"Wonderla Holidays Limited 4QFY2017 Post Results Analyst Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Wonderla Holidays Limited 4QFY2017 post results analyst conference call, hosted by Ambit Capital. 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. Abhishek Ranganathan from Ambit Capital. Thank you and over to you Sir.

Abhishek Ranganathan: Thank you. Good afternoon everyone and thank you to the management of Wonderla for having this call. We have with us Mr. Arun Chittilappilly, Managing Director of the company, Mr. D.S.Sachdeva, the CEO and Mr. Nandakumar, the CFO. I will just hand it over to Mr. Chittilappilly and his team to take it over from here. Thank you very much.

Arun Chittilappilly: Hi, Thank you. Good afternoon ladies and gentlemen. Welcome to our 4QFY2017 earnings call. Firstly, I would like to talk a little bit about our repositioning strategy that we have done in terms of our branding and our marketing strategy. So, we have consciously taken decision to reposition Wonderla as a complete entertainment and hospitality brand and as you know we have been an established player in this industry for about 17 years and we felt that it was important to do that at this point in time as we have larger ambitions and we want to grow as a National player.

Speaking about our quarterly performance, we have seen flat footfalls at Kochi and 13% decline in our Bangalore park. This is primarily due to weak consumer sentiment, due to the whole challenges in the IT industry, but more than that it is also because a shift in some of the exam timings. Sometimes the holidays start in March and for example, last year it was in March, the holidays started earlier, whereas this year it shifted a little bit and that also will have an impact on our footfalls.

Hyderabad has shown a good traction and we have achieved about 6.2 lakh visitors for FY2017. If you remove 2Q where we had a very poor performance for Hyderabad, I think Hyderabad has shown, it has met or exceeded the footfall expectations. The non-ticket revenue as a percentage of our total revenue continues to be growing very fast.

Coming to the financial performance, the revenue from operations grew by about 37% to Rs 61 crore, driven by 10% growth in the average revenue per visitor and 26% growth in footfalls. EBITDA declined by 10% to Rs 9.8 crore and EBITDA margins decreased from 24.7% to 16.2% mainly due to factors like higher direct operating expenses, employee expenses and advertising and promotion expenses, pertaining to the Hyderabad park and also our rebranding strategy. Other expenses were higher primarily due to provisioning for disputed tax liabilities. 4Q PAT declined by 54% to Rs 3.4 crore, PAT margin decreased from 17% to 5.6% in FY2017. 4QFY2017 cash PAT marginally declined by 4.3% to Rs9.9 crore which highlights our focus on maintaining healthy operating cash flows. I would now like to hand over the call for Q&A. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" then "2". Participants are requested to use handsets while asking a question. We take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir my first question is on your marketing spends. Last year Hyderabad launch happened and now this rebranding, so when does rebranding get over and last year 84% growth in the other spends for the full year and 77% in 4Q. So if you could take us through marketing spends also and for FY2018, how do you see marketing spends?

Arun Chittilappilly: For FY2018, our marketing spends should probably marginally decline compared to FY2017 because in FY2018, we do not have a new park launch or anything but having said that it will not show a considerable decline because of our new rebranding but rebranding as such is going to be costing us an extra Rs2 crore maximum, which we have already kind of done, I think with 1QFY2018 that extra spend will kind of be over and we will come back to our usual, but having said that Hyderabad is still a new park and we will continue to spend a little more for Hyderabad in Andhra Pradesh and Telangana and also we have now slowly started advertising in Tamil Nadu because we have a project coming there in the next couple of years. So we will slowly start spending a little bit there but I do not see a considerable increase in A&T spends for this year compared to last year.

Abneesh Roy: Rebranding gets over in 1Q, did you say that?

Arun Chittilappilly: No, it will continue to 2Q also. Some part of the cost will also be in ad spends, which we have to do in terms of changing the logos, changing lot of collaterals, so I think that will be over by 2Q.

Abneesh Roy: Sir, you have mentioned Bangalore, one of the reasons was IT slowdown. Now, if you see one study says 2 lakh job losses every year for the next three years I think Bangalore and Hyderabad and later even Chennai will be quite large. So in that context, how do you see Bangalore and Hyderabad more so Bangalore because Hyderabad is a new park? So Bangalore how do you see FY2018 because job losses will continue for the next three years at least as per the study.

Arun Chittilappilly: So, I think see it is actually an overall sentiment that we track with us and it has a bearing on the footfalls and what we have seen is, even though last quarter is seeing a decline now, for example, April it has shown a positive but then again May might show a slight negative or flat. So, I do not know, it is hard to kind of put a number on it. I think more relevant to what happened last quarter is also the fact that some of our exam schedules have changed and that had some role to play in our footfall decline as well. So, it is not easy for me to say it is just one factor and Easter holidays, this year was in April and last year it was in March. So every time that happens, there will always be a fluctuation. So, Easter holidays itself is a huge like four, five days of continuous holidays. So whenever that moves between March and April, you will see that change.

Abneesh Roy: Sir, for your two legacy parks you have been trying to add few rides. In Bangalore you had done in think earlier itself. So, how you are measuring the efficacy of whether these rides are working or not? In Kochi, now you are trying to do that. So that is the question I have, are these rides working because in terms of numbers I do not see that. There are many reasons for it?

Arun Chittilappilly: See, the way we measure whether the new ride is popular is just by the queues and that has shown definitely that there is definitely uptake in terms of number of people using the rides. Now there are a lot of other factors which come on top of it, like you know for example, our pricing has been very fluctuating in the last couple of years and it has gone up quite a bit. So that could have also played a part as people get used to the new pricing. Pricing cumulatively if you look at our last two years, it has gone up by almost 25% to 35%, if you just look at two years. So that is a huge price hike that we have taken and that again is going to continue with GST. So it is hard to say how it will affect footfalls because pricing we are not able to keep constant.

D S Sachdeva: We also track the utilization of the rides and number of consumers who are taking the rides as a metric. So we know, like what Arun said, popularity of the rides so the queue is just one and it is also measured in terms of number of people going on the new rides.

Abneesh Roy: Resort has some rooms closed because the occupancy is up from 45% - 49% but most of the other numbers are flat, so why has occupancy gone up although revenues are largely flat because 2% is the average room rental increase also, have some rooms closed?

Arun Chittilappilly: No, it is not that, it is because we have had a higher percentage of corporate guests and they are discounted guests. So that is why for 4Q, there is no change…ARR has dropped marginally or it is flat.

Nandakumar N: So, also the focus was on increasing occupancy and so the drive was to see corporates, because corporates are a good, I will say, a sampling tool for us because they are the potential customers who can come back with families. So that was the stated strategy saying that let us get more corporates who can experience the resort along with the park. Also there were some other guests that were there, so that is the reason why the occupancy was…it was a drive to increase occupancy.

Abneesh Roy: Okay Sir, that is all from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Kaustubh Pawaskar from Sharekhan, please go ahead.

Kaustubh Pawaskar: Yes, good afternoon Sir. Thanks for giving me the opportunity. Sir, my question is again on the pricing. Sir, you just mentioned that because of the new GST rates, there would be further price increase. So should we expect it to be about 8% to 10% considering the fact that the rate is at 28% and you will be paying overall tax at about 16% to 18%, including service tax and entertainment tax?

Arun Chittilappilly: We are still working out the details. Every park is different. For example, Hyderabad we will not need to increase prices, whereas Kochi will have a huge increase and Bangalore will be somewhere in the between. So we will have to see how we will have to work that out because I think there is also an anti-profiteering clause in GST, so because of that at this point I cannot tell you what the price hike will be but definitely looks like we will have to do another price hike.

Kaustubh Pawaskar: Suppose Sir, if you take about 8% to 10% price increase which you normally take every year at the…

Arun Chittilappilly: That we have already taken for this year.

Kaustubh Pawaskar: So that you have already taken for this year.

Nandakumar N: Price hike has already been taken and because last year we did not take much of a price hike. The year before that we had taken price hikes two times, so it has been very, very lumpy price hikes that we have done. So again the scenario is going to repeat this year.

Kaustubh Pawaskar: So, you have taken 8% - 10% price hike in both the parks, Bangalore and Kochi?

Arun Chittilappilly: All the parks.

Kaustubh Pawaskar: All the parks? Even in Hyderabad?

Arun Chittilappilly: Yes Hyderabad we have gone higher - 30% increase. We have already increased this a lot because first year we had discounted pricing in Hyderabad.

Nandakumar N: This is our annular price increase which we do every season. It is like you know the hotel rates get repositioned in October. For us April is our staring month. So with the season we always have a new price.

Arun Chittilappilly: Every year, we have been doing this since the company was formed.

Kaustubh Pawaskar: So, going ahead, once the GST is implemented, I think the price increase would depend on… what would be exact calculation?

Nandakumar N: That we do not know yet, yes.

Kaustubh Pawaskar: So my question is on footfalls, the second question, you said that in Bangalore and Kochi you still feel the heat of whatever price increases you have taken in the past but since the consumer sentiments are expected to improve and I believe that the value proposition what amusement parks give in terms of nine hours of entertainment vis-à-vis a three hours of entertainment in multiplex or for that matter IPL, I think that value proposition is huge in amusement parks. So once the sentiment improves you do not think that footfalls would be better considering amusement park is one of the better…?

Arun Chittilappilly: In the long term, we are very sure that what we are doing is the right thing in terms of pricing or price hike or even the offering that we have, we are very sure that we have a good offering and very few for any other operator to beat us in terms of offering that offering to price ratio but because this GST and the service tax all this has impacted us within two years, our pricing has gone through a huge change in the last two years and it will continue to go through another cycle of change. So it is very difficult to say whether my footfalls are going to grow or not. We are parallely trying to add rides, improve the experience, bring in more digital technology so that reduce queues and enable… we will do all that but whether that actually will increase the footfalls it remains to be seen but over the long term definitely what you said is right. We do feel that there is scope for the industry to grow further. It is very small in India. Very few players are doing anything concrete in this industry. If there is a uniform tax regime and even if it is a high tax, I think, a company like Wonderla will eventually benefit from it but at this time there will be short-term challenges is what we see.

