

Annexure – V

Management Discussion and Analysis

Economic Overview

According to a report released by World Bank in March 2018, the Indian economy is set to return to its trend growth rate of 7.5% in the coming years as it bottoms out from the impact of the Goods and Services Tax (GST) and demonetisation. India’s Gross Domestic Product (GDP) growth saw a temporary dip in the last two quarters of 2016-17 and the first quarter of 2017-18. This was caused by demonetisation and disruptions surrounding the initial implementation of GST. Economic activity has begun to stabilise since August 2017. India grew by an estimated 6.7% in 2017, as per the World Bank’s estimates, and is forecast to grow by 7.3% in 2018, and 7.5% in both 2019 and 2020.

The Indian recovery will lift South Asia as a region, making it the world’s fastest growing zone again, possibly even widening its lead over East Asia and the Pacific, stated the World Bank’s bi-annual South Asia Economic Focus report (April 2018). It will drive growth in South Asia to increase to 6.9% in 2018 and 7.1% in 2019.

With the impact of demonetisation fading and with the implementation of GST gradually smoothening out, consumption is picking up, leading to a significant resurgence across sectors.

Lately, India’s growth has been supported by prudent macroeconomic policy: a new inflation targeting framework, energy subsidy reforms, fiscal consolidation, higher quality of public expenditure and a stable balance of payment situation. In addition, recent policy reforms have helped India improve the business environment, ease inflows of foreign direct investment (FDI) and improve credit behaviour.

BCG’s report on India’s changing consumer scenario lays out some optimistic factors:

- Workforce Expansion:** India’s labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation, and higher education enrolment, among other factors, according to a study by ASSOCHAM and Thought Arbitrage Research Institute.
- GDP Growth:** India’s GDP is expected to reach US\$ 6 trillion by FY2027 and achieve upper-middle income status on the back of digitisation, globalisation, favourable demographics, and reforms.
- Continuing Urbanisation:** The country’s continuing pattern of urbanisation is uniquely Indian. The migration to urban centres is not concentrated in a few cities. In India, the population is booming in scores of small cities across the country. About 40% of India’s population will be living in urban areas by 2025, and these city dwellers will account for more than 60% of consumption. Much of this growth will take place in small towns.
- Rising Incomes:** In terms of consumption expenditures, emerging cities (those with populations of less than 1 million) will be the fastest growing. Fuelled by rising affluence, expenditures in these cities are rising by nearly 14% a year, while consumer spending in India’s biggest cities is increasing at about 12% a year.

Industry Overview

The recreation industry is one of the most promising sectors in India. Amusement parks account for nearly 40% of the total leisure industry turnover. The Indian amusement park segment is still valued at US\$ 400 million, compared to the US\$ 25 billion global amusement park segment, which translates into immense growth opportunities.

Leisure travel spending reached Rs 12,079 billion (US\$ 179.7 billion) in 2016 and is expected to reach Rs 12,910 billion (US\$ 196.41) billion in 2017 and US\$ 386.3 billion by 2027.

According to the Indian Association of Amusement Parks and Industries, “The Indian amusement and theme park industry has been growing at a compounded annual growth rate of more than 17.5% with an annual revenue of around Rs 17 billion. This is estimated to grow to at least Rs 40 billion (Rs 4,000 crore) by 2020.”

Amusement parks increasingly promote social wellness and beget fun and learning for children and their families. Keeping this in mind, and heeding to requests from multiple bodies, the GST council had reduced the GST burden on admission charges to amusement parks from 28% to 18%.

Global Theme Park Industry

The theme park industry has been a mainstay for around 60 years of modern history. The global theme park industry is estimated at ~ US\$ 32 billion. Parks in the US and Europe are near maturity levels, whereas Asia has seen rapid growth in visitors in the last 7 years.

After a fairly flat 2016, the industry resumed its historic pace of growth. As per TEACOM 2017 The Global Attractions Attendance Report, Asia’s attendance expanded by 5.5% driven by Mainland China with Shanghai Disneyland’s first full year responsible for much of the gain. North America had steady results of 2.3% exceeding 150 million visits for the first time.

Established players are facing tough challenges in maintaining market penetration and managing attrition. In 2017, weather issues due to hurricanes severely affected attendance and increased cancellations in the US.

Consequently, to overcome the challenges and stay ahead of the curve, the world’s largest theme park operators are on a spending spree, vying for visitors and locked in a fierce competition.



