"Wonderla Holidays Limited Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Wonderla Holidays Q4 FY2019 Earnings conference call, hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimit Shah from ICICI Securities Limited. Thank you and over to you Sir!

Nimit Shah: Good afternoon everyone. We thank the management of Wonderla Holidays to give us an opportunity to host this call. From the management, we have Mr. George Joseph, Joint Managing Director and Mr. Jacob Kuruvilla, Chief Financial Officer. I would like to handover the call to Mr. Joseph for his opening remarks. Thank you and over to you Sir!

George Joseph: Thank you Nimit and good afternoon to all of you. We extend a warm welcome to all of you to discuss the fourth quarter and FY2018-2019 earnings of Wonderla Holidays Limited. Wonderla Parks introduce visitors to a different world as soon as they enter our premises. We at Wonderla are in the business of providing a thrilling and unforgettable experience. A combination of innovative engineering capabilities, prudent financial management, high standards of safety, hygiene and a visionary promoter leading the way have contributed to our success till now.

As of March 2019, our very first park, Wonderla Kochi, which was set up in the year 2000 is close to completing two decades of operation. Our Bengaluru and Hyderabad locations have completed 13 and 3 years of operation respectively. In 2019, we faced unexpected challenges like Nipah virus outbreak and floods in Kerala. Despite these disruptions we have been able to deliver an improved operating performance.

During the year, we undertook several initiatives to improve the market penetration. We enhanced our social media marketing and also introduced loyalty programs like Wonderpass and WonderClub. Overall, we witnessed positive trends in footfall and increased in-park spends leading to double digit growth in the non-ticket revenue.

Coming to the financial performance during the fourth quarter, our revenue from operations increased by 10.4% year-on-year from Rs.549.6 million to Rs.606.5 million driven by 6.8% growth in footfall. Ticket revenue grew by 8.8% year-on-year and non-ticket revenue grew by 14.1% year-on-year. The Bengaluru Park witnessed a growth of 10% in footfall, Kochi and Hyderabad parks witnessed a growth of 5% each in footfalls. Our EBITDA increased by 16.6% year-on-year from Rs.153.3 million to Rs.178.7 million while the EBITDA margin expanded to 29.5% from 27.9% in the corresponding quarter of last year. PAT almost doubled itself growing 90% year-on-year from Rs.36.8 million to Rs.70 million and PAT margin increased from 6.7% in Q4 FY2018 to 11.5% in Q4 FY2019. Initiatives towards driving more long stays in the resort at Bengaluru saw a substantial rise in occupancy from 32% in Q4 FY2018 to 52% in Q4 FY2019. Cash PAT that is cash plus depreciation increased by 25.2% from Rs.134.7 million to Rs.168.7 million indicating continued generation of healthy operating cash flows.

On a full year basis FY2019, we had total revenue of Rs.2820 million generated from operations, a 4.2% growth over Rs.2705 million registered in FY2018. Our various initiatives for cost rationalization, procurement efficiencies and efforts in streamlining services resulted in a significant 28% growth in EBITDA, which grew from Rs.892 million in FY2018 to Rs.1143.4 million this year. Consequently, a commendable EBITDA margin expansion of 758 basis points was seen, growing from 33% in FY2018 to

40.5% this fiscal. Being a debt free company, higher EBITDA translates to higher PAT for us. We are happy to see all our efforts having the desired impact and proudly announce a 44% rise in profit after tax clocked in at Rs.554 million in FY2019 against Rs.385 million in FY2018. PAT margin at 19.6% for a full year of 542 basis points boost over 14.2% registered in FY2019. We are also happy to announce that we recommended a dividend of 18% for financial year 2019. I would like to open the call for question and answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir congrats on good results. My first question is on the strategy between the three parks. I saw that in the Bengaluru park we took no price hike at all and the footfall growth was better than the other two parks. In the other two parks, we have seen a blend of both footfall and price hike. Is this because Bengaluru park is already priced beyond the threshold level of Rs.1000 and in FY2020 will we still be focused on footfall in Bengaluru?

George Joseph: We had a 5% price hike in Bengaluru and only in Kerala we have rolled back the price hike on account of the floods, otherwise we had a price hike in all the parks.

Abneesh Roy: So why it is not visible when I see average revenue per visitor in Bengaluru?