Kaustubh Pawaskar: Sir, my next question is on your other expenses side. It has gone up significantly. Sir, Could you explain what was the provisioning you did in this quarter for your tax?

Arun Chittilappilly: Nandakumar will answer that question.

Nandakumar N: See, we have disputed tax liabilities. So what we do is, today we have actually - so there is both entertainment tax and service tax across the parks. So what we have done is we have made provision for the one, so we have split our tickets into park admission fees and park maintenance fees. So we feel justified in saying that we should either pay the entertainment tax or the serviced tax. Still we feel that though the payout is not happening, we have provided in the books on a conservative basis.

Kaustubh Pawaskar: Right, so how much was the provision in this quarter? I think last quarter you did about Rs8-odd crore.

Nandakumar N: This quarter incremental is about Rs 5.9 crore compared to the last quarter.

Kaustubh Pawaskar: Compared to 3Q you mean to say?

Nandakumar N: 4Q, compared to 4QFY2016, it is about Rs 5.89 crore.

Kaustubh Pawaskar: So, that means it should be about Rs9 crore because…

Nandakumar N: About Rs 10 crore roughly, yes.

Kaustubh Pawaskar: Okay, so will this kind of provisioning continue in the coming quarters or…?

Nandakumar N: Post GST annuity rates are different, the working would be different and hence we might not be required to continue with this kind of a provision, one more quarter possibly.

Arun Chittilappilly: May be the 1QFY2018 we will have to…

Nandakumar N: Yes, 1Q maximum.

Arun Chittilappilly: Also, it will be slow because I think there are some cumulative provisions we have done also.

Nandakumar N: Only for 1Q, we will have to do, so we have sufficiently provided as of 31st March 2017 for the whole year.

Kaustubh Pawaskar: Right Sir and Sir, can you just give us what was the EBITDA loss for the Hyderabad Park this quarter is?

Nandakumar N: EBITDA we have not had a loss, in fact we were cash pocketed by about Rs8 crore. Because we had had depreciation of about Rs17 crore, there is an EBIT loss in Hyderabad that is all but as such they are cash profit.

Kaustubh Pawaskar: So, I think considering this kind of… since you are already EBITDA positive and the footfalls are expected to continuously grow in Hyderabad, so should we expect margins to gradually improve at the standalone level, since direct cost element is about 70% of your operating cost, so FY2018, should we expect margins to…

Arun Chittilappilly: Yes, actually because our kind of business, the cost is fixed in nature, so Hyderabad will have a fixed cost, right now 70% but then as the footfalls grow and as our yield which is our ticket price also grows, that number should come down.

Kaustubh Pawaskar: So, gradually from 18, we should expect margins to come back on track, I am not expecting it to go up to 40, but they are …

Nandakumar N: Hopefully this GST, again I do not know what kind of impact it is going to have on our footfalls but we will have to wait and see. If we are expecting even a flat footfall growth may be a 15% to 20% footfall growth in Hyderabad, we will still be doing much better than last year.

Kaustubh Pawaskar: Sir, one last question, if I can. Sir, on your Chennai facility, have you finalized the land and what would the capex you would be planning to do at this….?

Arun Chittilappilly: This year it will be finalised and we have already started acquiring and I think we will spend about Rs70 crore on that in this financial year, most likely in this 1Q and 2Q and in 3Q, we hope to start construction.

Kaustubh Pawaskar: So, Rs70 crore would be the capex, which you will be incurring in FY2018 and the entire it should be about close to Rs300 crore?

Nandakumar N: Yes, about Rs300 crore to Rs350 crore, we will have to do a little bit of a working on that, we will update.

Kaustubh Pawaskar: But the funding for the capex would be mix of internal accruals and debt?

Nandakumar N: It will be mix of internal accrual and debt.

Kaustubh Pawaskar: Okay fine. Thank you.

Moderator: Thank you. We take the next question from the line of Sangeet Lakkar from New Berry Capital, please go ahead.

Sangeet Lakkar: Hi sir, I see that we have a lot of vacant land in our Bangalore and Cochin Park, is there any plans to expand?

Arun Chittilappilly: I have answered this before many times. We are not going to sell the property or we are not going to do anything with it. It is just that as the park grows we will need that property, so it is like a back-up for us and for us the acquisition cost is very low, so it does not make sense for us to sell them.

Sangeet Lakkar: So the entire unused land would be used to expand the existing …?

Arun Chittilappilly: Yes.

Sangeet Lakkar: Okay Sir.

Moderator: Thank you. We take the next question from the line of Manish Poddar from Religare Capital Markets. Please go ahead.

Manish Poddar: Hi Sir, just wanted to understand that ad spends which you have mentioned will they go down in FY2018 that is on absolute basis right?

Arun Chittilappilly: Absolute basis, I do not think it will be flat, is what we hope at an absolute basis.

Manish Poddar: And this tax charge which you have mentioned in 1QFY2018, what would be the quantum of that?