Expansion fuelled by intellectual property is a recent development observed across international theme parks. From Sesame Street to Star Wars, Harry Potter, Minions, Avatar, DC & Marvel comic

characters, among others, theme park additions are increasingly exploiting the connect of these brands with the audience to generate footfalls.

To summarise, in expanding market areas such as the Asia Pacific and Latin America, due to lower park to population ratio, there is ample scope for growth. Rising income levels and increasing expenditure on leisure activities in the region will be the key drivers for growth.

Indian Theme Park Industry

Theme Parks are a major attraction for children and families, as they provide a day full of entertainment. A variety of options, in the form of different rides, add a sense of thrill and adventure to the experience.

The concept of outdoor leisure activities is steadily moving up an average Indian's 'wish list' and is no longer considered a luxury. A key differentiator is that compared to an economy skewed towards exports such as China, the Indian GDP is already 64% private consumption driven. With a pool of 1.1 billion consumers, there is a strong foundation for sustainable growth of the park industry.

A theme park is a pro-active form of leisure, unlike visits to the mall and cinemas. For the growing number of nuclear families in India, where both parents are working, amusement parks are an avenue to spend quality time together, thus deepening bonds and fostering affection. Over and above the family aspect, the parks play an active role to help the community to come together and live a better life.

Furthermore, the presence of a theme park is a major attraction driving tourism. About 30-35% visitors of a theme park are tourists who are visiting the state/city in which a theme park is located. Children and youth visit the park either in school groups or with families and constitute 50% of park visitors; while adults constitute the remaining half as they either visit with their families or in corporate groups. The parks are indeed a desirable and convenient leisure spots offering a unique blend of tourism, adventure and togetherness, all under one roof.

On the flip-side, the Indian park industry still has long way to go before it reaches the global level. It is estimated that the total capital investment made in the amusement and theme park industry in India, till date, is over Rs 40,000 crore (excluding investment on land), and will attract further Rs 15,000-20,000 crore in investments over the next 4-5 years.

For the amusement sector to achieve the ambitious goal of growing to at least Rs 40 billion (Rs 4,000 crore) by 2020, there are still a few obstacles to overcome.

Some of the key challenges faced by the sector are: having a high level of domestic traffic versus a disproportionately low footfall; not appealing to foreign tourists enough; a limited product range, the lack of innovation and incentive to upgrade in parks; and the lack of new age marketing and positioning tools to expand the visitor base.

Growth Drivers

Compared to global peers, the penetration of theme parks per head in India is still very low. Currently, for a population of 1.15 billion in the country, there are only around 150 amusement parks. Hence, there is a broad runway for this sector to grow and prosper. The Indian market offers unique proposition in the form of:

- Desirable demographics in the form of the youngest workforce in the world, with an increasing per capita income.
- A cultural shift, and an increasing emphasis on the urge to lead a holistic life with a balance of work and leisure.

- Decreasing dependability ratio and shrinking family size.
- An investment-linked deduction under Section 35 AD of the Income Tax Act is in place for establishing new hotels in the 2-star category and above across India, thus permitting a 100% deduction in respect of the whole or any expenditure of a capital nature.
- Growth in low-cost airlines is expected to lower tourism costs and increase domestic spending on tourism. Low-cost flights under the Ude Desh ka Aam Naagrik (UDAN) scheme are expected to connect under-served regions in the country and promote domestic tourism.
- Government initiatives on building transport corridors such as expressways and Metro lines are bringing an increasing number of people closer to the entertainment hubs. While daily journeys — like the ones to college or workplace have been simplified, because of enhanced connectivity to popular entertainment destinations, the occasional weekend outing has also been incentivised.

Positioning of Wonderla

A plethora of options at all the three Wonderla Parks across India enable visitors to break the cycle of repetition and enjoy to the fullest. In an ever-changing and a vast ecosystem of amusement parks, success depends on multiple factors. Our team at Wonderla has ensured that we are well positioned to make the most of each opportunity available.

