ 2040 crore
Debt (FY 17)	₹ 14 crore
Cash & cash equivalents (FY 17)	₹ 84 crore
EV	₹ 1970 crore
52 week H/L	420/316
Equity Capital	₹ 56.5 crore
Face value	10.0

Price performance

Return %	1M	3M	6M	12M
Adlabs entertainment	(7.4)	(11.2)	(5.0)	(5.3)
Wonderla holidays	(3.5)	0.3	15.3	(7.6)

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Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Net Sales	61.2	63.1	44.5	37.6	70.1	(12.7)	The increase in revenues was driven by 26.0% YoY increase in footfall and 9.2% YoY increase in realisation
Other Income	1.3	1.5	2.4	(44.1)	1.4	(1.5)	Decline in other income was due to utilisation of IPO funds for setting up of new park
Direct operating expenses	15.4	16.2	11.4	35.4	14.9	3.5	
Employee Expenses	9.9	10.1	8.1	21.8	9.7	1.7	New employees for Hyderabad park led to higher employee expenses
Total purchase of stock in trade	6.4	0.8	2.9	118.0	6.2	2.8	
Other expenses	19.6	24.1	11.1	77.5	25.9	(24.2)	Higher advertising & marketing expenses and higher tax provision (rose from ₹4.8 crore in Q4FY16 to ₹ 10.7 crore in Q4FY17) led to increase in other expenses
EBITDA	9.9	11.9	11.0	(10.1)	13.3	(25.9)	
EBITDA Margin (%)	16.2	18.9	24.7	-857 bps	19.0	-288 bps	EBITDA margin declined on account of higher operating cost at Hyderabad park and tax provisions
Depreciation	6.5	6.2	2.8	133.1	7.9	(18.6)	Depreciation expenses were higher due to addition of new park
Interest	0.4	0.3	0.2	62.7	0.4	(3.5)	
PBT	4.4	6.8	10.4	(58.0)	6.3	(31.2)	
Total Tax	0.9	2.3	2.8	(67.3)	2.1	(56.9)	
PAT	3.4	4.5	7.6	(54.5)	4.2	(18.2)	Poor performance at operating level and higher depreciation expenses led to lower PAT during the quarter

Key Metrics	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	
Footfall (in lakhs)	6.2	6.0	5.0	26.0	7.5	(16.6)	Despite a 13.0% YoY and 1.9% YoY fall in footfalls at Bengaluru and Kochi, footfall in Q4FY17 increased 26.0% YoY mainly led by addition of Hyderabad park
Blended realisation (₹)	981.5	1,046.9	899.0	9.2	937.0	4.7	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E	
(₹ Crore)	Old	New	% Change	Introduced	Comments
Revenue	344.5	332.4	(3.5)	388.8	We expect revenues to increase at a CAGR of 19.9% in FY17-19E led by new park addition and improvement in footfall at Kochi and Bengaluru
EBITDA	157.8	139.2	(11.8)	171.5	
EBITDA Margin (%)	45.8	41.9	-394 bps	44.1	We expect margins to improve from FY18E onwards led by stabilisation of new park and operating leverage benefits
PAT	92.7	75.0	(19.1)	93.5	
EPS (₹)	16.4	13.3	(19.1)	16.5	

Source: Company, ICICIdirect.com Research

Assumptions

		Current					Earlier	Comments
	FY14	FY15	FY16	FY17	FY18E	FY19E	FY18E	
Footfall (in lakhs)	23	23	22	27	30	32	30	We expect footfall to increase at a CAGR of 10.3% over the next two years
Blended realisation (₹)	670.3	777	918	1,017	1,107	1,201	1,162	Blended realisation to improve led by healthy macro indicators

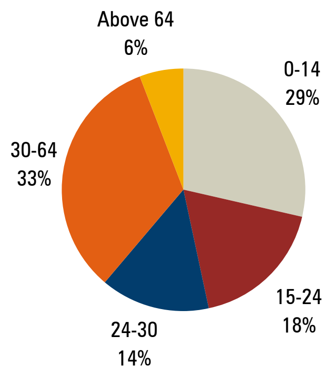
Source: Company, ICICIdirect.com Research

