Wonderla Holidays

(1) Wonderla Holidays is in the amusement park industry. An amusement park is the generic term for a collection of rides and other entertainment attractions to entertain a large group of people.

(2) Wonderla operates 3 parks across India. The parks are in Kochi (2000), Bangalore (2005), and Hyderabad (2016). It is the only company with Pan-India presence operating parks. The first park in Kochi was setup in 2000. It is planning to setup its 4th park in chennai by FY2020. The plan is to expand in all other large cities.

(3) Plan is to open a new park every 3 years. The funds for it will come from internal accruals and taking debt.

(4) Arun chittilappilly is the MD of the company. He has been to almost every big park in the world and is very ambitious in making wonderla a Pan India player. Mr. Kochouseph chittilappilly is the founder and a terrific entrepreneur who founded V-Guard group. He is an extremely responsible citizen who donated his kidney at an age of 60+ to a truck driver.

(5) why did the footfall go down?

FY 2015: Restrictions on educational institutions to do picnics in public places. Affected Bangalore a lot and less so in Kochi.

FY 2016: Footfalls in Kochi declined by 8% and this is due to the decline from school and college category. Around 37 to 38 percent of ticket sales comes from schools.

FY 2017: Flat footfalls in Kochi and 13% decline of footfalls in Bangalore. The reason for the decline is weak IT industry and shift in exam timings.

Price go up 10 to 15% every year and you can't expect footfall to rise. (Add GST) the trend will continue.

(+) Last 2 years have seen unusual price hikes due to service tax impact and the recent changes in GST. This will continue for some more time. The industry is very small in India. very few Players are doing anything concrete here. with uniform tax regime (GST) wonderla will get benefited in the long term even though it has to take some short term pains.

6) The company can post an operating margin of 45-50%. when looking at P&L adjust for additional expenses in Hyderabad. [head count and A&P]. Hyderbad is cash flow positive. But it is generating an EBIT loss. Also it has done some provisioning around tax disputes. I need to undestand that.

7) Park has a pay back period of eight years with an operating margin of 45-50% from the 3rd or 4th year onwards.

8) operating leverage kicks in when non-ticketing revenue goes up. For example in FY15 the sale of services saw around 18% growth whereas sale of Products grew by 22%. Read what goes in Product revenue and how the trend is going.

9) In Hyderabad of the 49.5 acres there is a litigation of 14 acres. of that there is injunction on 7 acres where there is no restriction on construction. so we have of 41 acres that can be used. (what?)

(10) Currently Kochi and Bangalore are generating a free cash flow of 50 crores. on a matured basis let's assume Hyderabad will generate another 25 crores.

Y1 — Y2 — Y3

75 crores | 75 crores + 150 debt

150 internal accrual

(chennai needs 300-350 crores).

Post chennai 4 parks will generate a free cash flow of 100 crores. [so debt level should not increase significantly post chennai.] No equity infusion for the next 5

(11) 9-10% Price hike is Possible. In later years (FY15) the statement have been on the lower end. (FY16 and FY17). Ticket Prices are seasonal and what you see on the website is seasonal.

(12) growth is not coming in Cochin as they have been operating for 15 years. To keep People coming you need to invest and add new rides. This is maintainence capex. you need to run hard to stand in the same place.

(13) Discounts given to School Kids: 35% and college students receive a discount of 20%. For new Parks like Hyderabad a lot of discount will be given in the first year of operation. This is like teaser rates and the ticket Prices gets Jacked up the next year. (30% Price increase in the 2nd year)

(14) People who can reach the Park within 6 hour drive come. Large cities offer an operating margin of 50%. That is why we operate there.

(15) Wonderla develops technology internally. The company spends a lot of time developing content and doesn't want to out source it. Introduction of RFID cards and loading cash is a unique idea. cash is hard to deal with when playing water games.

(16) Wonderla has single ticket to access both dry and wet rides. I remember my recent trip to Legoland where you need to buy a separate ticket to access water rides. Wonderla's focus is to have families to have good times. It will do whatever it takes to meet it.

Check the competitors: Esselworld + AdLabs

Six Flags — **Wonderla** — Disney

(17) Land in chennai is getting finalized and the company has already starting acquiring and most likely (1Q, 2Q, 3Q) construction will be started.

FY17 —— FY20 (Chennai likely to be commissioned during the 2nd half of 2020).

The company is not thinking about another Park for sometime.

(18) Ticket Prices :

Kochi : 1,000

Bangalore : 1,100 to 1,200

Hyderabad : 950 to 1,000

(19) 30 Percent of rides are designed and manufactured inhouse. The inhouse talent allows the company to buy refurbished roller coasters and 50% discount and fix them. other companies cannot do this. And it's a huge advantage. It bought salvaged rides from a bankrupt Middle Eastern company and refurbished it.

