Introduction

Wonderla Holidays is in the amusement park industry. An amusement park is a collection of rides and activites to entertain a large group of people. I spent sometime studying the business model of Wonderla. My handwritten notes about Wonderla can be found here. I have a horrible handwriting and you need a lot of patience to read it. You can download all the key business metrics of Wonderla from here. This note is a summary of my handwritten notes.

Here is a long story short about Wonderla: Only pan-India player in the theme park business. Currently operating 3 theme parks and planning to open one theme park every three years. There is a long runway for growth. Management team is able and ethical. Have a track record of running both V-Guard Industries and Wonderla Holidays for almost two decades.

Stable State Value

Kochi and Bangalore park generates a free cash flow of 25 crores each. Hyderabad got operational in 2016 and let's assume that is can generate another 25 crore rupees. Put together they generate a free cash flow of 75 crore rupees. At a multiple of 15 the free cash flow stream can be valued at 1,125 crore rupees. With another 100 crore rupees in cash and investments one can reasonably value Wonderla at 1,225 crores rupees.

Why did I assign a multiple of 15? I used a cost of capital of 12 percent and an inflationary growth rate 5 percent for free cash flow. This will give a multiple of around 15 [1 / (12 - 5)]. The current market capitalization is 2,000 crores so one needs to pay up for non-inflationary growth. Should we pay up? I don't have an answer to this question. But I have a few questions that needs to be answered before thinking about paying up.

Should we pay up for growth?

Wonderla has 4 levers to pull for generating growth: Number of parks * Annual Footfall * [Average ticket revenue + Average non-ticket revenue]. Let us look at each lever in detail.

(1) Number of parks: It currently operates 3 theme parks and plans to open 1 park every 3 years in large cities. It is planning to open the next one in Chennai by 2020 and can add two more before 2027. Some of the large cities already have theme parks. Would the existing parks not have first mover advantage?

Also, the cost of opening a new park has been going up due to rising land prices. It costed 65 crores to setup a park in Kochi (2000) and 90 crores to setup a park in Bangalore (2005). Hyderabad (2016) park costed 250 crores and Chennai (2020) park is expected to cost 350 crores. Will this put pressure on Wonderla's ROIC?

(2) Annual Footfall: Annual footfall has been de-growing in Kochi and almost flat in Bangalore for the last 6 years. Kochi park has been operating for 17 years and the footfall has plateaued and the company has to add new ride (in today's rupees) to increase footfalls. Is this maintenance capex which Wonderla needs to spend in today's rupees to stay in the same place? Management thinks that falling footfall is a temporary issue and it should be taken care in the long run. Is plateauing footfall a cyclical or secular issue?

Footfall (in lakhs)	2011	2017	CAGR
Kochi	11.11	10	-1.74%
Banaglore	9.17	10.4	2.12%

(3) Average ticket revenue: For the last few years Wonderla has been using growing sales by increasing the ticket price and there is a limit on how much it can pull this lever. Anything more than 5-6 percent, without affecting footfalls, is hard. I already accounted for 5 percent growth when I came up with a multiple of 15.

> I think it is more and more to do with our pricing strategy, which has been very aggressive in the last four, five years. So because of that I think footfalls have not grown. **It is a natural phenomenon where if you raise your prices by 10% to 15% every year, you cannot expect your footfall to grow.** That is what has happened I think and I think it will continue unfortunately for another year or so because with the GST again, we will have to take another aggressive price hike and if that happens then I do not think it is possible for us to look at a significant footfall growth - Arun Chittilappilly

(4) Average non-ticket revenue: This has more room to grow as it only represents 18 percent of sales and few years back it used to represent only 9 percent of sales.

	2013	2017
Total revenue	100%	100%
Sale of services	91%	82%
Sale of products	9%	18%

Wonderla can definitely pull this lever and create a lot of operating leverage. Currently each visitor is spending 214 rupees on non-ticket items. If this goes up by another 100 rupees, then how much will flow to the bottom line? Rounding up Hyderabad footfall to 10 lakhs we are talking about another 30 crores [30 lakh visitors * 100 rupees]. After adjusting for COGS everything else will flow to the bottom line.

Should we pay up for Wonderla's growth? I can't answer as I need to find out the answers to the above questions. On top of all these questions I need to find out the base rate (how common something is within a broader class) of successful theme parks across the world that made money for their shareholders.

Disclaimer: I don't have any position in Wonderla Holidays. This is not a recommendation to Buy, Sell, or Hold. I am not a SEBI registered analyst. I wrote this document to organize my thoughts and deepen my understanding about the company and industry. I am sharing it so that you can learn something from this.

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