Company Analysis

Favourable demographics

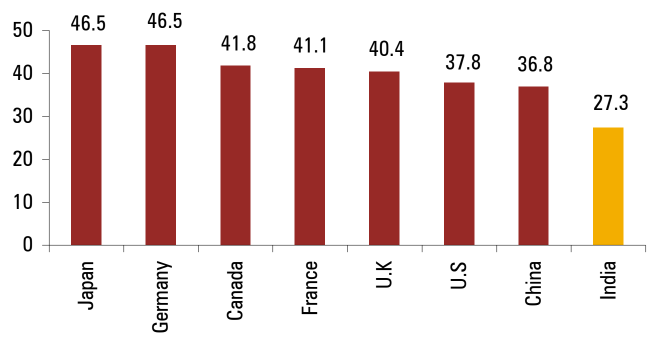
India has a large pool of population that is young. The median age of India's population is 27 years. The country has 61% of its population under the age of 30 and 29% below the age of 14 years, according to latest Census data. According to economic survey, India is expected to be the youngest country in the world with the median age of population at 29 years by 2020. The young population is the main driver of consumer spending and looks for different modes of entertainment. Further, the child population is the influencing factor for parents to visit theme parks and play zones. Hence, this demographic dividend will benefit amusement parks as majority of its customers are in this age bracket.

Exhibit 1: Age wise distribution (India)



Source: Census 2011, ICICIdirect.com Research

Exhibit 2: Median age comparison across countries



Source: CIA world factbook, ICICIdirect.com Research,

Rising per capita income and discretionary spend…

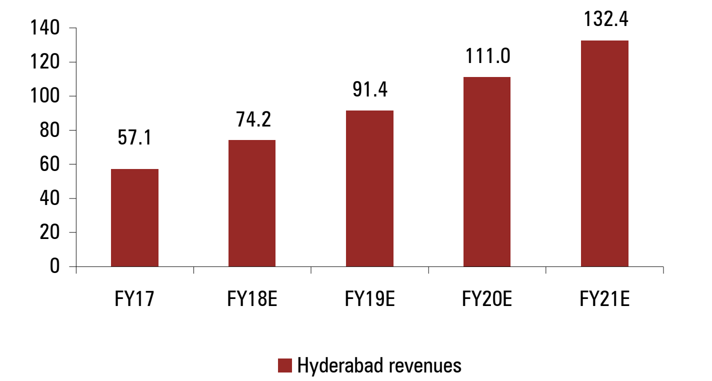
India has witnessed a steady increase in its per capita income over the years. Its per capita income at the current market price is estimated to increase at a CAGR of 15% to ₹ 1.9 lakh in 2014-20E. Apart from rising per capita income, discretionary spend is expected to increase significantly over the coming years led by higher disposable income, change in consumer spends and upgradation of lifestyle. The share of discretionary spend is expected to increase from 59% in FY10 to 67% in FY20. Within discretionary spend, the share of leisure is expected to increase at a CAGR of 6.4% to ₹ 8,98,400 crore in CY13-24.

With a higher disposable income and increase in discretionary spend, entertainment companies (theatres and theme parks) have been able to increase average ticket prices and also witness an improvement in non-ticket revenues over the years. WHL has also been able to increase its blended realisation per footfall at a CAGR of 14.8% in FY11-17. A consistent increase in realisation and stable EBITDA margins has enabled the company to reduce its payback period from nine years in Kochi to 7.5 years in Bengaluru. The payback period in Hyderabad is expected to further reduce to seven years led by higher realisation and healthy EBITDA margins.

Hyderabad park next level of growth

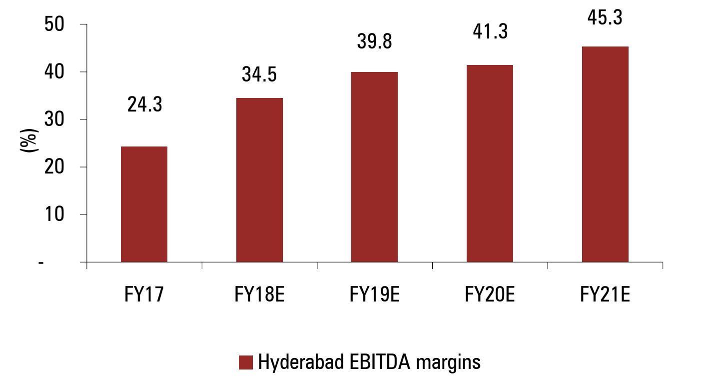
WHL has commissioned a third park in Hyderabad. The park has better connectivity compared to other parks in Hyderabad – it is close to the airport and located outside the ring road that connects to Hyderabad city. Coupled with favourable macros like GDP CAGR of 10% in FY06-14, 1.2 crore people in Hyderabad and a per capita income of ₹ 1,32,862 (one of the highest in south India), the park is expected to witness robust footfall and healthy realisation over the coming years. The company aims to achieve footfall of 10 lakh over the next three years. Further, we expect the park to register EBITDA margins of over 40.0% (in line with the matured parks) over the next few years. In addition, as the restaurants at the Hyderabad park are owned by Wonderla we believe WHL will realise higher gross margins (~45%) in F&B segment positively impacting overall margins.

