

Wonderla Holidays Limited
Q3 FY16 Earnings Conference Call
February 11, 2016

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY16 Conference Call for Wonderla Holidays. As a reminder all participants' 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 touchtonephone. Please note this conference is recorded. I now hand the floor over to Mr. Nilesh Dalvi. Thank you and over to you, sir.

Nilesh Dalvi: Good afternoon everyone. On behalf of Dickenson Seagull IR let me welcome you all to the 3rd Quarter and first nine months FY16 Earnings Call of Wonderla Holidays Limited. With us management led by Mr. ArunChittilappilly –Managing Director; Mr. Nandakumar – Vice President, Finance. Before we start the call, I would like to remind you all that our remarks today might include forward-looking statements and actual results may differ materially from those contemplated by these forward-looking statements. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information of future events. I will now invite Mr. Arun to make his opening remarks. Thank you and over to you Sir.

ArunChittilappilly: Good afternoon everyone and welcome all of you to this 3rd Quarter result update, it's a great privilege to greet and welcome all of you. At the outset we are happy to inform you that we are on track to operationalize our third park in Hyderabad in the first quarter of FY 17, there is no change there. The construction work is on schedule and we have been recently hiring and training the manpower required for the new park as well. We are confident that our Hyderabad Park will offer a world-class entertainment and exciting experience, the higher level given more than our existing parks in Bangalore and Cochin. Our parks in Bangalore and Kochi have already been ranked as No.1 and 2 in India and No.7 and No. 9 in Asia respectively by TripAdvisor for 2015, we hope to retain those rankings. With our third park in Hyderabad nearing completion and fourth park expected in Chennai, we will continue to build our legacy of 15 years of successful operation in this industry. We shall continue to identify potential new locations across India for building new amusement park in the future.

Coming to the results: Q3 FY16 revenue grew by 7% to 50 crores. Q3 FY16 EBITDA declined by 13% to 18.2 crores. The EBITDA got impacted firstly because of higher employee expenses due to top level hires and new employees for Hyderabad park, secondly the other expense increase that we made a provision of 4.8 crores on account of service tax. The advertising

spend was kept within control during the quarter. Q3 FY 16 PAT declined by 4% to 12.26 crores. Bangalore witnessed 24% increase in average ticket revenue and 31% increase in average non-ticket revenue. CochinPark has witnessed 13% increase in average ticket revenue and 47% increase in average non-ticket revenue. Footfalls in Bangalore Park declined by 15% and Cochin by 9%, so we are pretty happy that we have been able to maintain our top line in spite of this.

Now I would like to hand over the call to Mr. Nandakumar Vice President, Finance for providing details on operational and financial performance for the quarter.

Nandakumar:

Good afternoon to all of you thank you for being in our call. Now we can have a detailed discussion about the Q3 performance. As Mr. Arun has mentioned, we are witnessing some kind of decline in Q3 in the footfall very particularly so this is almost 12% decline that is in number around 45,000 decline in Bangalore and around 30,000 decline in Cochin. This quarter it is primarily because we have seen that almost more than 50% of our decline is in the category of schools and colleges where we feel that our price hike was impacted in of some extent. Secondly there was around 30-35 days was an impact of Chennai excess rain, the climate changes affected also Bangalore. So we would like to conclude that those two are the primary reasons whereas we are still able to go average realization increase something above 20% which somehow manages with same marginal growth in the top line and almost maintaining the EBITDA margins and PAT margins. Looking at the nine months period also, we have close to around 1 lakh is the combined footfall reduction. Out of that almost 65,000 belongs to groups from school and colleges.

Going back to the expenses front; almost all the expenses were in control except for the employee benefit expenses which is already partly mentioned by our Managing Director. We have some higher level recruitments where we are planning to set up a full-fledge corporate setup while we are going to further expansion of the third and fourth parks. Another thing of course we have around close to 50 lakhs we have provided towards the bonus liability by change in the act. And of course around 4.5-4.8 crores is the provision we made towards our liability if it materializes with respect to service tax. So those are the major expenses, all the expenses are very well in control. I think this is a broad about detail financials and we can now take specific questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Our first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

My first question is on the non-ticket revenue, could you take us through the strategy of increasing this, if you see multiplexes are doing it very successfully with their foods and ad revenue. So how much is the scope in your business to scale this up from for 2 to 3 years perspective?

Nandakumar: Our average ticket revenue as a percentage is substantially increasing, something close to above 30% levels and as we are doing in two ways. One is that we are increasing the offerings and other things we are increasing something beyond the market increase the pricing also. It's a combination of both we are doing. So I think now around 22% comes from non-ticket revenue. We feel that in 2-3 years time we will be touching something about 30% contribution from non-ticket revenue.

Abneesh Roy: That will be driven by foods largely?

Nandakumar: Food and merchandise both together because offerings, food is one of the major area where we started with the traditional restaurant, now we have an area of complete food like even variety like pizza, Papa John's are operating with us. So I think equally we are concentrating both because souvenirs is still contributing the lower percentage of the non-ticket revenue but food is the major component in that.

Abneesh Roy: My next question is on the resort business, if I see any data point Q3 or nine months obviously occupancy is going down YOY in both nine months and Q3, so what's the way forward for this?

Nandakumar: Occupancy is mainly this quarter impacted both because both the festive season has partly washed off because first quarter also we have an impact in footfalls because of the negative climate conditions and Q3 also, Diwali time it was flood and eventually the temperature of Bangalore has dropped and nearby cities like Chennai not in the good mood to travel. So those two peak areas like May and November we have not shown a real growth this year. Hopefully we will be reaching at 50% to 55% occupancy at least next year, this year our target was around 50% so probably will touch close to 50, probably next year we will see something close to 55 or more. But that still not very substantial amount of our revenue because we have only 84 key available. And look at our average realization is has moved from 4300 to close to 4700 this time so we are more dependent now on the walk-in customer who is our prime retail customer to the park. So I think still our internal food sales and merchandise has to contribute, whereas we expect the 10% to 15% overall occupancy increases in the coming two years.

Abneesh Roy: That was my question on the footfall so you have been exposed to all these climatic conditions and school and all that. But if I see obviously one more big issue is the ARPU increasing by 22% now that's a very high number, obviously tax is the main reason for that. Now Bangalore when I see your ARPU has broken the very psychological level of Rs.1000. So is that what is really impacting in the minds of consumer that now it is Rs.1000 so you have to do something in terms of that pricing which has broken that level so unless you do that Bangalore footfalls specially will remain quite a big challenge.

ArunChittilappilly: I think that's not a big problem, you asked me our pricing was pretty reasonable all this while and in any business if you increase your price by 25% you should expect some drop and we were also expecting. But having said that we did better than what we thought so we had only two options either to pass on the service tax fully or to absorb it. Even if we had absorbed it we have had the similar results. We might have had a higher footfall but then finally our revenue would have been similar so that's the way we look at it. For us this is also years away, we can test this because I think in spite of increasing it by 25% if we are able to maintain less than 10% fall in footfall I think we are okay. And also the fall in footfall has happened mostly from groups and institutions which I think it's anyway ARPU wise it's not a big problem; even a 10% decrease there will reduce our ARPU only by 5%. So that's not a big problem. There is no psychological barrier because we have been selling tickets for more than Rs.1000 for the last two years. Although these are seasonal tickets, every day pricing has not broken Rs. 1000 even today so it depends on the season that you come to the park and that's when the pricing change. So I don't think there is a barrier like that and especially if you look at, we are still maintaining that our pricing is roughly 2.5X to 3X of a multiplex ticket. So if we go by that logic our pricing is pretty much at par.

Moderator: Next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just wanted to understand on the going forward basis, in this quarter specifically footfalls have come off. Now obviously you have passed on the service tax, what I understand from last quarter you have taken the impact on you. You have not passed it to the consumer, is that change, situation change?

