"Wonderla Holidays Limited Q4 FY2020

Earnings Conference Call"

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ANALYST: MR. ADHIDEV CHATTOPADHYAY - ICICI SECURITIES LIMITED

MANAGEMENT: MR. GEORGE JOSEPH – JOINT MANAGING DIRECTOR – WONDERLA HOLIDAYS LIMITED

MR. SATHEESH SESHADRI – CHIEF FINANCIAL OFFICER - WONDERLA HOLIDAYS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2020 Earnings Conference Call of Wonderla Holidays hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Adhidev Chattopadhyay of ICICI Securities. Thank you and over to you Sir!

Adhidev C: Good afternoon everyone. On behalf of ICICI Securities, I would like to welcome everyone to the call today. From the management of Wonderla, today we have with us Mr. George Joseph, the Joint Managing Director and Mr. Satheesh Seshadri, the Chief Financial Officer. Now I would like to hand it over to the management for their opening remarks. Over to you Sir!

George Joseph: Good afternoon everyone. On behalf of the management of Wonderla Holidays Limited, we extend a warm welcome and hope all of you are safe and healthy. We are here on this conference call to discuss the Company's performance for the fourth quarter of the Financial Year 2019-2020.

We are facing an unprecedented pandemic and all of us are confined to our homes in nationwide lockdown.

Life as we have known has come to a standstill. The pandemic is a challenge for countries across the world. It is inflicting increasingly high human and industrial loss worldwide. A significant portion of the economy is in a shutdown.

To curtail the spread of the Covid 19 virus, and maintain social distancing, a nationwide lock down was announced. Hence our parks faced a direct impact on footfalls. Kochi park was closed from 11 March 2020, Bangalore Park, Resort and Hyderabad park were closed from 14 March & 15 March 2020, respectively. Consequently, we lost more than 15 operational days for the parks.

Our Bangalore Park witnessed a decline of 38% in footfall, and the parks at Kochi and Hyderabad saw footfalls reduce by 31% & 22% respectively.

Looking at our financial performance score card, the revenue for Q4 of FY2020 at Rs 42.4 crores was lower by 30% compared to Rs 60.6 crores recorded in Q4 FY19.

Our Q4 FY2020 EBITDA declined by 71.6 % YoY from Rs 17.8 crores to Rs 5crores. Our profit after tax for the quarter, inclusive of the exceptional item of tax reversal was Rs 1.5 crore, as against a PAT of Rs. 6.9 Crores reported in corresponding quarter of the previous year. Our cash PAT, that is PAT plus depreciation, at Rs 11.9 crores is lower by 29.4% compared to Rs 16.8 crores in Q4 FY19.

On a full year basis, Revenues also decreased marginally by 4% Y-o-Y, from Rs 282 crores to Rs 270.8 crores.

EBITDA for FY 20 stood at Rs. 104.1 crores, 9% reduction from Rs 114.3 crores in FY19. Profit after tax is Rs. 64.7 crores, it has increased by 17.7% from Rs 55.4 crores recorded in FY19.

Our full year Cash PAT is Rs 106.5 crores, which also increased by 12% from Rs 94.9 crores generated in FY 19.

Following the settlement of our Service Tax litigation under “Sabka Vishwas” (Legacy Dispute Resolution) Scheme, 2019; we recorded an exceptional item in the form of reversal of excess provision amounting to Rs 15.57 crores. The Company has opted to avail Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 announced by the Government of India in Sept. 2019. Accordingly, the payments made during the current quarter towards settlement of these pending litigations under the scheme and the earlier payments made under protest have been adjusted against the provision and the excess balance as per the books has been reversed as income.

I would now like to emphasise the Company’s position and strength in our balance sheet. Wonderla is strongly placed to overcome this dire situation. We generate healthy free cash flows annually and prudently manages our finances. We are a debt free Company and therefore, have no short term or long-term outstanding loan repayments obligations. In addition, we currently have liquid assets of approximately INR 123 crores in Mutual Funds and Bank balances. This is sufficient to cover all the operating expenses for more than 1 year.

We have a solid asset base in the form of freehold land across four states. In addition to 64 acres land in Chennai, across our three operational parks, we hold a land parcel of 224 acres, of which 95 acres have been developed and utilised for the parks. We have 129 acres of excess, unencumbered land bank available to expand our existing parks. While we hope the lockdown does not get prolonged, the Company is in a comfortable position and has high liquidity to deal with current situation. Even in a scenario of a prolonged lockdown, where our reserves get depleted to meet the ongoing expenses, we are in a highly comfortable position to raise debt at favourable rates as we have a strong, debt-free balance sheet and substantial unencumbered assets available to collateralise.

Amusement parks fulfils human desire to roam, play, and experience thrills, for which there is no real substitute. They will continue to provide a unique and irreplaceable form of value with memories to be cherished for a lifetime. We have already seen parks open in China and South East Asia to a good response. Major parks in the US have also indicated a potential date for reopening. The industry will adapt to survive, prosper, and continue to deliver value in the future.

With that, let's start with question and answer session. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Swetha Rane from Finquest Securities. Please go ahead.

Swetha Rane: I have a few questions. Your earnings have been stagnant for the last five years. Could you give us a reason for that?

George Joseph: Our Kochi Park is about 20 years old now and the Bengaluru Park is 15 years old and Hyderabad park has completed four years. In every industry, there is a diminishing rate of return and we are no exception. We have been seeing declining footfall as a consequence of certain events in the economy. For example from a nominal Entertainment Tax regime to an imposition of Service Tax of 15% and thereafter GST at 28%. We are addressing the diminishing interest by adding new attractions and new rides across all the parks and we are also taking a reengineering process to help our footfalls grow. If you look at the competitors and across the parks in the country, there has been a stagnation and decline in footfalls. We have shown positive growth in 2018-2019 despite the flood in Kerala.

Swetha Rane: Due to the pandemic, the economic situation is not very encouraging in the Indian economy. I would like to know what will be your future course of action, rather than expanding why do we not improve the efficiency in the current parks? You are introducing new rides because costs will increase right and if you have certain aspects on the cost as well, we would like to hear it?

George Joseph: The amusement park industry is closed from mid-March 2020. The Industry association has requested the government to permit re-opening at an early date. Look at the airline industry. We never thought that it will reopen so fast. Therefore we hope that the government will permit us to reopen the parks. We are getting ready with health and preventive protocol for our visitors. The Disney Park in Shanghai has reopened and on first day itself they could sell all the tickets online and the weekends were fully booked. There is a pent up demand in the country. People would like to come out and enjoy the open air entertainment. We strongly feel that once the government permits us to reopen, the crowd will come back. We have already planned our strategies for the reopening to provide safety and hygiene atmosphere to visitors. We will fix a cap on the number of visitors on a day to day basis. We understand in Disney Park, they have allowed only one-third of the capacity. The average capacity of our parks ranges from 8,000 to 10,000 footfall per day. Even with one-third capacity, we will be able to have a footfall of around 3,000 to 3500 in each park. We feel that the government may initially permit the dry rides with clear social distancing norms. The additional costs for sanitization and preventive protocol will be around Rs.50 per visitor. We have taken all this into account and find that we will be able to break even with a footfall of 1300 per park.

Swetha Rane: The cost will increase right?

George Joseph: Yes, cost will increase by Rs.50 per visitor.

Swetha Rane: Sir I would like to know rather than expanding why not we try to improve and bring the efficiency in the current parks itself because you just mentioned that you have the excess land of 129 acres, which you are trying to develop?

George Joseph: We are using the lockdown period profitably for brainstorming, strategizing and making a new business model for our Company. The leadership team discusses the various plans every day for about 3 to 4 hours. We have a strategy team which meets every week. The former Managing Director, Mr. Arun Chittilappilly, is heading the Strategy and Business Segment of the Company and our Non-Executive Director Mr. Laxminarayanan, is handholding us in this strategic transformation. We are making a new business model for post COVID scenario.