Exhibit 3: Revenues to grow at CAGR of 23.4% in FY17-21E



Source: Company, ICICIdirect.com, Research

Exhibit 4: Hyderabad margin to improve to 45.3% in FY21E

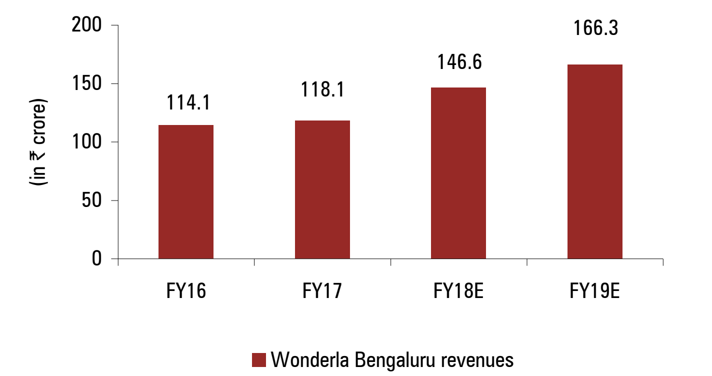


Source: Company, ICICIdirect.com, Research

Mature parks to support growth and expansion

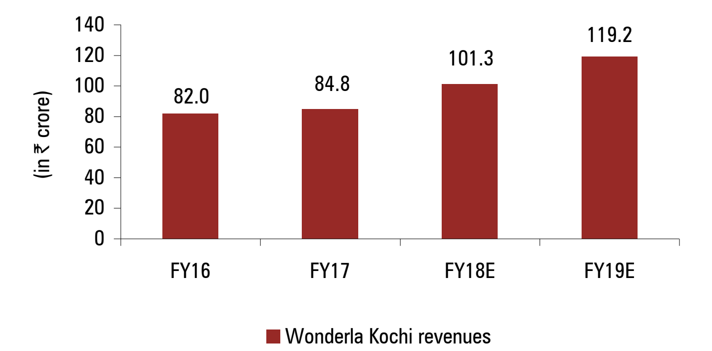
Wonderla has two parks that are mature i.e. Wonderla Kochi and Wonderla Bengaluru. Both these parks have been able to clock RoCE of 35%. Both these parks have been able to maintain average EBITDA margin of ~45% (in FY11-16) led by stable footfall, competitive pricing and operating leverage (as 70% of cost is fixed). Robust cash flow from these parks and lower capex spend are expected to enable Wonderla to not only support growth but also help the company to fund its Hyderabad capex and losses in the initial years.

