"Wonderla Holidays Limited Q3 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Wonderla Holidays Limited Q3 FY2018 earnings conference call hosted by Spark Capital Advisors India Private Limited. As a reminder all participant lines will be in 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. Madhav from Spark Capital Advisors India Private Limited. Thank you and over to you Sir!

Madhav PVR: Good afternoon. On behalf of Spark Capital I welcome you all to the Q3 FY2018 earnings call of Wonderla Holidays. We have with us the senior management of Wonderla Holidays represented by Mr. Arun Chittilappilly, Managing Director and Mr. Nandakumar, CFO. Without further ado I will handover the call to Mr. Arun Chittilappilly for his opening remarks. Over to you Sir!

Arun Chittilappilly: Thank you. Good afternoon ladies and gentlemen. It is a great pleasure to have all of you for our Q3 FY 2018 earnings. It has been a bit of a challenging business environment in the Q3 due to the full impact of GST for the parks. While we recorded a 5% growth in our gross revenues, the net revenues declined by 8% mainly because of the higher GST rate and the shifting of festive season to September this year. While Bangalore and Kochi Park witnessed 12 and 15% decline in footfalls respectively, footfalls in Hyderabad grew by 11%. Our average ticket revenue declined due to higher GST; however, our non-ticket revenue per visitor increased 26% during the quarter.

The share of non-ticket revenue improved from 24% in Q3 to 29% in Q3 FY 2018 on account of new F&B offerings and dress code enforcement at our water park. With government reducing GST applicable for amusement parks from 28 to 18 from 25th January we are now very confident of now seeing a revival in park footfall as we are able to pass on the entire benefit and consequently a reduction in the ticket prices. We launched Mission Interstellar in the India's first space flying theatre in Hyderabad in December 2017, we have invested about Rs.35 Crores to build this ride. It has been developed in collaboration with leading US and European theme park design companies but the project was entirely managed by Wonderla itself. So that is one highlight from the last quarter. We are hopeful that with our new offerings and our new ticket pricing we will see increase in footfalls in the coming quarters.

Coming to the financial performance during the year, net revenue has declined by 6.5% from Rs.68 Crores to Rs.63 Crores, EBITDA increased by 58.4% from Rs.12 Crores to Rs.19 Crores, operating overheads declined in the Q3 in a row continued to increase the operational efficiency. Park dire operating expenses declined 7.5% and other expenses including tax provisions declined 21%. Tax provision during the quarter is only limited to interest on deferred tax liability of Rs.1.4 Crores. PAT increased by 48.9% Y-o-Y from Rs.4.4 Crores to Rs.6.5 Crores. PAT margin increased from 6.4% to 10.2%, cash PAT which is PAT plus depreciation increased by 32.2% from Rs.12 Crores to Rs.16

Crores indicating continued generation of healthy operating cash flows. I would now like to handover the call for Q&A session. Thank you.

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

Abneesh Roy: Sir thanks. My first question is on your resort business in Bangalore, Sir when I see any of the other hotel businesses other companies, they have seen a good revival in occupancy but if I see your business both for nine months and for Q3 there is a big dip in terms of occupancy. So I understand seasonal factors, festival but in nine months the big dip of 12% so 58% versus 46% nine months and this quarter also almost 61% to 50% occupancy what is the reason here, are the room rentals quite high?

Arun Chittilappilly: No actually last year we focused a lot on getting corporate long stay guest which we kind of moved away from this year that is a deliberate thing because we feel that we do not want to depend on long stay guest, we want to be focused as a family entertainment resort and consequently some of the even at a low ARR we did not take some of the corporate call so that is why you are seeing a dip in the resort.

Nandakumar: Just to add what Arun said our corporate long stay has declined 35% on a YTD basis while our leisure segment growth was about 13%. We want to grow our retail, the problem with this corporate they block the entire inventory of rooms and it is at a very low rate like Rs.2500-3000. It is just too low for us so we are not really keen to do that business in that pattern so it is a bit of a shift for us as well.