Arun Chittilappilly: Tax charge I do not know. For FY2018 we do not know, we have to…

Manish Poddar: Would it be the same run rate at which it is going right now?

Nandakumar N: See, roughly in a quarter we provide about – last quarter we provided about Rs10 crore, so it will be about the Rs10-crore mark.

Arun Chittilappilly: I think if GST is coming in from July, then we do not need to provide after that, maybe a small percent we will have to do.

Nandakumar N: No, that is it.

Manish Poddar: Would this be classified in the annual report as rate tax and license fee in FY2017?

Nandakumar N: Yes, in the rate tax and license fee.

Manish Poddar: I remember this number being Rs14 crore in FY2016, how much is the summer cumulative in FY2017?

Arun Chittilappilly: We will send it to you through e-mail.

Manish Poddar: Thank you so much.

Moderator: Thank you. We take the next question is from the line of George Philip from ICICI Bank. Please go ahead.

George Philip: Sir, this is with regards to the earlier question that you had answered with regards to additional land. Would the same strategy be followed for the Chennai Park or does that…?

Arun Chittilappilly: When we buy we always buy a little extra because later on buying property becomes very expensive.

George Philip: Understood Sir. Thank you.

Moderator: Thank you. We take the next question from the line of Nikhil Upadhyay from Securities Investment. Please go ahead.

Nikhil Upadhyay: Hi good afternoon Sir and thanks for the opportunity. My question was on when do you plan to complete the Chennai Park? Earlier, I think we were looking at FY2019 but then the land and things had come up. So what would be the period when we look?

Arun Chittilappilly: I think they are delayed by about two quarters roughly I think may be first half of FY2020.

Nikhil Upadhyay: First half of FY2020 we would be starting the Park?

Arun Chittilappilly: Yes.

Nikhil Upadhyay: Secondly, Sir on our pricing strategy, I just wanted to understand now. When you said that on Bangalore and Kochi we have taken a price increase and parallelly like with GST rate coming in and we probably would need to take some other price increases and almost 70%, 75% of our cost is fixed. So, would the price increase post the GST would be to the extent of almost 10% to 15% because some of the increase we have already covered through our new price increase. So how do you work about both these things?

Arun Chittilappilly: Roughly on an overall cumulative basis, we will need to change pricing by I think 8% to 10%?

Nikhil Upadhyay: But parallelly in Hyderabad because I think entertainment tax in Hyderabad was quite high almost around 25% and the service tax of 12%?

Arun Chittilappilly: No, it is 20%.

Nikhil Upadhyay: So, the effective tax rate was almost 35%.

Nandakumar N: But then we had disputed that and we had split our tickets, so that is it. So, in our case it is a very convoluted, complicated scenario. So it is very difficult to put a finger and say this is the tax that we paid or this is the tax that we are going to pay but for us either way the way we see it, all three parks will have a slight impact in terms of GST.

Nikhil Upadhyay: Even after covering for that 30…?

Nandakumar N: Kochi will have the highest impact because Kochi we were paying the lowest taxes and the problem is even after GST we will still have to pay some of the local taxes.

Nikhil Upadhyay: And secondly on this input credit, which we would generate from the utilities or services, will they also come under the anti-profiteering or do we keep that gains in our margin?

Nandakumar N: See, today no more. So today if you see, most of the input credit we are taking today. So the incremental is only on the margin, which we actually reverse in terms of our trading goods. So, what we are saying, the net impact of 7% to 8% is after taking the input tax credit.

Nikhil Upadhyay: Okay fine thanks and Sir just one more question. In one of our earlier interactions, Sir had mentioned that we could probably be looking at two parks consequently along with Chennai. How does it…?

Arun Chittilappilly: Right now we are not doing that because we will have to wait and see how Chennai itself unfolds and once Chennai is on track in terms of construction. Chennai has not even entered planning phase right now because we are doing the land acquisition. After land acquisition there is a planning phase, which is roughly one quarter, and then there is a construction phase. Once we reach a construction phase, we will then look at a further another project.

Moderator: Thank you. We take the next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.

Nimit Shah: Good afternoon sir. I just wanted to know the price hikes, which we have already taken. For Bangalore and Kochi it was 8% to 10% you mentioned.

Nandakumar N: So**,** Bangalore we have taken a price increase already of 11% and Kochi is close to 14% and Hyderabad is 30%; high in Hyderabad optically because Hyderabad if you recollect it was a new park and we had an introductory offer for nearly a full year. So as the percentage looks high but it is still lower than Bangalore, similar to Kochi as of now.

Nimit Shah: Currently, after the high rate, what will be the average ticket rates for each of these parks?

Nandakumar N: So, it is roughly for Kochi around Rs1,000, for Bangalore it is around Rs1,100–1,200 and for Hyderabad it is Rs950–1,000, so those are the ranges.

Nimit Shah: So, Hyderabad still it is at a 20% discount to Bangalore?

Nandakumar N: Yes, the number of rides are also only 43 there. So there is – Bangalore is our biggest park with maximum number of facilities and rides. So it is just that, it is slightly lower than Bangalore.