Exhibit 5: Bengaluru revenues to grow at 18.7% CAGR



Source: Company, ICICIdirect.com Research

Exhibit 6: Kochi revenues to grow at CAGR of 18.5% in FY17-19E

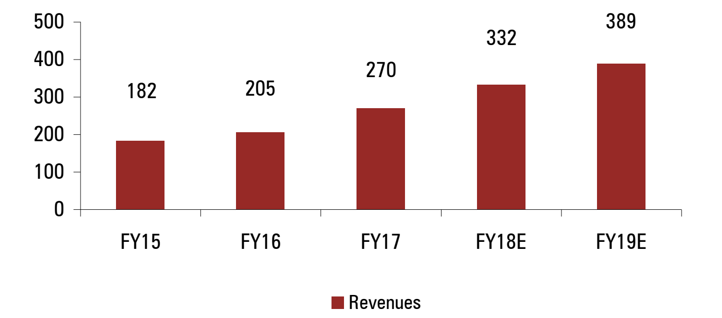


Source: Company, ICICIdirect.com Research

Expect revenue CAGR of 19.9% during FY17-19E

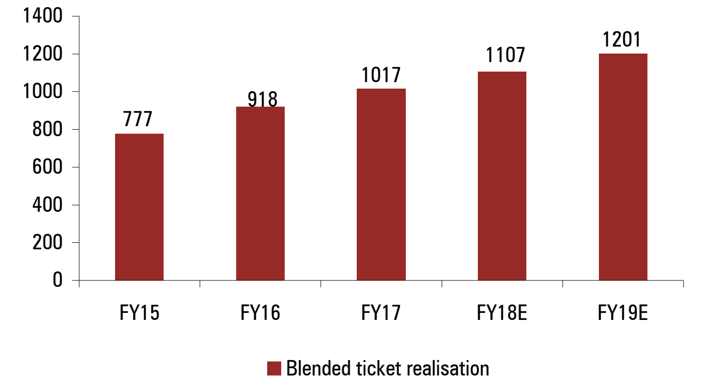
An improving economy, higher discretionary spend, rising footfall, better pricing power, growth in non-ticket revenues and limited competition are likely to remain key drivers of growth in FY17-19E. Given this scenario, we expect the Bengaluru and Kochi parks to grow at a CAGR of ~18.7% & 18.5% over FY17-19E, respectively. We expect the addition of the Hyderabad park (operational from April 2016) and Wonderla resort (expected to grow at 13.0% CAGR in FY17-19E) to further drive revenues. Overall, we expect net sales to grow at ~19.9% CAGR to ₹ 389 crore in FY19E.

Exhibit 7: Revenues to increase at 19.9% CAGR over FY17-19E



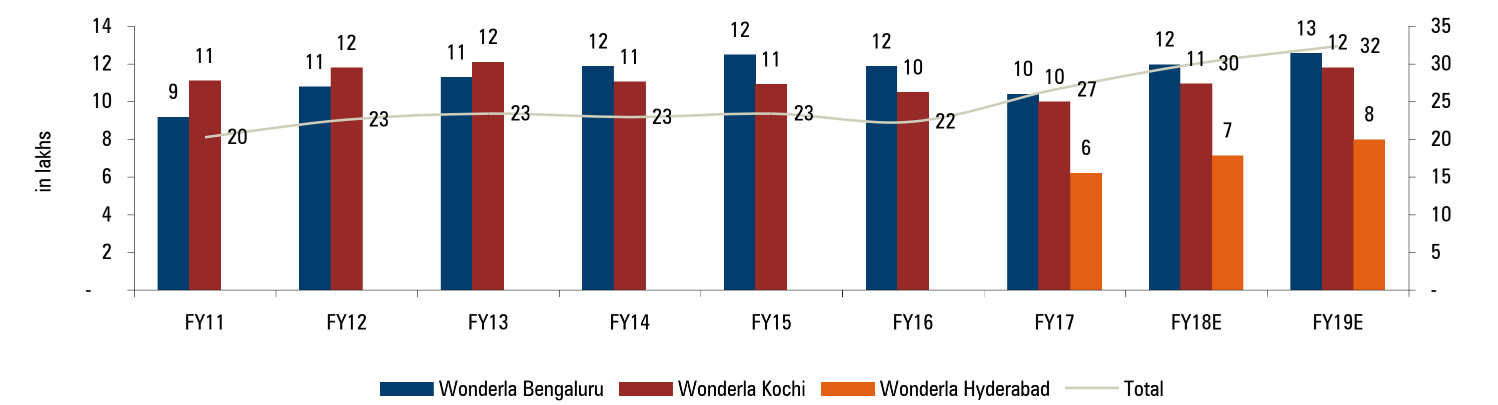
Source: Company, ICICIdirect.com Research

Exhibit 8: …blended ticket realisation to grow at CAGR of 8.7%



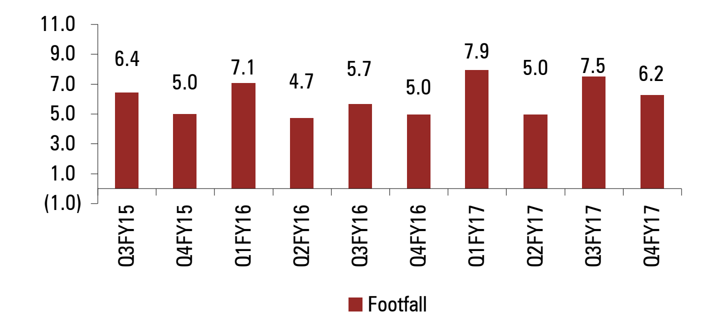
Source: Company, ICICIdirect.com Research

Exhibit 9: Total footfall to increase at CAGR of 10.3% over FY17-19E



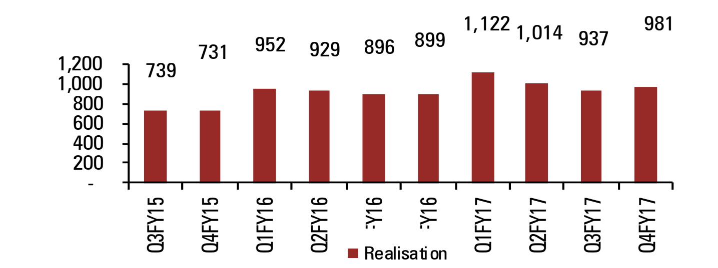
Source: Company, ICICIdirect.com Research

Exhibit 10: Quarterly footfall trend



Source: Company, ICICIdirect.com Research

Exhibit 11: Quarterly realisation trend

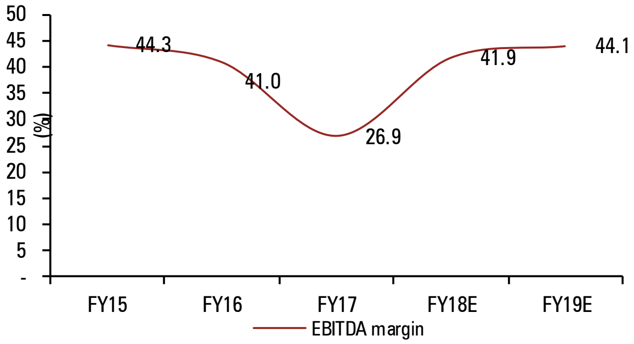


Source: Company, ICICIdirect.com Research

Addition of new park to hit margins initially but improve subsequently

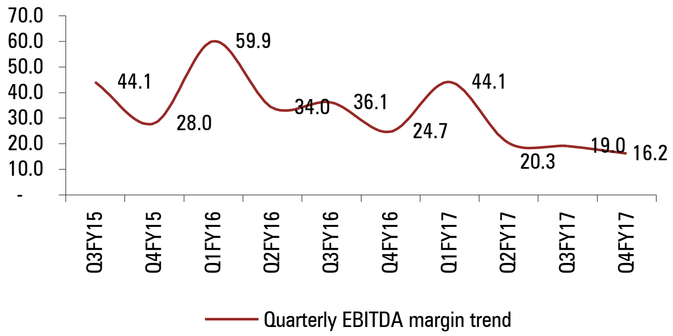
The decline in FY17 margins was mainly due to addition of the new park in Hyderabad. However, they are expected to improve post FY17 driven by improving margins at Hyderabad and operating leverage. Higher occupancy at resorts is further expected to boost margins

Exhibit 12: EBITDA margin to reach 44.1% in FY19E



Source: Company, ICICIdirect.com Research

Exhibit 13: Quarterly EBITDA margin trend

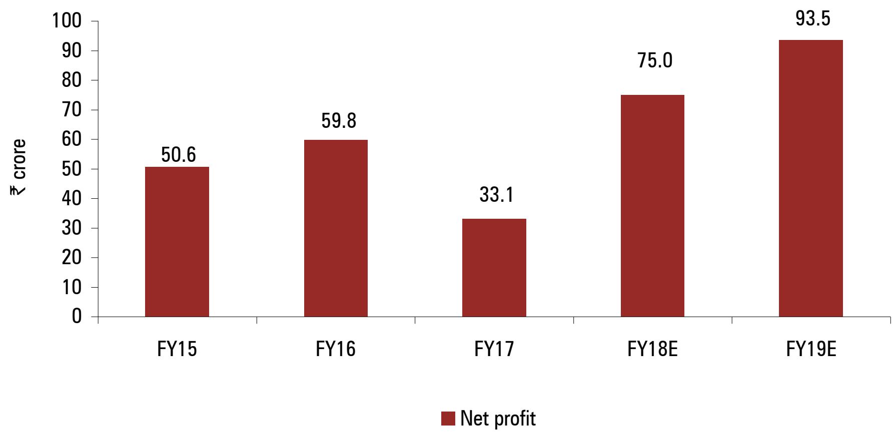


Source: Company, ICICIdirect.com Research

Consistent profitability due to healthy demand outlook

With a sharp rise in realisation and operating leverage benefits, we expect net profit to grow at a CAGR of 68.2% over FY17-19E.