(20) Current operating margins should improve between 5 and 10% Per Cent. The steady state EBITDA margins should be around 30 - 35%.

(21) Service tax amendment issue got rolled out in 2015. The company challenged it and the case is in court. Wonderla is currently provisioning for the amendments.

(23) Financials :

(a) Negligible debt of 14 crores compared to equity of 436 crores. Debt to equity ratio of 0.03.

(b) Invested capital of 379 Crores with sales of 270 crores and PBT of 42 crores.

	2013	2015	2017
ROIC	33%	35%	11%
Turnover	0.93	1.01	0.71
Margin	35%	34%	16%

[Clearly the margins and ROIC are not normalized]

(c) operating leverage can come from sale of products and the number are showing that it is happening

	2013	2017
Total Revenue	100%	100%
sale of service	91	82
sale of products	9	18

(d) Margins came down due to COGS and other expenses going up. According to the management operating profit should be 45 - 50%. It was at peak in FY14 of 46%. Should we normalize to 45 percent?

	2013	2017
EBITDA	100%	100%
COGS	23	31
Employee	17	14
others	14	28

(e) working capital needs of the company is very minimal as the sale is done with cash or credit card. [AR + Inventory - AP] is negative for FY17.

(f) Normalize Hyderabad to 10 lac visitors should give total visitors to 30.4 lacs. with ARPU of ₹978 the total sales should be ~ 300 crores.

At 40% EBITDA margin the EBITDA comes to 120 crores. At the current share price of ₹360 the EV comes to ~ 2,000 crores.

EV / EBITDA is around 17. This is not cheap. But it is much lower than the face value (EV / EBITDA) of 27. This is because non-normalized EBITDA margin is only 27%

(g) For a business like Moody's I would go with EBITDA. But it is a flawed metric for wonderla. why is that?

From 2008 - 2016 wonderla generated

CFO : ₹ 364 crores

capex : 309 -

55

Add back Hyderabad 250

Free cash flow : 305 crores

In 2016 wonderla generated an OCF of around 75 crores. Let us assume the maintenance capex of 25 crores (which is 2x the depreciation). This means per park it generates a free cash flow of ₹25 crores

(h) From 2008 to 2016 wonderla compounded OCF at 14.21 percent. In an inflationary world the capex will also be high. This is evident from the cost of setting up the park.

2000	kochi	₹ 65 crores
2005	Bangalore	₹ 90 crores
2016	Hyderabad	₹ 250 crores

FCF of 25 crores on 65 crores is 38%. But on 250 crores it is 10%

(i) FY 17 — FY18 — FY19 — FY 2020

Free cash flow :

FY 17: ₹50 crores + Hyderabad Free cash flow (25 crores)

FY18: ₹ 50 + Hyderabad Free cash flow (25 crores)

FY19: ₹50 + Hyderabad free cash flow (25 crores)

FY 2020: Chennai comes in at the cost of 300 to 350 crores → Post Chennai in a couple of years 100 crores will come in as free cash flow and you can open a new Park every 3 years without debt.

(23) Wonderla has many levers to increase the revenue.

Number of Parks × Number of visitors Per Park (annual) × [Average Ticket Revenue Per visitor + Average non-Ticket Revenue Per visitor]

Number of Parks → Plans to open one Park every 3 years (After 2005 Park in Hyderabad got opened in 2016)

Number of visitors Per Park (annual) → foot fall has been a cause for concern.

(In lakhs)	2011	2017	CAGR
Kochi	11.11	10	-1.74
Bangalore	9.17	10.4	2.12

Average non-Ticket Revenue Per visitor → share of revenue is going up and Provides operating leverage. For example refer to (24)

	2011	2018
ARPU	₹450	₹ 877

All the sales increase came from raising Prices. ARPU compounded at 14.29 Percent

(24) Average non-ticket revenue Per visitor is ₹ 214. Suppose this goes up by another ₹100 ruppess, then how much will flow to the bottom line? Ranting up hyderabad Park to 10 lakh visitors we are talking about 30 crores (30 ~~million~~ lakhs • ₹ 100). This will directly flow to the bottom line after adjusting for COGS.

(25) Value of Firm = Steady state value + Future value creation

$$\text{Steady state value} = \frac{\text{NOPAT}}{\text{WACC}} + \text{Excess cash}$$

Instead of NOPAT, I am using free cash flow. There are 3 Parks and let me be generous to assign 25 crores for each Park.

$$= \frac{75 \text{ crores}}{(12 - 5)}$$; where 5% is the rate of inflation

= 1125 crores. To this lets add 100 crores on cash + Investments. The reasonable value is ₹1,225 crores. This account for 60% market capitalization. The remaining 40% comes for growth. From non- inflation.