Swetha Rane: Thank you so much. Thank you and all the best for the future.

Moderator: Thank you. The next question is from the line of Nimish Shah from Emkay Investment Managers. Please go ahead.

Nimish Shah: Thank you for the opportunity. Once we get a go ahead for reopening the park what will be our strategy? For example, we saw in Shanghai Disney Park they had opened with a capacity limit of 30% so are we planning similar?

George Joseph: We will reactivate our online booking portal to fill up the visitors through online booking. We do not want to encourage unplanned walk-ins, so everything will be online. For the initial period of 15 days we will have a penetrative pricing. Thereafter we will charge normal price. If the Government permits only the land rides, we intend charging about 60% of normal full rate. Contact-less entry will be enabled so that with the online booking itself one can seamlessly enter the park. There will be a sanitizing tunnel, through which visitors will pass, and the temperature checking will be done at the entry point. We will have sanitizers and provide face masks wherever required. There will be fumigation in the parks and each ride will be sanitized before and after each cycle. We have already started the training process. We are in readiness for reopening but awaiting permission.

Nimish Shah: That is good to know. If we go ahead for the Chennai Park construction, then what is the ETA for completion of that park? Will it be 15 months, or it might get a bit delayed?

George Joseph: As I mentioned last time, the government has permitted exemption from the Local Body Entertainment Tax for five years from the date of commencement of operation or from October 1, 2021 whichever is earlier. As per our initial plan we are supposed to complete the Project by end September 2021 and start operation by October. In current scenario, it is extremely tough to complete the construction before October 1, 2021. We have already got the approval and NOCs from the Fire Department, Pollution Control Board and the Forest Department etc., and are awaiting the final clearance from the Department of Town and Country Planning. In the meanwhile we are taking up with the Government of Tamil Nadu for duly extending the exemption period to cover the COVID related delay.

Nimish Shah: Second half of FY2022 is a good assumption for Chennai Park opening?

George Joseph: Hopefully, but then things are changing every day and the number of COVID cases, especially in Tamil Nadu, are increasing day by day. Once the final clearance is received we will critically analyse the situation and take a suitable decision on the commencement of Chennai. I assure you that we are committed to Chennai Park and we are very keen to commence the construction and start operation as early as possible.

Nimish Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V: Sir are you looking at the Imagica opportunity? Given that the asset is under default, are we looking at the opportunity to run it in a service model? How do you see stressed asset opportunity across the board, as you are a very rare business with a wonderful balance sheet. The industry may not have that kind of good balance sheet. So, are you looking at other working assets in the industry?

George Joseph: Mr. Srinath, we are not looking at any acquisition of Imagica. We are not looking at that option at all. Our idea is to develop our own model because we have a distinct model, so we want to create our own parks. If somebody is offering a park for us to come as an operator, we will evaluate the proposition as an operator model without investment, on a revenue sharing basis.

Srinath V: Have you been able to variablise any of our cost lines and on reopening? Were you able to convert some of the cost lines based on the number of footfalls that you get?

George Joseph: Mr. Srinath, normally the monthly overheads come to around Rs 15 Crores. On account of our cost reduction and extreme cost control, we could limit it to about Rs 4.5 Crores per month, almost a 75% reduction has been achieved. Our people have agreed for 50% voluntary wage cut. We have put on hold all our marketing and communication expenditure. All our AMCs have been reviewed and we have either extended the period of AMC without any additional cost or brought down the cost by about 25% to 30%. We have ensured significant reduction under all segments of expenditure. Whatever we have achieved during the shutdown period, to a certain extent we will be able to continue that even after reopening.

Srinath V: Have you actually shut down any park for a small period of time to do some renovation, revamp or maintenance capex? Have we been able to make those necessary changes during lockdown or are we just doing base maintenance?

George Joseph: Mr. Srinath, we do not shutdown the park for maintenance. We shutdown only the rides for maintenance. The rides which require annual maintenance are shutdown maybe for 15 days to one month. This is as per routine maintenance schedule and is ongoing.

Satheesh Seshadri: To answer your question, we usually try to complete major shutdown maintenance before the first quarter. So that in the first quarter all rides are up and ready because we get good footfalls during the first quarter. So even during this year we have completed the major maintenance of some of the rides during the last quarter of FY2020. Hence all of our rides are up and ready. We are also testing, and greasing the equipment wherever necessary. So, there is no requirement of shutdown during this period.

Srinath V: Is the Bhubaneswar transaction is completed in terms of the lease?

George Joseph: Mr. Srinath, for Bhubaneswar we have not entered into any written agreement with the Government of Odisha. In fact, the Government has offered number of incentives. However, we have not incurred any significant expenditure for Bhubaneswar till date. The offer is open and we will start continuing the dialogue with them once the normalcy returns.

Satheesh Seshadri: We have made the application to the Government of Odisha. The application has been accepted by the high level committee of Odisha Government. But after the COVID issue there is no progress, we have to wait and see.

Srinath V: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vaibhav Gupta from Right Horizon Minerva Fund. Please go ahead.

Vaibhav Gupta: We are sitting on nearly Rs 120 Crores of cash, sizable undrawn lines, have a debt free balance sheet, cost structure is not particularly worrisome given our liquidity. The stock price is below even conservative estimates of liquidation value. For a company that clearly has no encumbrance to the balance sheet if required, why are we not taking advantages of these valuations and buying back stock? What is preventing us from going down this route?

Satheesh Seshadri: The priority, as George Sir mentioned during opening remarks is the completion of the Chennai project. We have earmarked certain funds to give advances to the contractors and for ride procurements. So, we would be requiring the available funds even if the situation comes back to normalcy. First priority is opening existing parks, second priority is Chennai Park and therefore we are not looking at any restructuring of capital.

Vaibhav Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Meet Gadade from Gurudev Advisor. Please go ahead.

Meet Gadade: Can I know the average capacity utilization for FY2020-2021?

Satheesh Seshadri: We have estimated capacity utilization of about 30%.

Meet Gadade: For 2020-2021?

Satheesh Seshadri: Yes.

Meet Gadade: In the previous question you have answered that if you assume the worst case scenario like lockdown getting extended, then you are incurring about Rs 2.5 Crores per month as a fixed cost, and nothing more than that?

Satheesh Seshadri: During the lockdown period, in our cost structure the variable cost is about only Rs 2 Crores to Rs 3 Crores, which goes towards F&B, utilities, etc. All other costs are fixed cost in nature, which are maintenance, salaries and off roll payments. We brought down the expenses to about 4.5 Crores. This has been achieved by savings in salaries, stopping or rationalizing the expenses on marketing, maintenance etc. So, this has helped us to come to this level when the park is completely closed. However, when the parks open again the expenses are bound to go up.

Meet Gadade: What is the new strategy that management is planning?

George Joseph: The immediate priority is reopening the existing parks with all health, safety and preventive protocol. We have always prioritized hygiene and safety and there would not be any compromise on that. Our recovery action plan takes care of all the parameters required, mask, social distancing, sanitizing etc.,

Satheesh Seshadri: We have also got an article from CNN.com which clearly says that there is no risk in opening the water park. I will read the short text. *The US Center for Disease Control and Prevention said "you do not need to worry about virus transmission from the water itself."* So, this is what the article says. If the government allows us to open water parks, we are okay with it.

Meet Gadade: Sir I was talking about new strategy of opening the park. So, is this working for new strategy?

Satheesh Seshadri: The question was, are we stagnated at 25 lakhs footfall. The answer is no because if you see in FY2018-2019, we saw a spike of 1 to 1.5 lakhs compared to the previous year. This year has been challenging, not only for amusement parks, but the discretionary spent itself has come down during this year due to the economic downturn and floods. Bengaluru and Kochi had extended rainfalls and floods. Finally the

COVID outbreak and nationwide lockdown which happened in last week of March. So, these are the things which have impacted but we want to move to the next level. We have been making about 10 to 12 lakh footfalls per year per park. So, we are approaching towards that and we are building up strong marketing strategy, which will help us to touch to the next level of 25 to 30 lakhs footfalls.

Meet Gadade: Thank you.

Moderator: Thank you. The next question is from the line of Rohit Shankar as an Individual Investor. Please go ahead.

Rohit Shankar: You were talking about giving discounted tickets on online transaction, but how do you see the maintenance cost, so after the post-COVID if you reopen, whether there will be higher amount of maintenance cost, so how do you balance these?

Satheesh Seshadri: We will see that our visitors, our guests come back to us, now it is almost zero for more than 60 days of the lockdown and there is a lull. If we have to see that the adventure seeking youth are returning to parks, we ensure that there should be an attraction for them to come back. Hence for the initial period of 15 days, we have penetrative pricing. But then the pricing will be brought back to the normal level, immediately after 15 days. Then we will charge the normal rate and also cover the additional cost on account of the sanitization, etc., estimated around Rs.50 per ticket. At the same time to control on expenditure, whatever frugality we could achieve during lockdown period will continue. So, EBITDA will continue to be positive and though slightly lower.

Rohit: Thank you Sir and all the best.

Moderator: I think we have dropped the line of Mr. Seshadri. I am just trying to reconnect him. In the meanwhile, we will proceed with the next question that is from the line of Parimal Mithani from Credential Investments. Please go ahead.

Parimal Mithani: Thanks for the opportunity. Sir what is the average fixed cost while running the park normally in normal time?

Satheesh Seshadri: Our expenses are about Rs 14.5 Crores on average per month. The F&B, retail and utilities are variable cost. All other costs are fixed costs or semi fixed in nature. For example, maintenance, there is maintenance cost even if the park is closed we need to consider landscape, civil and AMC. So, it is semi fixed in nature. Controllable cost could be marketing and some of the maintenance expenses. By rationalizing it will be around Rs 7.5 to Rs 8 Crores.

Parimal Mithani: Okay. On average it would be Rs 7 Crores to Rs 8 Crores.

Satheesh Seshadri: About 8 Crores, if you take out controllable expenditure, I have not said fixed expenses. The marketing and maintenance are the controllable expenses during the period when there is no transaction or no business.

Parimal Mithani: Second question is if you can highlight what is the capex going and what is your vision for the next two, three years? Post COVID lots of things have changed? How do you plan to go ahead?

Satheesh Seshadri: Normally our sustaining capex per year is about 22 Crores. Every year we spend Rs 6 Crores to Rs 8 Crores on adding new rides at each of the locations, at least 2 rides per location. This has been normal for us. But this year we would not have any major spend on sustaining capex in FY2021. It is too early to commit anything on FY2022.

Parimal Mithani: Sir, last question is have you insured yourself against such an events?

Satheesh Seshadri: No, we are not insured against loss of profit or black swan events.

Parimal Mithani: Thank you Sir.

Moderator: Thank you. The next question is from the line of Shabi Girish as a retail investor. Please go ahead. Since there is no response from the line, we will move to the next question that is from the line of Nath Balakrishnan from Spark Fund. Please go ahead.

Nath Balakrishnan: Gentlemen, Thank you for the opportunity. I have a couple of questions. The first one was on the additional cost that you said that you are going to incur on sanitation and disinfecting your facility. So, this cost of Rs.50 is arrived on the basis of how many number of visitors you are getting?

Nath Balakrishnan: Is it based on 1300 visitors or is it based on a higher number of visitors?

Satheesh Seshadri: It is based on number of visitors, about 2500 visitors.

Nath Balakrishnan: But if you are operating at half that utilization to begin with, 1300 visitors is what Mr. George was alluding to this is going to be pass through?

Satheesh Seshadri: We are just saying that it is a part of variable expenses.

Nath Balakrishnan: It is variable. Secondly, I just wanted to understand your broad thoughts on when in your assessment do you think you possibly will be able to go back to reclaiming the peak of 25 lakhs to 30 lakh footfalls?

Satheesh Seshadri: Everybody are talking about V, W, bath-tub shaped recovery, all type of economic rebouncing. So, I would be very conservative there. If you ask me a conservative question, I will say at least two years to come back to those levels. I think 2021 is gone, 2022 I will not recover fully. We will look at 2023.

Nath Balakrishnan: Sir, if I can just squeeze in one more question. I know we are all pretty much reconciled to the notion that this COVID is going to be around for quite a while and it is not going to be disappearing in a hurry. So, in that context, do you possibly see merit in kind of holding off and aggressively expanding into Chennai? Try and assess how the reaction is going to be from customers after you reopen your existing facilities first, or is it decided that you will plunge headlong into Chennai regardless of what the environment is going to be?

Satheesh Seshadri: I think we put this point very clearly. Our first priority is hygiene and safety which is part of our recovery action plan. Second priority is the opening of the existing parks. The third priority is the Chennai Park. So, we will go in that order. When we open three parks, we will also have a better idea.

Nath Balakrishnan: I am saying therefore that if the situation is contrarian to what your expectation?

George Joseph: It is too early to talk about it. We have still not worked on it.

Nath Balakrishnan: I know you have not opened, so my question is difficult. I am saying if it so turns out that it defies your expectation. My question is, would it be fair to assume that you might want to postpone expanding into Chennai as aggressively as you had originally planned? Is it contingent at all or you will go ahead with Chennai regardless of the reception is?

George Joseph: No, we will not go ahead regardless of what is happening. We will definitely watch the situation and we agree that COVID will take a longer time, but at the same time, the country cannot be locked down for a long time. So, once the State opens up, we will definitely reopen our existing parks and depending on the reception or footfall in the existing parks, we will take a suitable decision on Chennai. Chennai is not the priority right now. We definitely take your point. Unless we see the situation improving we can't take a decision on going ahead with the construction in Chennai.

Satheesh Seshadri: I just want to add one more thing there. The Chennai park construction will take 18 months. I am sure that in 18 months much of what we are seeing now could have a different picture. You have to keep that in mind. We are also looking at all these probabilities.

Nath Balakrishnan: So, may I place a request therefore with you gentlemen that when we have this call again at the end of the next quarter, would it be possible for you to share with us what are the benchmarks that you want your existing parks to attain, after which you will decide to go ahead with your expansion into Chennai or failing which you will kind of go slower? I am not asking for you to make the disclosure right away, but you can possibly reopen your existing parks as and when you get the permissions and depending on how they progress can you share some of your learning's and how you would decide to calibrate your expansion into Chennai? That will be helpful.

Satheesh Seshadri: Yes, we want to keep you updated. We have appointed a marketing agency also to look at the market for Chennai Park post COVID. We are going into a lot of details on that front. But this is not the right time to do because we cannot do the research online. We have to have a face to face interview with people. That will also give us a lot of inputs on how to proceed. As a management thought process, we are saying there are 18 months for construction and we have safe bet on that.

Nath Balakrishnan: I appreciate that, gentlemen. Thank you for your time.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand over the conference over to Mr. Adhidev Chattopadhyay for closing comments. Thank you and over to you Sir.

Adhidev C: On behalf of ICICI Securities I would like to thank everyone for joining us on the call today. I now would like to hand it back to the management for their closing remarks.

George Joseph: Thank you very much for the insightful questions. I do appreciate your concerns. As mentioned in the beginning we are passing through very devastating times, with full of uncertainties about the future. We do not know what is in store for us. We can only pray for the early return of the normalcy. The results consequent to reopening of businesses in China which went through the pandemic since November last year is encouraging. We hope and pray that our country will also get back to normalcy soon. I can only assure you that we in our Organization are profitably using the shutdown period to create a new business model. I wish you and your family safe and healthy life. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes today's call. Thank you all for joining us. You may now disconnect your lines.