Exhibit 14: Profitability trend



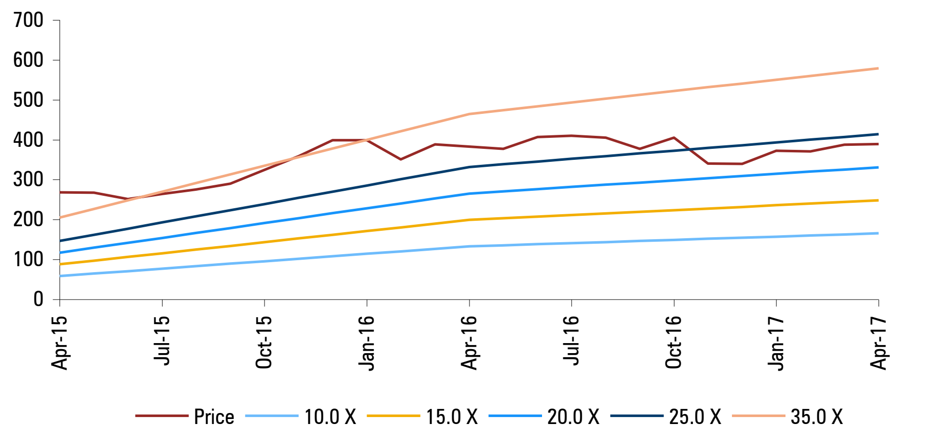
Source: Company, ICICIdirect.com Research

Outlook and valuation

A high entry barrier due to huge capital investment and limited number of large amusement parks in India coupled with favourable demographics and rising discretionary spend augur well for WHL. We expect it to witness a sharp improvement in footfall and realisation led by addition of new parks and favourable demographics. Further, WHL has been able to generate higher cash flow driven by healthy margins at mature parks. As a result of high cash flow generation, the company has been able to keep its debt to equity lower and has also been able to expand through internal accruals.

Further, we believe that a healthy balance sheet (0.3x D/E), strong cash flow generation and revenue & EBITDA CAGR of 19.9% and 53.7%, respectively, in FY17-19E demand premium valuations. We have arrived at a DCF based target price of ₹ 460.

Exhibit 15: One year forward Price/Earnings



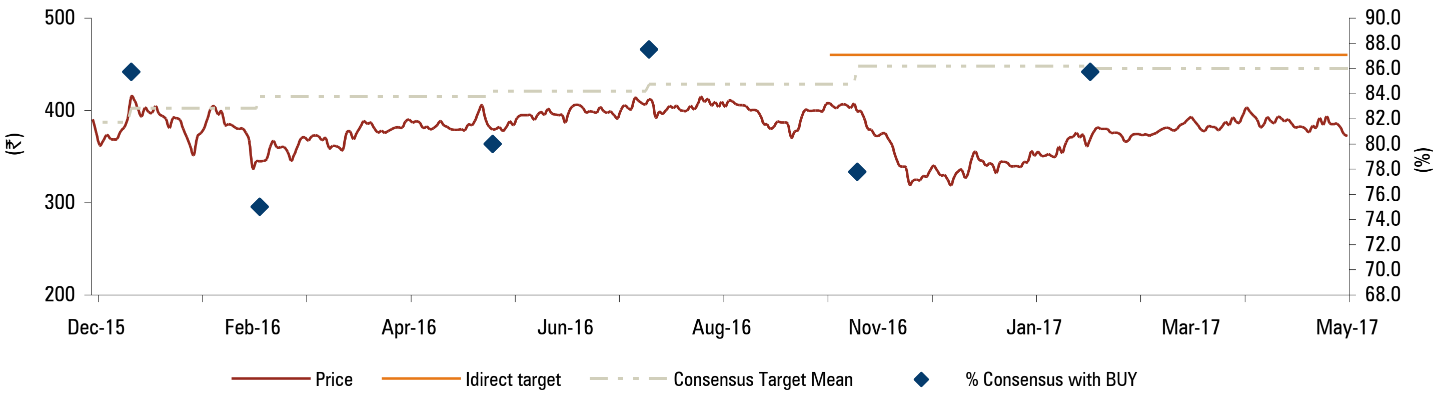
Source: Company, ICICIdirect.com Research

Exhibit 16: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	205.4	12.9	10.6	15.2	34.1	22.9	14.8	21.5
FY17	270.4	31.7	5.9	(44.7)	61.7	27.1	7.7	11.1
FY18E	332.4	22.9	13.3	126.6	27.2	14.4	15.2	20.3
FY19E	388.8	17.0	16.5	24.8	21.8	11.2	16.3	23.6

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus estimate



*Source: Bloomberg, Company, ICICIdirect.com Research, * Initiated coverage on 22 December 2015*

Key events

Date	Event
May-14	Wonderla got listed
Feb-16	Wonderla has signed an MOU with karnataka government to invest ₹ 150 crore in karnataka over the next 2 years
Apr-16	Wonderla opens Hyderabad park

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Kochouseph (Chittilappily Thomas)	31-Mar-2017	25.9	14.6	-2.8
2	Chittilappilly (Arun K)	31-Mar-2017	14.0	7.9	0.0
3	Kochouseph (Sheela)	31-Mar-2017	12.5	7.0	0.0
4	Kochouseph (Mithun Chittilappily)	31-Mar-2017	11.1	6.3	0.0
5	K Chittilappilly Trust	31-Mar-2017	4.9	2.8	2.8
6	Chittilappilly (Priya Sarah Arun)	31-Mar-2017	2.7	1.5	0.0
7	Handelsbanken Asset Management	31-Mar-2017	2.5	1.4	0.0
8	UTI Asset Management Co. Ltd.	31-Dec-2016	2.2	1.2	0.0
9	Steinberg Asset Management, LLC	31-Dec-2016	2.1	1.2	0.6
10	Valuequest India Moat Fund, Ltd.	31-Dec-2016	2.0	1.1	0.2

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	70.99	70.99	70.99	70.99	70.99
FII	10.41	10.49	11.07	10.91	11.06
DII	4.35	5.13	5.13	5.74	5.84
Others	14.25	13.39	12.81	12.36	12.11

Recent Activity

Buys			Sells		
Investor Name	Value (in mn)	Shares (in mn)	Investor Name	Value (in mn)	Shares (in mn)
K Chittilappilly Trust	16.5	2.8	Kochouseph (Chittilappily Thomas)	(16.5)	(2.8)
Steinberg Asset Management, LLC	2.8	0.6	Driehaus Capital Management, LLC	(1.0)	(0.2)
Valuequest India Moat Fund, Ltd.	1.0	0.2	FIL Investment Management (Singapore) Ltd.	(0.1)	(0.0)
DNB Asset Management (Asia) Limited	0.2	0.0	Union KBC Asset Management Company Pvt. Ltd.	(0.1)	(0.0)
Van Eck Associates Corporation	0.0	0.0			

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
Year-end March	FY16	FY17	FY18E	FY19E
Total Operating Income	205.4	270.4	332.4	388.8
	12.9%	31.7%	22.9%	17.0%
Direct operating expenses	36.1	60.4	50.5	63.1
Purchase of stock-in-trade	13.5	23.6	27.4	30.1
Employee Expenses	31.0	39.1	42.2	46.3
Other Expenses	40.5	74.8	73.1	77.8
Total Operating Expenditure	121.2	197.8	193.3	217.3
EBITDA	84.2	72.6	139.2	171.5
Other income	18.1	6.3	6.0	6.5
Interest	1.3	1.3	2.2	7.4
PBDT	100.9	77.7	143.0	170.6
Depreciation	13.9	29.3	34.4	35.1
PBT	87.0	48.4	108.6	135.5
Total Tax	27.2	15.3	33.7	42.0
PAT	59.8	33.1	75.0	93.5
EPS	10.6	5.9	13.3	16.5