- Wide range of options and attractions: The 3 parks of Wonderla have a variety of rides available for the patrons to enjoy. New thrill rides have been added in the last 2 financial years in Bangalore and Kochi. This gives people of all ages ample scope to enjoy and make their trip to the park memorable. All the three parks have land as well as water rides under the same ticket.
- Refreshment / F&B: All our parks have a range of multi-cuisine restaurants, which provide the much-needed refreshment to our visitors. -- This enables us to generate a fair share of non-ticket revenue, and also adds to our visitors' wholesome experience.
- Theme and Continuity: The whole experience of a visiting a Wonderla Park, including all the activities and designs, is themed. Visitors go through an immersive experience of gravity defying, courage testing, and mind enthralling rides across all the rides in the park.

To enable our visitors to extend their joyful experience beyond the park rides, we have a Three Star leisure resort attached to the amusement park in Bangalore. The resort has 84 luxury rooms and facilities for hosting wedding receptions, parties, corporate events and meetings.

- Innovation: A continuing process of innovation helps to keep up with the changing patterns of customer preferences, while also maintaining customer loyalty. It drives the excitement to re-visit a park and experience any new additions.

In 2017, we invested Rs 34.06 crore and launched Mission Interstellar - India's first space flying experience ride, developed in collaboration with leading US and European theme park design companies. It also boasts a 3,500 sq. ft. parabolic screen, with a 4K resolution laser projector, which makes it the largest screen in India.

- **Engineering Capabilities:** We are proud of our in-house rides design team and manufacturing capability. A third of our rides are built internally, resulting in significant savings in the overall cost. Our robust team of global trained engineers, with a cumulative 80-90 years of experience, roll out new rides at regular intervals, thereby maintaining a fresh ecosystem and ensuring that park attractions are never outdated.
- **Capacity and Queue Management:** The management of capacity during peak and off-peak times, as well as seasonal variations in demand, are major factors for success and optimal customer satisfaction. We have a "FASTRACK" facility at our parks which enables our customers to buy/upgrade to a quicker track/ line to rides.
- **Branding:** Corporate branding enables theme parks to create a favourable image. Increasing security, trust and recognition allows a park to attract customers more efficiently. It strategically places a park in sync with the local tourism industry. Having three famous parks in South India has worked to our advantage. Our visitors are known to visit our parks in other cities while on vacation, or recommend other parks to their peers in the cities they haven't visited, based on the experience they have had and the trust we have built. A testimony to our strong brand, developed over a long period of time, is reflected through the high-quality visitor experience. This is provided by focusing on a good variety of family rides, hygiene, maintenance, F&B variety, reasonable pricing, and the high ratings by leading travel platforms in the world.
- **Location:** All our parks are located near cities, just a comfortable drive of 20-25 km away. Setting up or expanding an amusement park primarily requires large land parcels and an intensive capital outlay. We have strategically acquired our existing land bank with the long-term foresight to prevent getting mired by the issues of land scarcity and rising real estate premiums. All of our parks still have a substantial land bank upon which we can expand and grow further.
- Income from operations increased to Rs 27,049.34 lakhs as against Rs 26,282.23 lakhs in the previous year, up by 3%
- Profit Before Tax increased to Rs 5,924.16 lakhs as against Rs 4,853.30 lakhs in the previous year, up by 22%.
- Profit After Tax increased to Rs 3,850.39 lakhs as against Rs 3,391.11 lakhs in the previous year, up by 13%

Despite Headwinds of GST rates at a very high 28% during major part of the Year, our revenue marginally grew (1.2%). A pragmatic approach over cost control and increased focus on customer satisfaction has increased profitability. As a result, our EBIDTA margins witnessed a growth of 23% from 791 million over the previous year to 969 million this fiscal. A noteworthy achievement we are proud to share is that our Bangalore park has been awarded India's No. 1 and Asia's 6th best Amusement park.

Future Outlook

- **Scalability:** In addition to the recently acquired land in Chennai, our team is always on the lookout for identifying potential opportunities for new parks in other key geographies.
- **Focus on improving footfalls:** We continuously evaluate customer preferences to innovate attractions based on popular concepts and meet their expectations. The key is to keep customers excited and to build up anticipation for new upcoming attractions.
- **Expand revenue streams:** We bolster revenues from entry tickets by offering value-added services like FASTRACK e-wallet, in-house restaurants, merchandise sale, and photography and video shoots of customer experiences.
- **Marketing & Social media:** We will continue to promote our parks & attractions through marketing initiatives: ad campaigns using various media outlets as well as tour operators. Social media, in particular, helps reach both existing & potential customers directly, and creates a buzz around our parks.

Financial Overview

Our reported Income from operations, Profit Before Tax and Net Profit have been: