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Mumbai

CRISIL Research assigns IPO grade '4/5' to Wonderla Holidays Ltd

CRISIL has assigned a CRISIL IPO Grade "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Wonderla Holidays Ltd (Wonderla). This grade indicates that the fundamentals of the IPO are 'above average' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grade is driven by Wonderla's established position in the Indian amusement park industry. The company has been present in the amusement park industry since 2002 and currently operates two parks – one in Kochi (Kerala) and one in Bengaluru (Karnataka). Over the years, the company has continuously added new attractions, kept the entry charges affordable and maintained safety and hygiene standards. This has enabled it to increase footfalls including repeat visitors as well as attract organised visits from schools, colleges and corporates; footfalls have grown at 10.4% CAGR over FY09-13. The company has set up an in-house ride manufacturing facility which enables it to reduce capex and maintenance cost. Wonderla is further strengthening its position in South India by setting up amusement parks in Hyderabad (Andhra Pradesh) and Chennai (Tamil Nadu).

The grade is supported by the company's healthy operating margins, strong cash flow from operations and average RoCE of 40.1% over the past three years. It also takes into account Wonderla's highly experienced top management and strong second line of management. CRISIL Research believes that given the lack of avenues of entertainment in India, large youth population (who are the main visitors to amusement parks) and increasing spend on leisure and entertainment supported by rising income levels, the prospects of the domestic amusement park industry are bright.

The grade is moderated by risks such as a likely decline in the company's returns due to increase in scale of operations and competition. Considering the larger investments required in new parks compared to older parks and low returns generated by new parks in the initial years of operations, new parks are likely to pull down the company's overall returns. Also, increasing competition, especially a new entrant at its existing or proposed location, may impact footfalls in Wonderla's parks. Further, the company's inability to maintain safety and hygiene standards, decline in discretionary spends and change in seasonal patterns may adversely impact the business.

About the company and the issue

Wonderla, founded in 2002, is one of the largest amusement park operators in India. It currently operates two amusement parks situated in Kochi and Bengaluru under the brand name Wonderla and a resort in Bengaluru under the name Wonderla Resorts. It is promoted by Mr Kochouseph Chittilappilly (promoter of V-Guard Industries) and Mr Arun Kochouseph Chittilappilly. Promoters and the promoter group hold 95.48% stake in the company while the remaining 4.52% stake is held by employees of the company and group companies. In FY13, the company reported turnover of ₹1,385 mn and net profit of ₹337 mn. Wonderla's RoE for the year was 31.7%.

Wonderla has outlined a capex of ~₹2.5 bn for the Hyderabad park which will be mainly funded through issue of 14.5 mn new shares.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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About CRISIL Research

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