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
Year-end March	FY16	FY17	FY18E	FY19E
Profit before tax	87.0	48.4	108.6	135.5
Depreciation	13.9	29.3	34.4	35.1
Interest	1.3	1.3	2.2	7.4
Other income	(18.1)	(6.3)	(6.0)	(6.5)
Cash Flow before WC changes	84.2	72.6	139.2	171.5
Net Increase in Current Assets	(8.3)	(23.8)	(10.5)	(9.7)
Net Increase in Current Liabilities	9.9	28.9	(1.7)	9.0
Taxes Paid	(27.2)	(15.3)	(33.7)	(42.0)
Net CF from Operating activities	58.6	62.4	93.3	128.8
(Purchase)/Sale of Fixed Assets	(146.5)	(98.7)	(120.0)	(38.9)
(Purchase)/Sale of Investments	109.9	9.4	-	(50.0)
Other Income	18.3	6.3	6.0	6.5
Net CF from Investing activities	(18.5)	(83.1)	(114.0)	(82.4)
Inc / (Dec) in Loan	(5.8)	9.2	35.0	(20.5)
Interest	(1.3)	(1.3)	(2.2)	(7.4)
Dividend paid incl of taxes	(13.3)	(5.7)	(11.3)	(11.3)
Proceeds from IPO	-	-	-	-
Net CF from Financing Activities	(20.4)	1.1	21.5	(39.2)
Net Cash flow	19.7	(19.5)	0.8	7.2
Opening Cash/Cash Equivalent	8.3	28.0	8.5	9.4
Closing Cash/ Cash Equivalent	28.0	8.5	9.4	16.6

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
Year-end March	FY16	FY17	FY18E	FY19E
Equity Capital	56.5	56.5	56.5	56.5
Reserve and Surplus	346.5	372.8	436.4	518.6
Total Shareholders funds	403.0	429.3	492.9	575.1
Total Debt	5.2	14.3	49.3	28.8
Deferred Tax Liability	-	-	-	-
Long-term provisions	2.5	2.5	2.5	2.5
Total Liabilities	410.7	446.2	544.8	606.4
Net Block	152.2	81.1	380.5	466.1
Capital WIP	158.9	230.0	-	-
Total Fixed Assets	311.1	311.1	380.5	466.1
Intangible assets	0.6	0.6	0.6	0.6
Non current asset	8.7	15.8	33.3	38.9
Inventory	6.6	9.0	11.0	12.9
Debtors	0.8	0.9	0.9	1.1
Loans and Advances	3.8	10.7	13.1	15.4
Other Current Assets	1.3	1.8	2.2	2.5
Current investments	84.4	75.0	75.0	125.0
Cash	28.0	8.5	9.4	16.6
Total Current Assets	124.9	105.9	111.6	173.4
Current Liabilities				
Trade payables	9.7	12.4	12.1	13.6
Provisions	17.3	44.8	43.7	49.2
Other current liabilities	14.6	17.0	16.6	18.7
Total Current liabilities	41.7	74.1	72.4	81.5
Net Current Assets	83.2	31.8	39.2	92.0
Total Assets	403.6	359.3	453.6	597.5

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per Share Data (₹)				
EPS	10.6	5.9	13.3	16.5
Cash EPS	13.1	11.0	19.4	22.8
BV	71.3	76.0	87.2	101.8
Dividend Per share	2.0	1.0	2.0	2.0
Operating Ratios (%)				
EBITDA Margin	41.0	26.9	41.9	44.1
EBIT margin	34.2	16.0	31.5	35.1
PAT Margin	29.1	12.2	22.5	24.0
Inventory days	11.7	12.1	12.1	12.1
Debtor days	1.4	1.3	1.0	1.0
Creditor days	17.3	16.7	13.3	12.7
Return Ratios (%)				
RoE	14.8	7.7	15.2	16.3
RoCE	21.5	11.1	20.3	23.6
RoIC	23.6	12.0	22.8	29.4
Valuation Ratios (x)				
P/E	34.1	61.7	27.2	21.8
EV / EBITDA	22.9	27.1	14.4	11.2
EV / Net Sales	9.4	7.3	6.0	5.0
Market Cap / Sales	9.9	7.5	6.1	5.2
Price to Book Value	5.1	4.8	4.1	3.5
Solvency Ratios (x)				
Debt / Equity	0.01	0.03	0.10	0.05
Current Ratio	0.7	0.8	0.9	0.9
Quick Ratio	0.5	0.6	0.8	0.8

Source: Company, ICICIdirect.com Research

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