Nandakumar: Not situation change but we have taken a price hike partly and since we are challenged the case we are providing for it. That is why it has not reflected in the bottom line even though there is an average 20% to 21% increase in the ticket rate. It is not affecting the bottom line because we have put that into other expenses, looking at the net level it as if we have paid tax.

Avi Mehta: You have passed it on to the consumer still?

ArunChittilappilly: Yeah, we have completely passed on all tax everything to consumer. We are not absorbing anything.

Avi Mehta: On the employee cost bit, can you quantify the one off impact because bonus side I missed that?

Nandakumar: Bonus is around 48 lakhs precisely, we have provided for the difference in the bonus.

Avi Mehta: How much of it will continue and how much will not?

Nandakumar: More or less equal because one year is the retrospective effect so almost 50%, 25 lakhs is going to continue.

Avi Mehta: Any sense on how footfalls are trending going forward, is should I assume the current rate is sustaining Bangalore?

Nandakumar: Generally in this quarter it will be--compared to YOY will be--at par of going marginal increase. As you see that first quarter was bad, we had a very good second quarter. So those who have missed their vacation probably will try to come to the next immediate possible vacation so that is the mindset we find with most of general crowd. But institutions once lost may not come back in the same year.

Avi Mehta: So if I look at on a QOQ basis would that be right or that will not be correct?

ArunChittilappilly: That won't be correct. You have to compare with the same quarter for the previous year.

Avi Mehta: Lastly on the CAPEX side, how much is done and how much is expected going forward?

Nandakumar: Hyderabad we almost done with other than land around 85 to 90 crores and we will be spending another 40-50 crores so altogether and Hyderabad before opening we will be spending something close to 180 to 200 crores, balance we will spend in the year to come.

Avi Mehta: So about 30 crores...

Nandakumar: Yes around 25-30 crores we will keep for after opening because May we will be following sort of one ride so that has a cost of around is 25 crores to us.

Avi Mehta: So this year we should be about 140 crores or so in the 1Q CAPEX?

Nandakumar: Right.

Moderator: Our next question is from the line of Sonal Gandhi from AnandRathi. Please go ahead.

Sonal Gandhi: As I look at ticket revenue growth for Kochi Park on a YOY basis so it's about 13%. So I just wanted to understand because we have already taking 14.5% is kind of a service tax hike so this price if I include the service tax components of basically is that our ticket prices have gone down for Kochi park, how do I read this number?

ArunChittilappilly: No that average ticket price in Kochi has come down because of mix change and the footfall.

Sonal Gandhi: But as if I look at walk-ins versus last year same quarter our walk-ins have actually grown from 36% to about 40%.

ArunChittilappilly: Walk-ins actually gone down, more or less same.

Sonal Gandhi: Have we taken some price cut over there?

Nandakumar: We have apparently not taken any cut on the tag price of it. But some of the groups and some of the even the general other eligible for some group concession if they buy ticket more than 30 or 100 from the counter so they will not be recorded as a concession. You see the corporate number is as low as 9000 there so others might have come across the counter where we have no clue that whether they come as a corporate or not which has a bearing of 15% to 20% discount apparently.

Sonal Gandhi: So it is because of higher discounting?

Nandakumar: Our discount structure is something like that who come across the counter and ask for ticket also, we pass on discount so that is some of the impact.

Sonal Gandhi: For fourth quarter should we see about 20% rise in ticket prices or how do you expect?

Nandakumar: Effectively on card rate we have 20% increase in ticket rates averaged where our mix is continuing as such that will reflect in the average ticket revenue. When the mix changes like Kochi happened because very small number nearly 1 lakh is the general footfall in Cochin so it changes but altogether we have taken a price hike of close to 20% to 22% in both the parks.

Sonal Gandhi: I was not a bit clear on how should I look at footfalls in Q4, so on year-on-year basis do we expect it to grow or remain constant?

Nandakumar: I hope that it will marginally grow but I don't expect it to grow in a very unusual manner.

ArunChittilappilly: We are expecting a flat footfall growth.

Sonal Gandhi: I was looking at the presentation so basically last quarter I saw that there were seven restaurants in both the parks and this presentation the number is five?

Nandakumar: You can see that earlier we had taken the small outlets like Papa John's alsoas restaurants. This quarter we decided to remove that, now all the whole restaurants with more than 100 seating are only classified as restaurant, others we have not taken into account.

Sonal Gandhi: Basically they come into cook for kind of a segment?

Nandakumar: Yes both will because some like fried chicken item which has 20-25 seats and Papa John's with 30-40 seats. Now we have five restaurants in both the parks with average seating capacity above 100.

Sonal Gandhi: One more thing, there are talks going around that service tax might go up from 14.5% to 16.5% or 18%, so do we still maintain our guidance that we will be able to increase the net realization or net ticket price excluding the service tax by 10%.

Nandakumar: This year or next year?

Sonal Gandhi: I'm talking about FY17.

Nandakumar: FY17 we have to see that and probably our policy is to pass it on.

Sonal Gandhi: But we maintain that we would have about 10% kind of a pricing power.

Nandakumar: Yes.

Moderator: Next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: I see that you have signed an MoU with the Karnataka Government for 150 crores additional investment, can you just elaborate this is in addition to whatever you have told so far or what is that? If I look at the overall realization in the footfall, can you just help me understand the prior ticket price increases being taken, is it uniformly across both controlled crowd as well as walk-ins or is it in only in one?

ArunChittilappilly: The MoU was signed, it includes some of the investments we have already done like for example 30 crores investment on our Roller-coaster. This is a long-term plan to add 2 or 3 big rides to Bangalore and Cochin and also we are planning to expand the resort a little bit and thus the offering also because another feedback is we get from the resort, there is nothing special about the resort as such in addition to having this amusement park. So we are trying to do something like that. But the main reason why we went through for the MoU is that we are a public place and we do come under the purview of the tourism department so even this is in a way for us more of an obligatory thing also. We have to show some investment and things like that and just to be in a good relationship with the tourism department.

Nandakumar: You can look this investment as it will happen in a four year horizon.

ArunChittilappilly: We are also trying to get some added concessions from the government based on this MoU so you could look at it like that as well. Regarding the price hike, the price hike has gone up across segments whether it is counter ticket or a full price ticket, the price has gone up by 20% to 25%.

Lakshmi Narayanan: This isn't uniform because the reason I'm saying is in Bangalore if you see the nine-month footfall in the individuals has actually dropped significantly whereas the group is actually somehow maintained. So is it right to say that the price hike is actually affected more on the individual rather than the group.

Nandakumar: Bangalore, I will say that don't look at the walk-ins, they have come down not because of the price increase alone because we had very bad weather in May as well as in November. These two are the principal reasons for this footfall reduction in walk-in in Bangalore and group of course, they can shift according to dates and it's a corporate decision whether it is partly bad climate also, they will move in but in families it is very sensitive. I would like to assign that as a reason for a footfall reduction in walk-in Bangalore, price of course is a matter. But I find the prices more for the schools rather than corporate and individuals.

Lakshmi Narayanan: If you look at the entire 90 days in the quarter how many days will be having peak period?

Nandakumar: Which 90 days, first quarter or third quarter?

Lakshmi Narayanan: Third quarter.

Nandakumar: Third quarter will have around 20 days of peak period, around 12 days for Dussehra and around 10 days for Diwali.

ArunChittilappilly: Not Diwali, the Dussehra and Christmas, so totally only 20 to 22 days are peak pricing, the rest is all normal pricing.

Lakshmi Narayanan: What about Q4?

Nandakumar: In Q4 we don't have peak pricing at all.

Lakshmi Narayanan: The other expenses and other income both have gone up and other expenses you said because of the high provision for service tax?

ArunChittilappilly: Yes.

Nandakumar: 485 lakhs is a provision we made for this quarter.

Lakshmi Narayanan: If you actually exclude that other expenses on a nine months basis, if I look at the other expenses on a nine-month basis.

Nandakumar: Nine months basis the provision is 7.5 crores.

Lakshmi Narayanan: If I adjust that then there is no major increase.

Nandakumar: Not much change.

Lakshmi Narayanan: Other income has also gone up, is it only the amounts we are getting from the cash investments.

Nandakumar: Yes that is only other income.

Lakshmi Narayanan: Because I see your nine months basis it is almost double.

Nandakumar: That is double because we have last year long investments which were maturing in first quarter of this year otherwise other income would have been stable.

Lakshmi Narayanan: Is it due to some one-off FMP investments?

ArunChittilappilly: Yes that is around 6 crores.

Lakshmi Narayanan: Broadly how much is in the FMP out of 156 crores.

Nandakumar: No, now we have done away with that, now we have only liquids and short term fixed deposits. FMP have been already booked in April this year so it's reflected in first quarter.

Moderator: Next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Regarding the roller-coaster in Bangalore, did this become operational in 3Q or will come into 4Q?

Nandakumar: It will only come in end of Q4; we are actually targeting the season.

ArunChittilappilly: Next year first quarter I think officially it will be open.

Amit Kumar: We know what happened to Chennai but could you just detail exactly what was the weather issue as far as Bangalore is concerned?

Nandakumar: First quarter there were intermittent rains during April-May.

ArunChittilappilly: I think basically what we can tell you is in Bangalore, people are more sensitive to outdoor travel in Bangalore because rains tend to drop temperatures much faster than in other cities, for example Cochin and Chennai and Hyderabad it doesn't whereas in Bangalore the weather does change quite a bit according to rain. So whenever we have a high rain periods in Bangalore we do see a drop in footfalls, this is nothing new, it has always been happening over last 10 years. This year what has happened is we had rains during April which is actually our peak month, 25 days of rain in April and then in November we had heavy rains for almost 20 days, so footfalls dropped to 3 digits which has never happened, I don't know maybe in eight years except maybe the first year I think we had those kind of numbers. Three digit footfalls have never been touched in November, we had continuously many days in which we had less than 1000 people in the park so that is definitely an aberration for us. Those are large footfalls, especially the school groups which if are not able to come in that window they will not repeat that trip.

Amit Kumar: Just a follow up on the earlier question on Kochi pricing, you mentioned that price hike taken was 20%-25% but the impact on the effective rate hike that we are seeing in Kochi is only 13%. I just wanted to understand what kind of schemes, what kind of discounting basically goes on at the ticket window?

Nandakumar: Corporate, they are eligible upto a maximum of 25% depending upon the group size.

Amit Kumar: I think it was mentioned that that in the numbers that you have reported, the percentage of walk-ins and corporates hasn't really changed?

Nandakumar: It has not changed, but there is a grouping change.

ArunChittilappilly: If it is not a grouping through a corporate booking it will not reflect in my book as a corporate but the number is more across the counter, they are eligible for discount.

Amit Kumar: On the counter who essentially decides?

Nandakumar: We have an operating manager there and they can instantly fill up a form and fix the discounting, otherwise corporate is coming to the sales channel or sales agent or we have an SPA appointed, through them they can come.

Amit Kumar: But if they are essentially filling a form then you would automatically know that those tickets belong to a group.

Nandakumar: But in our system we are capturing only those who have a pre-booking from SPA and where we are getting money in advance, in the corporate booking otherwise we are classifying it as across the counter sale.

Moderator: Next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

Chetan Thakkar: Just wanted to understand the difference in price elasticity in the two parks.

Nandakumar: Both the parks have similar pricing potential, with 1% or 2% differences, that is in probably Kochi is having around 21%, Bangalore may be having 22% or 23% of an average price hike.

Chetan Thakkar: Also if you can just share on the gross margin from the non-ticket revenues, what would be the percentage across the products that are there, so food and products in particular?

Nandakumar: You want to have the non-ticket revenue breakup?

Chetan Thakkar: No, the gross margin in those.

Nandakumar: Gross margin is something between 45% to 55%.

Chetan Thakkar: Even in products?

Nandakumar: Yes.

Moderator: Our next question is from the line of Vishal Purohit from Elara Capital. Please go ahead.

Sumant: Just would like to know that with price hike our footfalls have gone down, so for FY17 what are the key steps we are taking to improve our footfalls?

Nandakumar: Our market reveals that it is not price hike the key reason for decline in footfalls so we will be testing that and taking the call what is the price hike to be made into general crowd. But of course we are seriously looking at the footfall reduction in corporates and schools with respect to our sales agent and which are the areas which are mostly affected. We will be coming out with some solution for them and we want to retain them all for coming years also. So we have not zeroed down on any of the program. Probably by March end when we are doing the price revision we will come out with a separate scheme or something to retain those B-class and C-class cities in our folder.

Sumant: What is the mix of urban and rural, you are talking about the price range.

Nandakumar: That we have to really work out, we are just doing the homework for that. Probably by next earning call or end of the financial year we will be able to give you a very clear picture on that, what is the mix and what is the plan we have.

Moderator: Our next question is from the line of AbhijaySethia from Sethia Jain. Please go ahead.

AbhijaySethia: In the context of price hikes you have taken in Kochi and Bangalore for this year, what are you targeting as far as the initial pricing is concerned for the Hyderabad Park?

Nandakumar: It will be moreover in line with Bangalore Park.

AbhijaySethia: What will be the impact of GST on your business, considering that it settles at 17-18%?

Nandakumar: If it is something close to 18% I think we will be in an advantageous position. Currently in Bangalore we pay entertainment tax of 5% and service tax of 14.5%, in Kochi we pay 1% entertainment tax and service tax of 14.5% and in Hyderabad we will be paying 20% entertainment tax plus 14.5% service tax. So if GST rate is at 18-19%, we pay 3-4% more tax in Kochi, we are at par in Bangalore, but we will have 11-12% savings in Hyderabad.

AbhijaySethia: But Hyderabad the entertainment tax may not be 20%.

Nandakumar: We are just requesting the government; I'm talking about the current scenario.

Moderator: Our next question is from the line of Nikhil Upadhyay from Security Investment Management. Please go ahead.

Nikhil Upadhyay: If we look at some of the other parts which are listed or unlisted in Tier II or Tier III markets or even in Tier I markets, so vis-à-vis your CAPEX of doing a new park, would you be looking at acquiring some of those parks if you get the valuations right? How do you see at it and how do you see the valuations of those parks?

ArunChittilappilly: We have not really explored that because we feel our offering is different from other parks so we don't want to acquire somebody and reengineer the park to suit our need so it's not that easy to do for a large project like an amusement park. We have not really seen anything in Tier I, II or III cities which we feel that we want to acquire so we have not really looked at valuations.

Nikhil Upadhyay: Post the Chennai Park, our whole idea was like we would be looking at putting one park in every three years period. So how do you see the distribution moving ahead like would be focus on southern part of India including the Western part in order to first create the parks? How do you select the cities, would it be like putting it in state capitals?

ArunChittilappilly: You look at larger cities so I think after the four large southern cities are exhausted we will slowly look at the West and the Ahmadabad is a great place.

Nandakumar: Honestly because I will tell you after Chennai only we will be looking at another city. Now we are short listing 3-4 cities and our internal assessment and feedbacks collection is going on. So probably after Chennai when we close land and we are in a steady-state to construct and we will be probably able to give you more clarity on which is a location we are going. But of course we are not first with South; we are very comfortable moving beyond South also.

Moderator: Thank you. That was the last question. I would now like to hand the floor over to Mr. Nilesh Dalvi for closing comments. Over to you sir.

Nilesh Dalvi: Thank everyone for attending today's call. In case of any further questions, you can get back to us at nilesh.dalvi@dickensonir.com. Thanks a lot have a good day.

ArunChittilappilly: Thank you.

Moderator: Thank you very much members of the management. On behalf of Wonderla Holidays Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.