Abneesh Roy: Sir in numbers if you see your number of visitors fell 12% in Bangalore, your occupancy level in resort is 50% is not globally corporate traveler, corporate incentive programs and all this sales incentives programs a big driver for amusement park or it is the way you wanted to build that retail is the big focus everywhere in globally also?

Arun Chittilappilly: Yes, retail will always be the highest focus, we had focused wrongly mostly on corporates because we felt that initially when the resort was opened, we did not get enough retail guests and that continues because getting retail guest throughout the year is a very difficult thing for us because we are a seasonal business but we have taken a certain change in terms of we want to protect some of our ARRs and things like that so that is the deliberate call that we have taken. Also I think sales channels also needs a little bit of work and so I mean we are kind of overhauling the whole thing. It can improve but then I think 60% is what we feel is a good occupancy for our resort. Otherwise only we can attract more revenues so this is to add rooms which right now we are very keen to do. And it is also very small portion of our business so for us it is not key focus area either.

Abneesh Roy: Sir my next question is on Hyderabad footfalls, it has seen decent growth 11% this quarter nine months only 5% so acceleration there this quarter and you have added Mission Interstellar but when I compare your numbers with Bangalore and Kochi which are much older parks and Hyderabad anyway less competition was there hardly any competition in this space, are you happy with the 1.87 lakhs for the quarter, Bangalore is doing 2.36 lakhs, Kochi is doing 2.63 lakhs, Hyderabad is still at 1.87 lakhs.

Arun Chittilappilly: Yes, it is a slow process we cannot grow the business overnight and I told you like actually this quarter has been very bad even for Hyderabad, it is just that because it is a new park it has done this growth otherwise it should have grown faster than this. Actually that is what we believe because our pricing and all has completely changed, my pricing has changed four times in this financial year already so it is a very turbulent year for us. I think overall Hyderabad has done better than what we thought considering all the GST and everything like that because we are still a very new brand. It is not even been two years since we opened.

Abneesh Roy: But Sir normally second or third year is one of the best years right, for most retail destination. In your case is third year normally the best?

Arun Chittilappilly: I mean it can grow, if you look at historically for all our other parks it will keep growing it does not have to be third year, it can be 10th year, it can be 20th year, it may be 25th year, any year that you want grow the business. I mean actually that is what we believe that there is no plateauing of the business it is managed properly but Hyderabad is new, it has only been 18 months so it is too early to say.

Abneesh Roy: Finally Sir GST in terms of pricing could you take us through how the pricing has moved and do you expect that this was the big thing?

Arun Chittilappilly: Can you go back on line, I think there are too many questions coming from you, can you get back online?

Abneesh Roy: Yes. Okay.

Moderator: Thank you. We have our next question from the line of Rohit Kutty from Marshmallow Capital. Please go ahead.

Rohit Kutty: Thank you for the opportunity. Sir this is just a curiosity from my side, I mean we have two older parks in Kochi and Bangalore where the footfalls have seen some pressure due to various issues so I was just wondering what was the strategy behind introducing the new ride in Hyderabad and not in maybe Bangalore or Kochi.

Arun Chittilappilly: So we wanted to introduce that ride first in Hyderabad because it is our new park and eventually we will do it in Bangalore or Kochi, it is just that in Hyderabad it is already planned as part of Hyderabad and we have done it so and it is an expensive ride to do so we thought we will try it in the new market and eventually take it to the older parks.

Nandakumar: To your point we have added new rides both in Bangalore and Kochi in Q2 and what we have added in Hyderabad is a unique one.

Rohit Kutty: Okay Sir, got it. So the second question I have is with the pressure in footfalls I mean, this is for my understanding, how does the management assess the effectiveness of advertisements, so what is the parameter that you used to understand if the advertisements are actually working or not, if the footfall numbers are not coming?

Arun Chittilappilly: See we do not look at only footfalls and advertisements because so many pricing has also changed a lot so I think definitely a pressure of pricing will be there on footfalls and this is not unexpected, it is that just we have to pass on all whatever… we decided that we are going to pass on any price hike which came by taxation to the guest because we do not want to absorb it and that is our stand and that continues to be our stand so because is that and then saying that advertisements are not useful or it is not effective I mean because we have been doing this for many years so it is not that nothing new for us, so we feel that once the whole GST regime for amusement park stabilizes, I think we can see a revival in footfalls once we get, we are still hopeful that GST rates will come down in our sector.

Rohit Kutty: Yes, see I did not want to think that way that advertisements are not useful I just wanted to understand how you assess the effectiveness but I understood what you mentioned. So, one last question from me is I noticed the wonder parks and WonderLab initiatives so I just wanted to understand from you how the experience has been so far enrollment wise and how do you see this panning out for the company over the next three to five years?

Arun Chittilappilly: Yes, so wonder park is a new initiative for us, in its first introduction, it is not very successful so we are changing it and we will be recasting it and putting a new version out I think for the next financial year, from 1st April onwards so that is still a work-in-progress, WonderLab is something that we have done for schools and colleges because there is a lot of request from schools and colleges to have educational content in addition to having only rides so that is something that we are doing again it is a pilot and I think so far it has been very successful so we hope to roll it out in a larger fashion next year.

Rohit Kutty: Okay great. Sorry may I chip in one last question?

Arun Chittilappilly: Yes please go on.

Rohit Kutty: So I think a couple of years back you had mention that the Cochin addressable market has reduced due to congestion I believe there is lot of road as well as metro work going on, so I think a good portion of it completed, do you see that particular issue been resolved in Cochin?

Arun Chittilappilly: See I think infrastructure issues are going to be there in every city in India so but I think we hopefully as time goes by things will get smoother and like you said Cochin is doing better but we still have to work in spite of that and that is what we believe in and I think eventually we should be able to get our footfall to grow again.

Rohit Kutty: Okay, thank you.

Moderator: We have our next question from the line of Tejas Shah from Spark Capital Advisors. Please go ahead.

Tejas Shah: Sir a couple of questions, Sir Footfalls have been under pressure in both the matured parks. I understand there is some seasonality had play in this quarter but if you can give us some sense on the demand environment in general?

Arun Chittilappilly: Demand environment have been pretty bad because like I said it is I mean we are in a discretionary spend category and GST has been a bit of an adverse thing for us. Well, we are hoping that now that things are slowly coming back to what it was like close to ideal situation for us in terms of tax reduction and things like that, it is not yet ideal I mean still 18% we feel it is very high but at least it is better than before and 28% was truly very high rate for us and we have to pass it on and obviously that led to a footfall decline is what we feel but I think now we want to stabilize pricing first because I think we have a very complex pricing system so even to just stabilize it and streamline it will take us sometime because every park has a different metric for pricing for different groups and things like that so once that is done I think we hope that footfalls will continue to grow. As of now we have passed on entire GST benefit to all our customers so there is a 10% drop in our pricing, so we hope that that itself should help us to revive footfalls and we are going to use that as part of our marketing campaign as well.

Tejas Shah: Sure. And Sir I believe it is very difficult to define market in your business but just to understand are we losing market share in the respective geographies obviously not like to like formats but the competing formats which you consider as competition, are we losing markets or you have any sense on any idea or whether the footfalls are benign across or is it just that our format is taking hit right now for GST and otherwise?

Arun Chittilappilly: I think it is across, everybody has been talking about it so it is not just us.

Moderator: Thank you Sir. We have our next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Sir just wanted to understand you mentioned earlier that the GST rate of 18% can further come down or at least there is hope that it will come down further. Keeping in mind it is a highly discretionary item, is it that only this 18% if it comes down it will trigger the footfalls?

Arun Chittilappilly: No, we feel for a capex heavy kind of industry like us we need to have lower indirect tax rate, our effective tax rate for our company used to be 2.5% in 2015 and now it is 18% after being 28% so it is still very high, so we are appealing to the GST council about this and looks like I mean they are still willing to listen, they are already very pro-active and they have already done something but we feel that if the case is strong enough they might reconsider it again, let us hope so.

Nitin Gosal: And Sir the only point out asking this question was to understand the trigger for the footfall to increase, is it this 18% if it comes down to 10% or 5% it will trigger the footfall or is it that the overall macroeconomic scenario will drive it?

Arun Chittilappilly: I think the price sensitivity in India is very high I mean as you all know in all sectors irrespective of sectors, so I think the only advantage we have had as a company is that our sector is not crowded so we can define pricing to an extent and we have tried to do that in the past, it is just that beyond a point definitely pricing will be an issue but i do not know what percentage that will so we will have to be soft on our pricing for the next one year and then hopefully that we will see an uptake in our footfalls and of course it needs to be backed up with marketing and promotions and things like that.

Nitin Gosal: Okay. Thank you.

Moderator: Thank you Sir. We have next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: Good afternoon. Question here Sir is on pricing and do you think that you would want actually get the prices down more than 10% and pilot it and see if that could revive the footfall further, is that a thought which you hold and allied to that is that also I would like to understand how has the net ATP moved year-on-year for us to just get a sense on how is a like to like ATP moved net?

Arun Chittilappilly: So I think our current thought is to see how we can leverage this reduced price for marketing and driving traffic to our parks. If you look at our pricing now it is lower than what it was clearly by 10%

so we want to re-leverage that, so we will definitely hold any kind of price increase, even if we do something it will be very marginal or may be for some sectors we might think about doing a price increase but I think otherwise we are now going to hold pricing because we are not really looking at increasing pricing that is the view that we have taken and then of course like you said we want to see how that then translates to footfall its effect on footfall and things like that.

Nandakumar: Your question on how the net has moved, suppose if we have to even consider the provisions which we made in the service tax environment you see from 2014-2015 the ARP have been in the average of 618 in 2014-2015, 665 in 2015-2016 and 687 in 2016-2017 but you see if you see the gross ticket increase it has been very steep say, in 2014-2015 it was 636 and then it moved to 756 and then 829 so you will see that the gap is widening between the gross and net that is purely because of the incremental tax impact which we have had.

Abhishek Ranganathan: Right, so basically Sir, just to get a like to like comparison is to say that the 655 which you reported this quarter what would be a like to like net off provision for last quarter?

Nandakumar : See quarter you cannot consider because it is a mix of , so you will see in Q3 it is more a group business where your prices are little low so whereas Q2 would have been because of the Dussehra season would have been more of walk-in and hence that is on a like to like comparison but what I am giving you is the last three years, so 2016-2017 our average has been 687 and because of the GST impact it is 665 now but however what we have done is we have considered so we have changed the prices are from 829 the grosses have moved another Rs.100 so that way if you see we have bridged a gap to some extent of the GST price increase we have had.

Abhishek Ranganathan: Sure and Sir my second question, last question here is on the comment which Arun made is that we have a complex pricing system and he said every pricing has a different pricing for different groups one is what is the system he is alluding to here and what changes are you proposing to make to and so that we are able to absorb some of the… not pass on the price actually to certain groups and pass it on in some other groups, just to help understand how does it function?

Nandakumar: So we would actually want to pass on all the GST benefit to the customer what we have had was promotional offer say for example school groups, we did promotional offers for Monday and Tuesday so those promotional offers we are withdrawing but however we will continue to pass on the entire benefit of GST.

Arun Chittilappilly: Yes, also we have realized that in some we have not done enough thing to understand that in some sectors even if you drop price by 10% it only results in a price difference and actual difference of let us say Rs.40 or Rs.50 depending on the category so just dropping in those categories does not really make sense or it is not really having any effect on footfall. Whereas in some other category when we drop prices we are seeing a huge change in footfall so we need to rationalize all these and then come up with our new pricing plan for the year and in that view that it takes longer.

Abhishek Ranganathan: Sure Sir understood, thank you very much and all the best.

Moderator: Thank you Sir. We have a next question from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Yes, thank you so much for the opportunity. Just actually continuing with one of the point participant earlier also made Sir we had a view in the previous quarter that Hyderabad we could sort of end the year with around 7 lakh footfall now we are at around 4.75 right now and Q4 I do not recall it is being a seasonally strong quarter also to speak are we set of still holding onto that expectation or what is the sort of realistic estimate of where Hyderabad footfall will sort of end up this year?

Nandakumar: See it looks like we would end Hyderabad is about 6.6-6.7 lakh footfall. So its not that Q4 is going to be weak.

Arun Chittilappilly: Yes, it will grow over the last Q4 but like we said it is not one of our strongest quarter, now we will have to see how it does in the next year and then pricing also will play a major role in figuring out how we can leverage different groups.

Amit Kumar: Pricing should help right because it seem to have passed on that 10% cut in order to…?

Arun Chittilappilly: Yes, but it is too late and now we need to in the sense I mean for us January 25th is practically end of the season for us I mean it does not really whatever we do now it is off-season so we would rather conserve energy and then try to see whether we can get the new initiatives going for the next year.

Amit Kumar: And Sir just a broader question which again the previous participant was sort of also alluding to when we look at the Bangalore and the Kochi park just in nine months they seem to be hitting close to seven lakh kind of footfall, Hyderabad it is a new product definitely something which Hyderabad population would not have sort of seen previously, it is sort of interesting new concept from their perspective and even our understanding of the Hyderabad consumer is that it is fairly discretionary spend heavy consumer largely a rural catchment also if you get in the broader Telangana State which sort of comes to Hyderabad for a lot of their shopping needs etc., a little bit surprise that even in a full year and your first sort of full year of operation this year it is not even hitting seven lakh Sir any sort of broader drop down understanding that you have either in terms of the park itself or in terms of marketing activities or in terms of research etc., that you might have conducted in the city and in the area that you know where is the gap in terms of what the consumer wants and what we are providing essentially?

Arun Chittilappilly: No I think it is like any business will have early adopters and then at some point we will see more adopters and then it becomes more mainstream to a certain category of mainstream for that city. So we have still not reached that point if you ask me because we have still a large population in Hyderabad who does not even know about the product and so getting those first trial itself is bit of a hard sell right now but I think so we do not want to over undercut our pricing either because that is also does not really board well for the brand, so we do a measured approach in terms of how we market ourselves and I think as long as footfalls are growing in double digit I do not see a problem I think it is tracking well in spite of being a challenging year.

Nandakumar: And just to add what Arun said about 85% to 90% of today's Hyderabad's walk-in is basically the city so we are actually looking at catchment in terms of programs like well wishers meet, tour operators meet etc., so all this should start giving us results in the coming quarters.

Amit Kumar: Alright, that is really helpful. Just one final sort of book-keeping question at my end, what would be the capex for the first nine months of the year and within that capex was there anything spend on the Chennai park if you can please highlight that?

Arun Chittilappilly: Capex we have spend only in land in Chennai but otherwise the other capex are basically been for the parks and we had some.., so for example in Hyderabad we had a CWIP on storing but there are few spends which happened in the current year also, I can get back if you can share your email ID I can get back with the exact capex as to what we have done in each park.

Amit Kumar: Sir I do not have an email ID I will share it with the IR team and they can pass it on. Thank you so much.

Nandakumar: You can request anything through IR team and we will get back to you.

Amit Kumar: Sure. Thank you so much Sir.

Moderator: Thank you Sir. We have a next question from the line of Rohit Potti from Marshmallow Capital. Please go ahead.

Rohit Potti: Thank you for taking my question again. I just wanted to understand the progress on Chennai I believe last time you said something about a clarification for LBT before going ahead with it, so if you would give us some updates there that would be helpful?

Arun Chittilappilly: So we are still I mean through the association we are trying to see how we can get that LBT eliminated and there are already about four or five parks in Chennai and they are already working towards this and we are working with them to see how we can get this solved and so that is still in progress I mean it is not yet over.

Rohit Potti: Okay so we are looking at FY 2021 right now for launching the Chennai park then?

Arun Chittilappilly: Yes, there could be another six months delay in the whole process because I mean that is… we do not want to start work on Chennai until we have it in writing that we need to be fairly clear on what kind of taxes we will be paying out to the government.

Rohit Potti: Okay got it. So just to clarify this that till something in Chennai is finalized?

Arun Chittilappilly: We will announce when there is some kind of development on this and then accordingly, we will start with it and also our master planning also is going on, it is not yet completed I mean we are still working on the whole thing so there could be a small delay but when we have more clarity on this we will announce.

Rohit Potti: Yes, but we would not be looking at any other land parcel?

Arun Chittilappilly: No, we are definitely going ahead with Chennai I think it is definitely doable and things are looking positive, it is just that it is just a matter of time.

Rohit Kutty: Okay, thank you. That is it from me.

Moderator: Thank you Sir. We have next question from the line of Naitik Modi from OHM Group. Please go ahead.

Naitik Modi: Thank you my questions have been answered.

Moderator: We have a next question from the line of Kaustub Pawaskar from Sharekhan. Please go ahead.

Kaustub Pawaskar: Thanks for giving me the opportunity. Sir my question is on margin expansion, this quarter we have seen substantial increase in margins despite the fact that there is decline in the footfalls and the average ticket prices have also remained flat but we have seen other expenditures and direct operating expenses coming down for three months and for the nine months, so can you just elaborate on the same and whether margin expansion will continue in the coming quarters I mean to say that the direct operating cost and other expenditures will continue to reduce in the coming quarters?

Nandakumar: I mean we are in the process of setting right base and hence you are seeing the reduction and hence you might now see the same kind of reduction in operating expenses going forward.

Kaustav Pawaskar: Okay got your point. But what specific things you have done that your operating expenses have come down anything you can just elaborate or you can just explain us?

Nandakumar: We have rationalized our manpower, we are looking at consolidation mostly in the inventory and stores, also to do with our ARP and we have changed a little bit on how we do our inventories and so lot of our inventory has been consolidated across the three parks.

Kaustav Pawaskar: Okay, got your point. Thank you.

Moderator: Thank you Sir. We have our next question from the line of Anuj Jain from Value Quest Capital. Please go ahead.

Anuj Jain: Hello Hi, thanks for the opportunity. I have one question that with new GST rates since 25th January have we actually seen any improvement in footfalls I understand that it is a very short period to look at but still if you can share few details?

Arun Chittilappilly: See we have not announced that we are, I mean we have to do with some kind of a marketing activity based on our new pricing which we have not done yet but I think we are seeing some kind of improvement in terms of but it is too early for us to say how it is going track.

Nandakumr: And more so because these are exam season you will not really see a trend immediately. There is always a bit of lag in terms of implementing our pricing and marketing and then having a result.

Anuj Jain: Sure. Thanks.

Moderator: As there are no further questions I now hand the conference over to the management for closing comments. Over to the management!

Arun Chittilappilly: Thanks to all of you for joining us for this Q3 earnings call. We remain highly optimistic about the sector and the changes that have been going on with the GST and I think it should definitely further help grow the industry and that is what we are hoping, until next time thank you and good evening.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Spark Capital Advisors that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.