Nimit Shah: Sure, and you mentioned you will start the construction for Chennai in 3Q?

Arun Chittilappilly: Yes, if all goes well, yes.

Nimit Shah: So, the land, have we started making some payments or it is still at the finalization stage?

Arun Chittilappilly: Yes, this quarter we will be making payments.

Nimit Shah: Okay, the location has been finalized?

Arun Chittilappilly: Yes, all that is done.

Nimit Shah: Okay where exactly or would you…?

Arun Chittilappilly: We cannot disclose it now because it is very price-sensitive for us.

Nimit Shah: In terms of acres, it would be how much, 40 acres to 50 acres?

Arun Chittilappilly: 56 acres to 58 acres, we do not know the exact, once it is fully done it will…

Nimit Shah: So, everything will be acquired at one go?

Arun Chittilappilly: Yes, it will be in three phases but for us effectively it is a very short period, so it will be one go.

Nimit Shah: Sure, and sir if I recollect Hyderabad, the construction happened within 18 months, post all the clearances and so we expect Chennai to be up and running by 1HFY2020. So this is mainly because of the gap in clearances and approvals and all that?

Arun Chittilappilly: Yes and also the planning also has to happen, right. Once we do the planning, then the approvals have to be sought, and then after we get the approvals, then we start construction. Then finally before opening we have another set of approvals to be taken, so that is a bit of a long process.

Nimit Shah: Sure, okay and Sir, the earlier participant also had asked this question regarding the tax, which you had provided, I think it would be Rs20 crore or more than that for FY2017?

Nandakumar N: More than that, FY2017 is Rs25-odd crore.

Nimit Shah: So 3Q it was Rs10 crore, right?

Arun Chittilappilly: No I think it is more than Rs25 crore for FY2017.

Nimit Shah: FY2017 Rs25 crore which is reflected in other expenses?

Nandakumar N: Yes, other expenses under rates and taxes.

Nimit Shah: Sure, thanks a lot sir.

Moderator: Thank you. We take the next question is from the line of Abhimanyu Singh Negi from Tano Capital. Please go ahead.

Abhimanyu Singh Negi: Hi sir, I wanted to ask about your in-house development of rides and all. Last I checked it was around 30% of the rides you were doing the design manufacture and installation. In the new Chennai Park do you think this percentage is going to change and if it will change, how much cost benefit do you see for yourself?

Arun Chittilappilly: Right now, we are projecting a similar kind of mix like how we did in Hyderabad, so we do not see, I do not know whether there is a benefit, but definitely benefit in the sense, for us, cost of acquisition of rides is very low. Even if we buy a ride from outside because we are able to buy refurbished rides which other players will not be able to do because of the risky nature of the proposition. We use our in-house team to actually refurbish our own machines also. So that if you are able to do and we have already managed to do in many, many cases we have done it. In fact, all the three roller coasters that we bought for our Parks are all refurbished and come at roughly a 50% discount compared to what if we were to buy them new. So that advantage we will continue to get.

Abhimanyu Singh Negi: Okay, on a slightly different note, as the smaller indoor entertainment centres come up like PVR bluO or Smash, which is in almost 9 – 10 cities, do you see the competition stiffening people not wanting to go out?

Arun Chittilappilly: No, not really, we are a very different, the kind of rides that we have, even an indoor entertainment centre will never be able to offer the kind of rides that we have. Whether it is water rides, or whether it is a big roller coaster, they simply would not fit into a mall. So we are a proper outdoor amusement park, a large format, which I do not think, if that had to be a problem, because wherever we are present, especially Hyderabad and Bangalore there are already a lot of malls, we have Smash here and we have bluO, everything is there in Bangalore and it has been like that for many years. We do not see that being a direct competition. Yes, may be in case of inclement weather and stuff like that, sometimes we might see a cannibalization, but on a long-term basis I do not see that as a threat.

Abhimanyu Singh Negi: Thank you.

Moderator: Thank you. We take the next question from the line of Raghvendra Upadhyay from Cogencis. Please go ahead.

Raghvendra Upadhyay: Sir, I just want to know what exactly would be the cost of the Chennai Park and how would you finance it?

Arun Chittilappilly: We are looking at a Rs300 crore or Rs350 crore kind of outlay for the park. Exact number we will tell you but I think will be less than Rs350 crore and the way we are looking at it, we will need some debt, of roughly about Rs130 crore to Rs150 crore maximum is the debt that we are foreseeing. The rest of it will be internal accrual.

Raghvendra Upadhyay: And Sir how are you going to raise this debt? Are you going to make any follow on issues or it is going to be…?

Arun Chittilappilly: No, we are not going to, it will be through consortium of banks or something.

Raghvendra Upadhyay: Okay and when do you think you will have to raise this debt?

Arun Chittilappilly: Towards the last year of Chennai (construction). It will be back-end loaded.

Raghvendra Upadhyay: Okay and when would you be actually raising this money?

Arun Chittilappilly: We will keep you informed. There is no timeline set …

Raghvendra Upadhyay: One more thing I want to ask you is, you have seen a sharp fall in the operating profit, and do you think in the current year you will be able to see an improvement in the operating profit?

Arun Chittilappilly: Yes, we will improve. As the new parks improve, there will be an improvement in profit.

Raghvendra Upadhyay: Okay, so what is the target on operating margins you have for the current year?

Arun Chittilappilly: We should improve it between 5% and 10%.

Raghvendra Upadhyay: In that range is it?

Arun Chittilappilly: Yes.

Raghvendra Upadhyay: Because follow up from 24% - 16% in this quarter.

Arun Chittilappilly: Yes.

Raghvendra Upadhyay: Okay, so you will go back to around plus 20 level?

Arun Chittilappilly: We cannot give you a number for the quarter because that is very misleading and in our case it is more misleading because we have all these provisions and things like that and seasonality, so on an annual basis, we should definitely be able to improve our EBITDA by 5%.

Raghvendra Upadhyay: And the last thing that I want to ask you is, this Rs10 crore that you provided for taxation that is inclusive of the other expenses of Rs14 crore that you have mentioned, right? That includes in that, is it?

Arun Chittilappilly: What is the Rs14 crore, sorry I am not sure.

Raghvendra Upadhyay: Other expenses you have mentioned that it has jumped up almost double to about Rs148 million. So that includes the provision?

Nandakumar N: See, other expenses include all the provisioning.

Raghvendra Upadhyay: For the tax…and what is this exactly? Why is this additional provisioning and how has the tax come about?

Arun Chittilappilly: We cannot give you too many details, because whole thing is in court.

Raghvendra Upadhyay: Okay. Thank you very much sir.

Moderator: Thank you. We take the next question from the line of Raunak Shah from JSC Capital. Please go ahead.

Raunak Shah: Hi. Sir, I remember a few quarters ago we were talking about…have we potentially moved the Bangalore and Kochi F&B model towards the Hyderabad model, we are doing a lot more stuff on your own, has that happened already?

Arun Chittilappilly: Yes, in a phased manner it is happening in Bangalore and Kochi. We still have outside vendors but now with the GST coming in, we have to relook at the model again to see which is the more cost-effective model. We might have to make few changes, but we will see.

Raunak Shah: Okay, sir, can you give us a sense for what the gross margins are on your F&B in Hyderabad currently versus what you are doing in the older parks?

Arun Chittilappilly: 60%

Raunak Shah: For which one?

Arun Chittilappilly: For our own restaurants.

Raunak Shah: For our own restaurants…and the outsourced?

Arun Chittilappilly: Outsourced is a revenue share of roughly 25% - 30%.

Raunak Shah: Okay got it and just on the Chennai Park, is there a plan to build a hotel or a convention center along with park as well?

Arun Chittilappilly: That will be later on, as the business grows, we will look into that.

Raunak Shah: And my last question is, just on the RFID rollout, has that happened across all the parks yet or is that…?

Nandakumar N: Yes, that has already happened in all the parks, we are still perfecting the system. It has got some glitches and we are also in the middle of our ERP rollout and so lot of IT initiatives are being planned for the year. Our goal is to make sure we try and go cashless in all our parks by FY2019.

Raunak Shah: And you see benefits of this play out in Hyderabad, which is kind of leading you to do this, in other parks also?

Nandakumar N: Yes, also it gives us more control in terms of less cash handling, no leakages and things like that also.

Raunak Shah: Got it. Thank you.

Moderator: Thank you. We take the follow up question from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Yes Sir, I have two more questions. Sir, in this quarter, your non-ticketing the revenues for Bangalore and Kochi has gone up significantly by 45% and almost 50%. So any particular reason for it?

Arun Chittilappilly: That is because we have enforced a dress code in Bangalore and Kochi starting from February. We did not have a strict dress code policy until this year and we have done that from February onwards and that is one of the reasons why there is a more sale of costumes and swim wear and things like that and that is why it is showing up and also F&B also, we have improved our F&B yield per footfall.

Kaustubh Pawaskar: So, such kind of a growth should continue at least for next few quarters because since you have implemented the same in February, so I think 1Q, 2Q, and 3Q we should see a similar kind of a growth rate?

Arun Chittilappilly: In the next two to three quarters, we should see that.

Kaustubh Pawaskar: So, the same thing has been implemented in Hyderabad or Hyderabad model you implemented in Kochi and Bangalore? It has already been there in Hyderabad and you have implemented those…?

Arun Chittilappilly: Yes, whatever is there in Hyderabad, we implemented those in Kochi and Bangalore. That is correct.

Kaustubh Pawaskar: Okay. Thanks.

Moderator: Thank you. We take the next question from the line of Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat: Hello Sir, I just have one question, can you give us a sense of repeat customers at your two older parks?

Arun Chittilappilly: The older parks will have definitely about 50% repeat visitors out of which I would say about 20% are repeating within the year the repeats are not within the year, may be once in two to three years.

Devanshu Sampat: Okay fine. Thank you.

Moderator: We take the next question from the line of Manish Poddar from Religare Capital Markets. Please go ahead.

Manish Poddar: Sir, just one more thing. Just wanted to understand that say in the last three to four years, I believe you would have added parks for sure. What sort of cost increase is there generally that you have to offset that with the pricing increase?

Arun Chittilappilly: We will have the cost increase usually about 6% - 7% per annum per park.

Manish Poddar: Okay and generally you tend to take a price increase higher than that because of tax rate…?

Arun Chittilappilly: Yes.

Manish Poddar: Would it be right that given that I believe every 24 months you will keep on adding a new park. This steady state of EBITDA margin, which this business can clog, would be in the range of 30% - 35%?

Arun Chittilappilly: Yes, 30% - 35%.

Manish Poddar: It would be in that ballpark, right?

Arun Chittilappilly: Yes.

Manish Poddar: Okay fine. That is all Sir. Thank you so much.

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

Tejas Shah: Hi Sir. Thanks for the opportunity. Sir, this provision that we provided this quarter as well and you said that it would go till first quarter. So considering that now GST has also come, would this be extended to second quarter in the wake of GST transition or would it be done in first…

Arun Chittilappilly: For GST, we are not going to have a legal issue. Their issue was with the service tax amendment that was brought in July 2015. We felt that amendment has lot of holes in it and it was very ambiguous in its construct and that is why we have challenged it. This is through legislation, so I do not think there is scope for us to challenge that.

Tejas Shah: This does not substream local body taxes is it?

D. S. Sachdeva: No it does not substream local body tax.

Tejas Shah: And that you will not be able to take credit against GST?

D. S. Sachdeva: No.

Tejas Shah: Sir what that number would be in your three different parks?

D. S. Sachdeva See local tax is only in Kerala. While the other two are state and entertainment tax.

Arun Chittilappilly: Right now even in Chennai it is state tax, it is not local.

Tejas Shah: Sir second how does GST impact our F&B and merchandize sold at our park?

Arun Chittilappilly: See in Bangalore and Hyderabad more or less it would be flat, but in Kochi since we are today paying it on composite basis, we might have an impact in Kochi.

Tejas Shah: So broadly Kochi seems to be most impacted by GST.

Arun Chittilappilly: Yes Kochi has the most impact from GST. Not only us and all the other players in Kochi will definitely have a huge impact even whether it is Multiplex or whether it is amusement parks I think everybody is going to have a huge impact from GST in Kerala.

Tejas Shah: Sir third, last quarter you said that we are hiring some top level management resources and that is why our run rate, which used to be Rs8 crore it is now looking like Rs10 crore per quarter, so are we done with the hiring part or…?

Arun Chittilappilly: Almost done. I think, but we still have positions vacant and it is a new team, so there will be some little bit of a hiring. I think it will take us another six months to stabilize that.

Tejas Shah: So was the employee cost inflation as aggressive as this year 26%?

Arun Chittilappilly: No. Now employee cost should come down as a percentage of top line. That is also because we have a new park at Hyderabad where the attrition rates have been very high because it is new. That usually happens. When you go to a new city and we start a new operation definitely our attrition levels also will be high and so that should come down.

Tejas Shah: Sir if you can share some qualitative comment on how Hyderabad Park has been this year and what are you planning for in terms of footfalls for FY2018?

Arun Chittilappilly: We hope to reach about 8 lakh visitors this year in Hyderabad. It looks achievable and we have been very well received in the market and we have a good reputation there. Our reviews and ratings, NPS scores, and everything seem to be going in the right direction. We hope to reach that 8-lakh-footfall mark this year.

Tejas Shah: Even with the 30% kind of price increase?

Arun Chittilappilly: Yes. The price increase was more because it is a new park and lot of things are still under construction. First quarter, last year, we had a very aggressive pricing. We sold the tickets for Rs.650, which is very, very low for Wonderla, so those things we have completely removed now and our pricing is more in line with other parks now. So slowly that should settle down.

Tejas Shah: Sir I just wanted to check have we restated our non-ticket revenue in the base quarter. So like for example, Bangalore non-ticket revenues used to be Rs200 as per our last presentation of fourth quarter, it has come down to Rs174 in this quarter's presentation, so just wanted to know have we done any rejig over there?

Arun Chittilappilly: Rs200 to Rs170.

Tejas Shah: So overall the numbers has not changed, so it is Rs986 Bangalore revenue per customer. It is now looking like Rs916 in the fourth quarter base quarter, but there is a significant change in our non-ticket revenue per customer, which used to be Rs200 now reading like Rs174.

Arun Chittilappilly: I am not really sure. We will let you know. Let them email us and we can answer that. We do not see it right now.

Tejas Shah: Sure and Sir last question you made a comment that this whole branding exercise is for a larger ambition that we have as a brand for Wonderla, so when you say larger ambition will it restrict to amusement park as of now or you are thinking of extending franchise for the…?

Arun Chittilappilly: No we are looking at amusement park itself because I think that is where our core competency is. Of course we can add resorts and all that as the brand grows and gets more established, we can do that, but our focus will be on amusement parks.

Tejas Shah: That is it from my side. Thanks and all the best Sir.

Moderator: Thank you. We take the next question from the line of Raunak Shah from JSC Capital. Please go ahead.

Raunak Shah: What would be your maintenance capex plans for the three parks for FY2018, as such are you planning to add any rides?

Arun Chittilappilly: We do not have maintenance capex plan as such because that is an R&M cost and it is charged to P&L. We will be adding some new rides to Kochi. We will be spending close to about Rs30 crore on a new rollercoaster. It is a refurbished one, so we will be doing that and then we have also started buying rides, some refurbished rides for Chennai. We managed to find some rides from a park, which was going bankrupt in the Middle Eastern country, so we have managed to salvage a lot of rides from there, so we will be refurbishing that and then as Chennai land acquisition will be complete, we will move some of those rides to Chennai. Some of those rides will be used in Kochi. Some of those rides will be used in Bangalore and Hyderabad, so that is the way we are planning it. So we are always on the lookout for rides, which we can refurbish and so that will continue. I think we have spent Rs20 crore. So we have already spent about Rs20 crore on that initiative, but we will be adding another may be Rs5 crore to Rs10 crore.

Raunak Shah: Okay, got it and then my second question was if I look at the footfalls for Bangalore over a slightly longer time period, so 2012 was about 1.08 million and we have ended 2017 with 1.04 million, so it has been flat for the kind for the last five to six years. Do you think that Bangalore is basically saturated and there is no kind of newer avenues to…?

Arun Chittilappilly: 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.

Nandakumar N: 2% to 5% is something.

Arun Chittilappilly: That is the only thing we can expect.

Raunak Shah: Got it and if you kind of compare the Bangalore and Hyderabad parks in terms of the demographic of the two cities the fact that Hyderabad is a little bit closer as well to the airport compared to Bangalore being further out, what is the long range kind of potential of what Hyderabad can do, two to three years once it matures?

Arun Chittilappilly: Hyderabad we will be able to mirror Bangalore numbers eventually is what we feel. Here it should be a million footfalls.

Raunak Shah: Year three to year four somewhere there.

D S Sachdeva: Yes somewhere near year three to year four.

Raunak Shah: Got it and were there are any significant control group numbers for Hyderabad in 4Q or was it just walk-in only.

Arun Chittilappilly: The numbers of groups in Hyderabad is yet to pick up. We have some groups, but I think that will take a couple of years as the brand establishes. We are still more reliant on walk-ins.

Raunak Shah: Got it. Okay. Thank you.

Moderator: Thank you. We will take the next question from the line of Abhishek Ranganathan from Ambit Capital Pvt. Ltd. Please go ahead.

Abhishek Ranganathan: Just a question on your footfalls and pricing and considering the fact that with the GST part is it quite evident in your mind that you would want to pass on the cost fully at this point in time?

Arun Chittilappilly: Why would we want to take that burden on and then hope for a footfall rise, which may not happen. So always our philosophy has been that anytime any kind of taxation hits, we will pass it on completely to the customer.

Abhishek Ranganathan: The second thing you mentioned about the capex of about close to up to Rs70 crore for Chennai in 2018, this would be largely for land and the rides, which you mentioned does it what allows it?

Arun Chittilappilly: The total capex for the company as a whole we are looking at about Rs100 crore including Chennai. Rs137 crore is the total capex, which includes the new rides, some rides for Chennai, some rides for Kochi all that put together.

Abhishek Ranganathan: Right and lastly if I check your direct expenses, which has gone up this quarter, I understand particular to some rides, I want to understand what has been experience of getting these rides on these expenses rather than buying them out directly.

Arun Chittilappilly: So I think Nandakumar you want to…?

Nandakumar N: See, the direct expenses basically have gone up because of per se Hyderabad if you compare it to the last quarter. So other than that we have had lease expenses, which we have spent close to about Rs70 lakh during the quarter. So with that I think if you see the expenses are more or less flat compared to the previous quarter.

Abhishek Ranganathan: Would you be open to pursing this model over buying the rides out or…?

Nandakumar N: Basically today if you our borrowing MCLR is at almost 8.3% and it has spread of about another 5bps, we should be getting term loans at 8.35% and I am not sure. We will have to work that out whether leases would be cheaper than that. So as you said we would take a call based on interest rates when we are buying the rides.

Abhishek Ranganathan: Right Sir. That is all from my side. Thank you so much.

Moderator: Thank you. We take the follow-up question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi Sir, just wanted to clarify. You said that the target for this year's margin would be to include by 500 to 10% basis points. Would it be on your adjusted margins, adjusted for provisions or…?

Arun Chittilappilly: It is adjusted for provisions actually.

Tejas Shah: Thanks a lot.

Arun Chittilappilly: I think we are kind of done.

Moderator: Sir, shall we close the call then.

Arun Chittilappilly: Do we have any questions? No, right?

Moderator: No Sir.

Arun Chittilappilly: Alright. Thank you everyone.

Nandakumar N: Thank you everyone for the call.

Moderator: Thank you very much. Ladies and gentleman on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.