Jacob Kuruvilla: Maybe there are some changes in the footfall mix. It may not reflect in the average revenue per visitor, but when there are higher group entries, we give them higher discounts, hence the price hike isn't evident.

George Joseph: In January 2018 GST was reduced from 28% to 18%. There is some aberration on account of the GST impact and service tax as well, when you compare with the last year.

Abneesh Roy: But from Q1FY20 it will be like-to-like comparison?

George Joseph: Yes, it will be a like-to-like comparison from now on.

Abneesh Roy: Any plan for rate hike across three parks in FY2020?

George Joseph: In fact in current year FY2019-2020, we have taken a price hike of 5% across all parks. In addition, we have also raised prices of certain F&B items consumed in large numbers like combo meals, Biryani etc .

Abneesh Roy: Sir you already doing well in F&B, but any learnings you can take from how multiplexes are managing F&B prices? Is there an opportunity to upgrade and go into more offerings just the away multiplexes have done?

George Joseph: We have now started buffet across all 3 parks. We also encourage the groups booked by BDPs to have breakfast and dinner. We are also insisting on all day meal plan, which includes breakfast, lunch and the dinner. As an experiment, we also tried alternate Saturday sky wheel dinner which was also promoted online. Whatever is successful in one park we are replicate it in other parks.

Jacob Kuruvila: We do not want to have high F&B prices as seen in multiplexes, we want to keep it at reasonable level, without much price difference between the restaurants outside and our restaurants.

Abneesh Roy: Sir my second question is on the resort, over last two to three years, it has shown a very volatile performance. If you could elaborate what you have done for long stay & is it sustainable? Secondly even though occupancy rate of 52% is a good improvement, it is still below the overall industry levels. Do you see this touching 65% in the next year?

George Joseph: In Q4, we had about 789 long stay against 186 in the previous year. Long stay is going up, but it is not sustainable. Our occupancy has improved from almost 32% to 52%, there is a big jump in occupancy in the last quarter and short stay segment has gone up from 2006 to 2687, a 34% increase. In the current year, April and May have been fantastic and till date in May we have touched an occupancy rate of 69%, and in the current month our occupancy rate is 82%. I think the trend is good and the bad times are over as far as the resort is concerned. We hope that we will be able to do well in the coming months.

Abneesh Roy: Why is the long stay not sustainable? What is driving the occupancy? Is it B2B conferences & off-site that is not sustainable?

George Joseph: Suppose there is a project in our area. So for that project people come from different locations and we are able to get them for long stay. Once the project is over, they leave. So that is why it is not sustainable. We have also introduced Wonder Club, which is a program wherein we are selling the occupancy of the resort for three years to six years depending on the variant chosen. Gold card variant is valid for three years and provides three one night stays with breakfast buffet and free Fastrack park entry over a period of three years; for this we charge only Rs.18,299 plus GST. For the diamond category variant, we provide six night stays with breakfast buffet and 12 tickets for the park entry at Rs.33,999. These are at a deep discount to the current rate. We promote the same to BDPs to whom we offer a discount of 10% as a promotional offer and give a commission of about 8%. We have targeted 3000 card issue in the current year and we are on track to achieve the same.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thanks for the opportunity. Sir if we look at Kochi park, this quarter has shown good growth. But for the full year, because of the washout we had in the first half, the numbers are down. How do you read the demand environment for Kochi for FY2020? Do you think that we can reach the absolute numbers that we clocked in FY2018?

George Joseph: Our target is to get back to the absolute numbers we have achieved in the past, but then you should understand that Kochi-Kerala is a difficult market. Firstly, Kerala heavily depends upon rubber industry, the rubber prices are low and highly volatile. On account of that, income generation of our target group is getting affected. There is a challenge in terms of rebuilding and reforms after the floods. But footfall growth is showing recovery and we will be able to achieve a growth of about 10% to 12% in the current year.

Tejas Shah: Footfall growth?

George Joseph: Yes, 10% to 12% footfall growth , so about 13% to 15% growth in overall revenue because we have taken hike in F&B prices

Tejas Shah: Sure. Second question pertains to Hyderabad Park. In Q4, the footfall growth has been around 4.8%, similar to what was seen in Kochi and for the full year, growth is around 10.5%, as seen in Bengaluru. Now in terms of maturity, Hyderabad Park is newer than the other two parks so growth rate conversing with two mature parks seems discouraging. Do we still maintain the plan of reaching 1 million footfalls in two to three years?

George Joseph: Yes, in Hyderabad, we have to penetrate further in the state of Andhra and Telangana. While we are doing that, there are external factors affecting; for example, we were targeting good footfall growth from May 15 onwards, but this is not happening because the temperature 44 degrees average temperature is seen in the park. Some media elements are creating panic among the people about potentially fatal sunstroke. Bengaluru park took six years to achieve 1 million levels, Hyderabad being a smaller market I think we will definitely see 1 million in a couple of years.

Tejas Shah: Any update on Chennai Park?

George Joseph: As mentioned earlier, everything is ready, but we are still waiting for the notification exempting the amusement park from the local body tax. It was expected before election notification, but unfortunately it didn't, We hope it will come after the announcement of the results. Hopefully we will then submit the papers for approvals, which will take only one month because there is a single window system. So will have to wait and see.

Tejas Shah: Sure thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Tarang Aggarwal from Old Bridge Capital. Please go ahead.

Tarang Aggarwal: Thanks for taking my question and thanks for a rather elaborate presentation. I have a couple of questions. The first question is that I have noticed that the promoter holding has gone down in this quarter from 71.28% to almost 69.3%, what was the reason for it?

George Joseph: The promoter wanted to invest in a philanthropic project for his foundation, called Chittilappilly foundation. He had brought some land for this project, which was funded by the sale of equity stake

Tejas Shah: Second question is about land utilization. Sir, you have about 188 acres of land between Kochi, Hyderabad, Bengaluru and Chennai. So what is your plan for the vacant land. In addition, can you please give me some details on the land cost between Kochi, Chennai, Hyderabad and Bengaluru?

George Joseph: When we go for a project we always keep some land for expansion purposes. If require 20 to 25 acres for the park, we buy at least 25 to 30 acres of additional land for purpose of future expansion of the park. In Bengaluru we established a resort attached to the park and it has been paying off. This may be replicated in other parks. Coming to the land price, it is currently around Rs.1 Crores per acre in southern region.

Tejas Shah: So Rs.1 Crores per acre is a ballpark figure?

George Joseph: It had been lesser than 1 crores in Bengaluru because we established our park a little away from the city. Hyderabad park is nearer to the airport, but in Bengaluru it is around 22 kilometers away from the city. In Chennai also now we have purchased land away from the city so the price is less

Jacob Kuruvilla: Wherever we have purchased the land parcel, there has also been good appreciation. For example, the price of land in Hyderabad, has increased by three times the our acquisition price. Even in Chennai, our recent purchase, the acquisition cost was Rs.1.07 Crores per acre and now it is around Rs.2 Crores per acre within a short time. Appreciation of the property is not our main motive. We keep the property for our own and plan to add rides or resort in future. We have added playgrounds play courts in the Bengaluru park, we are also using the extra to create a wedding destination. Some part of the land in Bengaluru & Hyderabad is being utilized for vegetable cultivation.

Tejas Shah: There is this line item, which says other balances with banks, which is at Rs. 400 Million from March 2019 against Rs.4.7 Crores in March 2018 if you could throw some light on that?

George Joseph: Yes, on page 18 in the presentation, an amount of Rs.40 Crores has been deposited in two banks in addition to the mutual fund investment.

Tejas Shah: Okay thank you.

Moderator: Thank you. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.

Amar Kalkundrikar: Thanks for the opportunity. Footfalls have grown in Q4, but the walk-ins that is non-group footfalls have fallen, can you please clarify as to what you think is the reason for this?

George Joseph: That is on account of the shift in festivals. For example Easter, which came in the first quarter of 2019 in March, holiday season started early, and as a result we have more groups. If you look at the peak season in Q1, we have only direct walk-in footfall and the groups are less, whereas in Q2 and Q3 and to a certain extent in Q4 we have more groups than the walk-in.

Amar Kalkundrikar: For next year what kind of footfall growth do we envisage and if you could further break that down between walk-ins and groups please?

Jacob Kuruvilla: We expect 10% to 15% increase in footfalls and mix of walk-ins and groups will continue to be the same.

George Joseph: Yes in fact if you look at the mix in Kochi and Hyderabad, the group mix is around 35% to 40%, but in Bengaluru, it is slightly less at 25% to 30%. We have taken action by appointing direct selling agents in Bengaluru now and we are expecting the groups to grow in Bengaluru without affecting the actual walk-in.

Amar Kalkundrikar: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar:Thanks for giving me the opportunity and congrats for good set of numbers. Sir my question is on the non-ticketing revenues for Bengaluru park. We have seen flat non-ticketing revenues per person, what could be the reason for the same. For other parks, the growth is in single digit now, while previously we used to see double-digit kind of growth. Can you please let us know what could be the reason for the same?

George Joseph: As I mentioned to you that we are trying to push more groups in Bengaluru which means more school children, college students etc. So we do not have much of scope for increase in the non-ticket revenue, because they come with their own costumes and do not buy our costumes, they do not have big budget to spend on other facilities in the park.

Kaustubh Pawaskar:So going ahead should we expect similar kind of trend in terms of increase in the non-ticketing revenue, an average 5% to 6% kind of increase considering the fact that you have taken some price increases in F&B?

George Joseph: Yes. Firstly, we have already increased the F&B prices for fast moving items. Secondly, as I mentioned earlier, we have introduced added options like breakfast, buffet and whole day meal plan,special dinner on Second Saturdays. We are trying to push locker usage as well. Number of lockers used has doubled over the last year. Due to all these initiatives, we will continue to see the non-ticket revenue rise.

Kaustubh Pawaskar: From 2017 to 2019, we have seen significant improvement in the operating margins which have reached about 40% in 2019. Going forward, is there any scope of improvement in the operating margins?

George Joseph: The cost efficiency and the compression of the operating expenditure has bottomed out, now you cannot see the similar reduction going forward. We have to incur some expenditure, if you look at the last quarter we had an increase in operating expenses by about 8%. However, year-on-year there is a reduction of about 8% . So going forward, I do not think that we can have a very high increase in the EBITDA margin, we can maintain at the current level of about 41%.

Kaustubh Pawaskar:Okay got your point Sir. Thank you.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmello Capital. Please go ahead.

Rohith Potti: Thank you for the opportunity and congratulations on excellent set of numbers. Sir my first question is on the pricing strategy, if I remember correctly, at the beginning of the previous financial year it was mentioned that you are going to look at aggressively increasing the volumes and for the next couple of years you would not be increasing the pricing, but this year you mentioned that you have taken pricing increase across F&B and ticket, could you please elaborate the reasoning for the change in pricing strategy?

George Joseph: Actually we are not planning to take aggressive price increase, but to meet the inflation we have kept our price increase limited to 5% as a part of our strategy.

Kaustubh Pawaskar:Okay understood.

George Joseph: Earlier, we were taking aggressive price increase of about 10% to 12% every year and we found that there was a resistance to meet the price. So now we have decided to rationalize pricing, but at the same time to cover inflation we are taking a small hike of about 5%.

Kaustubh Pawaskar: If F&B pricing increases at the same level as well?

George Joseph: We have slightly increased prices on fast moving F&B items like from Rs.130 to Rs.140 and Rs.180 to Rs.190. It has not faced resistance and it is is limited to fast moving items, other item prices have not been increased.

Kaustubh Pawaskar:Understood. Second question is more on long-term strategy. I think as per the initial plan, the Chennai park was supposed to have been set up by now. But because of factors beyond our control it has been delayed. So going forward, does the management think is there any way to mitigate this happening in future? I believe you had mentioned that Gujarat and Goa are possible options. So do you think you would purchase land in two places simultaneously? Will it be possible to mitigate regulatory delay in other geographies?

George Joseph: Chennai has been a peculiar case because land acquisition itself took a few about four to five years. The moment we start construction there, we will look for the fifth location. Chennai park is expected to be completed within 15 to 18 months after construction begins. By that time, land will be ready in fifth location. I do not think that whatever happened in Chennai will happen in the next location, but we do not want to use our bank balances for buying the land either. As of now we have already invested about Rs.104 crores in the Chennai park for the land acquisition and the connected cost. We may need another Rs.260 crores more for completion of the park, for which we have Rs.130 crores on our books. The cash generation during the construction period will be around Rs.100 to Rs.120 Crores, so we may have to go for a small external borrowing for completion or supplier credit. Then we may utilise reserves for buying the land for the next location.

Kaustubh Pawaskar:Thank you for the detailed answer to all questions, it is quite helpful. The next question I have is, how do the management think of dividends versus buyback? At the current price would you allocate capital to buy back shares?

George Joseph: We do not have immediate plans for buyback because we need amount to be conserved for setting up the new park.

Jacob Kuruvilla: We have declared a dividend of 18% and accounting for DDT is around 22%. With our dividend policy, I think whenever we have a good profit, we will definitely reward the shareholders.

Kaustubh Pawaskar: And my last question is on advertising and the capex plans for the next year. If you are expecting footfall growth I expect that the peak days in some parks may be a little crowded? Also, what was the advertising and the capex expense for the three parks for the next year?

George Joseph: Capex plan for existing parks is about Rs.28 Crores. We are adding new rides in Bengaluru and Kochi, while some are in process at Hyderabad. For advertising & marketing we have a budget of about Rs.20 Crores. We are looking to change the ad mix. Earlier we were spending lot on print media, we observed that it was not getting fair result because our target group is more into digital than print media. Hence we are going to increase online penetration and advertising via hoardings & movie theatres. We are also penetrating markets directly, for example, in Kochi and Hyderabad during Onam and Christmas, our teams will go various districts to pitch Wonderla in different locations. We are also concentrating on direct marketing, for example staff of our Kochi park which hail from Munnar has traveled 150 kilometers and enroute they have stopped in various locations and distributed thousands of flyers. All of our staff members are involved in business development. Not only are they executing all the duties assigned to them, but they are also going out and bringing business to the park.

Kaustubh Pawaskar:Okay thank you once again and just one last feedback from me. When Mr. Arun Chittilappilly had taken a break from the business there was a concern from the shareholders and investor community. I just want to express my thankfulness and mention my appreciation for the way in which you have improved the momentum in his absence, as well as the continued transparency with which you have communicated everything to us. Thank you.

George Joseph: Thank you very much. We are very delighted to hear that.

Moderator: Thank you. The next question is from the line of Rahil Jasani from ICICI Securities Limited. Please go ahead.

Rahil Jasani: Sir in the last call you have mentioned that you were focusing on digital areas for marketing and tying up with the digital brands such as MakeMyTrip. Will it continue going forward for all 3 parks?

George Joseph: Yes, we are replicating everywhere, footfall growth on account of online bookings is growing. There was a growth of about 30% last year and we had online booking by over 2 lakhs visitors and the beginning of current year has been good. The peak season is seeing more of direct walk-in so the contribution of online partners is going up and we are really happy about it

Rahil Jasani: Okay and can you tell me the contribution of online portals that you have tied up with?

George Joseph: Now it is at 8% , but it is growing well.

Rahil Jasani: Sir my next question is on non-ticket revenues. In the previous years we have seen growth for merchandise sales and from F&B wherein you took over all the restaurants. Do you have plans for introduction of new avenues in this non-ticket options?

George Joseph: Non-ticket revenue are now peaking at almost 25% to 26% level. In India we cannot replicate the models abroad where non-ticket revenues are at 50% level. In Q4 2019, we have achieved ticket revenue at 70% and non-ticket revenue at 30% and for the full year, non-ticket revenue of 28.2%, ticket revenue of 71.8%. In absolute terms it will go up, but in relative terms this is 28% to 30% is probably the peak. Efforts are continuing to drive the same, but there are some hurdles. For example, we faced resentment from certain communities on insisting costumes, you cannot expect ladies from Tamil Nadu to adorn the designated costumes. They were reluctant to get into the water parks because of strict rules. Now we are flexible as far as the costumes are concerned but that has reduced the costume sales to a certain extent. We only insist that they wear nylon or synthetic material.

Rahil Jasani: Okay sure. Thank you Sir. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.

George Joseph: We really enjoyed this conference call and the insightful questions. We believe that the bad times are over and we are looking forward for the good times to come. The difficulties that our economy is going through on account of demonetisation and GST regime will continue for some more time. Many parks across the country are not doing well and are getting closed. Wonderla is able to keep its heads and shoulders above the water and post stellar results.

It shows our company's excellence in business process reengineering. We have energized our marketing team and the BDPs. Going forward, with your continued support, we will post similar numbers. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.