



# “Mahindra Holidays & Resorts India Limited Q3 FY-20 Earnings Conference Call”

**February 03, 2020**



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**Moderator:** Ladies and gentlemen good day and welcome Mahindra Holidays & Resorts India Limited Q3 FY20 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh – MD & CEO of Mahindra Holidays & Resorts India Limited. Thank you and over to you Sir!

**Kavinder Singh:** Good morning everyone and a very warm welcome to our Quarter 3, FY20 earnings conference call. Today, I am joined by Mrs. Akhila Balachandar – Chief Financial Officer, Mr. Dhanraj Mulki – our Company Secretary. We have uploaded our Quarter 3 results presentation on the exchanges on 1<sup>st</sup> February and I hope you had a chance to go through the same.

Before I begin I would like to share my perspectives, on the way we look at the budget. As you know the budget was announced on 1<sup>st</sup> February. As a domestic tourism company, we are quite happy with the way government is looking at tourism now. The focus is on creating infrastructure, the connectivity infrastructure, whether it is airports, whether it is Tejas Express trains and or the road infrastructure. This augurs well for the tourism, especially domestic tourism in the coming times. On the income side the fact that there has been change in the personal tax rates, we anticipate consumption boost for domestic tourism

On an overall level the focus is on creating iconic destinations, refurbishing the existing museums and promote new museums, these are the things that will lead to improvement in tourist inflow - We believe over the next 10 years the maximum job creation in India will be aided by tourism sector The budget has set the tone for driving the domestic tourism. At a very overall macroeconomic environment, we feel the consumption would show some signs of stabilization as we go ahead. We believe that most of the indicators are now going to show an upward trend whether it is in the passenger vehicle sales, whether it is the consumer durables, output and as well as the personal credits from banks. We believe that there is a northward movement that has just about begun, and we are also very optimistic about our Quarter 4 in line with these trends.

So let me move on to the operational performance for Quarter 3; in this quarter the significant highlight for us has been our resort performance. We have grown our resort revenues by 13.8% as compared to the Q3 in the same period last year. Our occupancies are at 83.9% versus 81.9% last year. We have engaged with our members on unique F&B offerings through sharp analytics



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back by innovative resort engagement activities like hosting theme dinners, theme activities, daycations etc. We believe that our focus on analytics, member engagement and creating unique offerings for our members will ensure that our resort revenues continue to grow at the levels that we have seen in Q3. But having said that Q3 is seasonally a good quarter and it turned out to be a great quarter for us. If I look at the member additions, we have added 3,805 members. In the given macroeconomic scenario we believe this is a significant number. We have a stable membership addition. Our cumulative member base has now gone up to 2,54,988. Our focus on acquiring members with higher down payments, lower EMI continues. We are also seeing significant momentum in the upgrades amongst existing members.

Moving to the income for the quarter; now it stands at 267.16 crores as compared 246.87 crores in the Quarter 3 which is the growth of about 8.2% on YOY basis. We have seen an uptick in all revenue streams whether it is the VO income, e annual fee income or resort income, the only area we have seen the reduction in the income is in the interest area which we believe is due to the higher down payment and the lower EMI, which is line with our business objectives Our profit before tax therefore is now at a very healthy 38.66 crores as compared to 33.16 crores in Quarter 3 which is a growth of about 16.6% on YOY basis. We have to also remember that in our business we only account for 4% of the income upfront and 96% of the income is deferred and therefore please do remember that the increase in profits is largely in due to the resort incomes and also the accrual of incomes that we get from the deferred income pool. We have been able to improve our PBT margins by 104 basis points in current quarter due to resort operational efficiencies, better cost management and optimal utilization of resources. Our cash position as on 31<sup>st</sup> of December '19 is Rs. 694 crores which has grown by 173 crores if you were to look at the same time last year. Our continued focus on receivables management, quality member acquisitions and of course the control on the overall cost has resulted in a very healthy cash position. I would like to also share that we have added 150 crores sales value. However we have to add this 150 crores sales value generated into the deferred revenue pool and we have taken out 85 crores out of the deferred revenue and hence the net addition to the deferred revenue is 65 crores. So this is something that does not get reflected in our profits and hence for your information.

This quarter we have added two more resorts internationally, one in Phuket, one in Pattaya and then three domestic resorts in diverse locations: one in Khajurao, second in Bandhavgarh and the third in Rishikesh. Taking our total resort count to 65 & room inventory to 3652. The domestic resorts are now 57. If I were to consider international resorts portfolio counting the Holiday Club resorts plus resorts in Orlando, Vegas, Sri Lanka, Singapore, Dubai, Bangkok, Phuket, Pattaya, the total reaches to 51. Today we have a total of 108 resorts, 57 domestic and 51 international resorts. We have launched many unique resort experiences also like Village theme at our Goa resort; Ocean theme at Puducherry resort and this is something that is helping us to engage with members it's also helping us drive referrals which is helps us in to member



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acquisitions growth This quarter we launched a very innovative campaign called 'Meet the Real Santa' where we encouraged children to write their wishes on a letter. They had to mention the three good things that they did last year and their wish to Santa.. we t worked with Ruskin Bond to share a very lovely Christmas message to our members children as well as to prospects children. Our continuous endeavor to enhance member delight is now playing out through our member privileged program Club M Select. This year we have added two new offerings. We have golf access and Yoga studio, a wellness offering apart from cruises, gourmet dining, domestic and international excursions and stay options at 4 lakhs plus hotels etc. We now have our own inventory exchange program, encompassing 95 destinations and 178 partner hotels, both domestic and international where members can exchange their room nights for a small exchange fee. This is in addition to the 108 resorts that I talked about. This is in line with our continuous improvement to enhance our member value proposition.

Moving to Holiday Club Resorts results, they have s earned a revenue of € 41.03 million in Quarter 3 FY'20. The average occupancy in the Finland spa hotels increased by 3 basis points to 68%. Finnish spa hotels, RevPar was 13% higher at €58 over last year, our rental income has grown by 14.6% and our EBITDA at €1.16 million which is a growth of about 28.9% over Q3 last year. This is largely due to increase in margins, both in the timeshare business as well as in the spa hotel business. This quarter across our timeshare income and villa income is slightly lower than the last year same period because we were expecting improvement in Timeshare sales. The company at the YTD level has earned a revenue of €118.46 million which is a growth of 3.54%. The turnover of Finland has increased by 8% to €100 million which is backed by higher occupancy and growth in spa hotels, revenue by 9%, Finland spa hotels have recorded our occupancy of 72%, an increase of 8 basis points compared to last year and the villa turnover has also increased by 7.2% at €18.81 million. Our EBITDA stands at a very healthy €4.35 million which is an increase of €3.49 million compared to last year. I wish to highlight at this point in time our new CEO who joined us on 1<sup>st</sup> July, Ms. Maisa Romanainen, has been able to get her team together to deliver these results that we are seeing at a YTD level.

Moving to the consolidated numbers; Quarter 3 consolidated profit before tax if I were to exclude the Forex adjustment impact of Ind-AS 116 and unallocable expenditure is 31.1 crores as compared to a profit of Rs. 26.7 crores for the same period last year. This signifies a growth of about 16.5%. The Forex adjustment is Rs. 10.7 crores and Ind-AS 116 adjustment is 4.6 crores for Quarter 3 FY20. At a year-to-date level consolidated profit before tax excluding Forex adjustment impact of Ind-AS 116 and unallocable expenditure is 94.5 crores as compared to profit of Rs. 38.6 crores for the same period last year. The Forex adjustment is Rs. 11.9 crores and Ind-AS 116 adjustment is Rs 13.8 crores for the year to date December '19. Please note that the Forex adjustment is an accounting entry because of our assets are based in Europe and the loans that we have taken for financing this acquisition are also the overseas loans. So these reflect the accounting movements and they are not actual losses.



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I would like to highlight that we have been consistent in maintaining our robust business model of building a cumulative member base which now stands at 254,988. We are building the experiences ecosystem. I did talk about the Club M Select; I did talk about the inventory exchange program and improved engagement of members at the resorts and the booking experience which we have improved significantly. As you know 80% plus booking happens on our web and app. All of this helps us to drive our mission of good living and happy families. With this I would like to open the floor for questions and answers.

**Moderator:** Thank you. Ladies and gentleman, we will now begin the question and answer session. We have the first question from the line of Aditya Bagul from Axis Capital.

**Aditya Bagul:** I have three sets of questions, firstly in terms of our resort income; really congratulations in terms of the growth that we have achieved; just wanted to get your thoughts. We are averaging about 66 crores for resort income per quarter, just wanted to understand our peer is using a method in which they are doing 50% in terms of FIT and 50% in terms of own members. So just wanted to gather some of your thoughts on it whether that is something that we would eventually want to follow or we are happy with what we are doing currently?

**Kavinder Singh:** So, I think we don't really consider them as our peers; I know whom you are talking about; we believe that their business model has pivoted more towards their hotel company. We are primarily a vacation ownership company and we believe that real value in our business comes from acquiring members who would stay with us and enjoy our offerings at resorts and who would obviously pay us the annual fee as you can see the annual fee income has also grown by 11.4%. Just think about it that our deferred revenue pool is now at 5,476 crores, so the only unfortunate part of this new accounting standard, and since we have opted it almost now more than a year; is that you really do not get to see that even in this quarter we moved 65 crores net addition to the deferred revenue from the VO income. Just imagine that if we are able to recognize the income upfront because we are in a position to service our members through the annual fee and we really don't need deferral but the accounting standard expects us to defer. So the membership business is a very solid business based on the model that both capital expenditure as well as the operating expenditure is funded by the members themselves. The danger with moving towards very high FIT and very low members is that you will find it very difficult to create new resorts and therefore you may have to take recourse to debt and the moment you recourse to debt you're moving into an asset heavy model which is very difficult to sustain. As you know that most of the hotel companies around the world have moved towards asset light models and therefore I believe that that's not the right way for our company.

**Aditya Bagul:** We've seen about a 23% growth YOY in terms of our room revenue, can you help us understand what was the ARR growth? I couldn't find that in the presentation.



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**Akhila Balachandar:** Aditya, the 22.7% is also because our rooms also keep on increasing, so it is not necessarily a comparison. In terms of ARR it keeps varying across seasons across resorts and that is why we realized that the general number that we used to release was looking fairly unrepresentative because the number of rooms in the market is fairly small. But roughly our ARR's would be in the range of around 3,800 to 4,000 but of course December season sometimes could be even higher.

**Aditya Bagul:** So just wanted to understand what would be the average ARR growth that we would have seen because some of the hotel companies; I know they are not really comparable; are showing reasonable amount of ARR growth, so is that something that we are seeing as well on our FIT business?

**Akhila Balachandar:** As I said there is a mix of rooms across various properties and therefore of course there is an increase in the ARR but we don't track it in the sense of how much we want to increase or something. I would like to share with you one point, what you said was my resort income is 66.46 crores which is correct but of which the room revenues is just 14.97 crores which is around just less than 5% approximately of the total income. So it is not a big income source as far as peer concerned. The increase generally depends across various resorts and would have been in the range of around 3% to 5%.

**Aditya Bagul:** We have seen about a 3,805 member addition this quarter but when we look at the stock of members and compare it quarter-on-quarter, the addition is about 3,500; I understand that there will be some amount of zest members who would have matured during this period; so if you can help us understand; just mathematically I'm getting a number of about 241 members; is that a fair number to extrapolate because FY19 we had about 1,037 retirees, so is that a fair number to extrapolate?

**Akhila Balachandar:** If you are asking me what was our retirements in the quarter, is that your question?

**Aditya Bagul:** Yes.

**Akhila Balachandar:** In the quarter our retirements, we are on 241 odd contracts and ITB my retirements are around 660 odd contracts. We will announce the final audited numbers in Q4 and we had in March around 1,039 lifetime members were retired. So this would make it roughly around therefore 1,700 members who have retired lifetime till date.

**Aditya Bagul:** I have seen your summarized balance sheet on slide #50 of your PPT; it talks about a deferred VO income of 5,107 crores. That is after the cancellation of 9,556 odd members.

**Akhila Balachandar:** Can you repeat your question?



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- Aditya Bagul:** On slide #50, we've talked about deferred revenue in our summarized balance sheet.
- Akhila Balachandar:** That's correct.
- Aditya Bagul:** So that number for 31<sup>st</sup> March was 5,107 crores, just wanted to clarify that is after the cancellation of 9,556 members.
- Akhila Balachandar:** Absolutely.
- Moderator:** We have the next question from the line of Sachin Shah from Emkay Investment.
- Sachin Shah:** I had one question; if you see the last 4-5 years like FY17 our net member addition was probably about 18,000 odd, similar in FY18, similar in FY19 and FY20 also looking at the first 9 months trend it will be difficult that we will surpass that number in a significant way. So my point is that around 3-4 years back when we had this net member addition of about 18,000 odd one of the things that we were very clearly saying that now we are more focused on the quality of members where there will be lower cancellations and those kind of things. Obviously in FY17- FY18- FY19 or at least FY17 and FY18 our gross member addition would have been larger and there were some cancellations because of the past challenges or whatever. But in FY 20, I would have assumed that in the last 3 years since we have added gross members; we have added lot of quality members; our cancellation rate should have come down significantly lower as compared to what it was 3-4-5 years back. But yet our net member addition doesn't seem to reflect that, so is it that the gross member addition has come off, is that the right assumption that am I making?
- Kavinder Singh:** I think the answer is like this that our focus on quality member additions which is higher down payment, lower EMI and also targeting segments like age group of 50 plus, where we are focusing on this product called Club Mahindra Bliss is ensuring that we are getting the members of the right type which is also reflecting in our resort revenue increases which has a bit of an indirect thing. And second thing which is reflecting in our good quality member additions is the way our cash has moved over the last 4 years from 26 crores to about 694 crores while maintaining the CAPEX levels roughly at the similar level and our operating cash generation is now at a healthy level of about 300 crores plus. Having said that coming back to your specific questions and directly answering the question, the answer is that in the past you are right, we had to clear up the members which had to be sort of cleared up and had to be canceled out and which is what we did and despite that we moved the needle from 12,000 odd level to 18,000 and now because of this extreme focus on doing the right things, getting the right members with the higher down payment, lower EMIs, so they get the cash up front. The thing is that at this point of time this particular year; I am not talking about the last year, this particular year; we have definitely seen that the slowdown in discretionary spends is leading to postponement of decision-making. I'm speaking specifically for this year. We believe that it's a period that should come to an end why because as I was mentioning in the beginning of my opening remarks, I believe



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the indicators to some extent are turning positive. And the fact that the income tax related rejig that has been done plus the focus on tourism will make people think of travel even more. So we believe that we are very correctly positioned whether the fact that we have added so many destinations both India and international plus the fact that we have this Club M Select product plus the fact that we have this inventory exchange program because we have been using the last 1 or 2 years to actually improve our value proposition should help us to grow the member additions into the coming year. As I speak we have also made a change in our operating structure, we have hired a new Chief Operating Officer, who comes with a background; early part of his years he was in Unilever, he was also in Aviva; and this gentleman is now looking after the customer acquisition piece along with the member servicing piece and we believe that the organization structure related changes that we have done, the new alliances that we are striking with multiple brands because today there are brands which are extremely powerful digitally as well as at the consumers' lifestyle brands. So we are doing lot of focus on alliances, referrals of course digital remained the focus area and the fact that we have made an organization structure change because we believe that this one year where the discretionary spends are low and it is giving us an opportunity to rejig ourselves. So as I see this year is a year of some level of consolidation without giving up our focus on higher down payments, lower EMI, not increasing discounts in the market, not doing things crazy to get sales somehow has helped us to create a very-very healthy deferred revenue balance because that's an indicator that we have very healthy cash reserves and the fact that we are going to spend money on building resorts and acquiring resorts which could be also stressed, somewhere some stress assets are also coming our way we believe. So the whole idea therefore would be to accelerate member additions moving forward into the coming year and this Quarter 4 is typically a good quarter for us in member additions and we see it no different than the last few years is. So that will set the momentum going forward into the future and I'm quite hopeful that the member additions which we are looking at on a YOY basis movement upwards would also begin to look up as we do some product modifications and introductions also without changing the fundamental that we are into a long tenure product.

**Sachin Shah:**

Just extending that a little bit more and I know I'm stretching it, but I would take that chance. So after all of that we have done in the last 3-4 years now as you said that we've taken this from whatever 12,000- 13,000 to now around 18000 for the last 4 years, the next 4 years what would you be happy with? Looking at your economics of business, looking at your fixed overheads, all of that, some broader range if you can give us some sense.

**Kavinder Singh:**

In our business the fundamentally there are two challenges; how do we generate high-quality leads so that our conversion rates improve and so that we are able to add more members. But that's not enough. We need to also provide more and more experiences to the incoming members and existing members because remember one thing while one side the organization is focused on getting new members in at least 70% of the organization is focused on keeping the existing members happy and making them spend money at the resorts and ensured that our occupancies





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remain at the very healthy level. We believe that this happens because we put in lot of efforts at the resort level; we put in lot of effort in our improving the booking experience and we put in lot of efforts coming back to the physical infrastructure for adding more resorts. So our focus is only two, how do we get good quality leads on the table and improve our conversion at a comparative cost because the cost also cannot run away that's a fact. And other part is how do we keep on creating new resorts, great experiences and more importantly communicate that to our prospects as well as to members so that we are able to not only generate new inquiries but also in through our reference. So these two elements of our business remain very well balanced as we speak right now and as I had already mentioned to you even in the last June when we did the analyst meet which was in Mumbai, I distinctly remember mentioning that our business model now is stabilizing even under 115. We are beginning to realize that even though we can't recognize the income more than 4% but there are enough levers we can press both in the idea of resorts and also ensuring that more and more members holiday therefore we collect more and more annual fee and most importantly we ensure that we are improving our experience in such a manner that the pull for the brand increases and once we pull for the brand increases we believe that our cost of acquisition should also come down and that is what will lead to the next kicker in the business.

Coming back to your straight question on what would I be happy with; actually I personally believe that we have a huge opportunity. Having said that I also believe that we have to balance the two aspects, we can acquire members as you see in the market today consumer brands go up to 50% offs, they all kinds of things to boost their topline, we have never done that. Even the offers that we give they are linked to 30% down payment. If I say that you will go on a cruise, please take our membership I'm saying that you have put 30% down payment upfront. If you don't pay 30% down payment this is in an era where people even sale real estate at 5%. So I'm saying that we don't want to move away from the fundamentals that we have established over the last few years with great difficulty because we believe that it leads to long term value creation. In the short-term what we really need to do is to create great content on digital create, show people what experiences that we create and that should help us generate pull for our brand. Having said that I would want ideally our member additions to grow at a much faster pace, but the thing is that if we are moving member additions at a faster pace without compromising the higher down payment and without compromising any inventory addition because the inventory addition must keep pace with the member addition. That's something that we are committed to. So if I were to balance everything I would say that listen today we are at 18,000 we should definitely be looking at crossing 20,000 in some time and why not look at even beyond and there is in my opinion there is enough propensity for people to travel. It is just that we are hit in the economy by a situation where you know that there are job losses that are happening in various sectors, we see that when we meet prospects. Having said that with this new budget, renewed optimism and hopefully better momentum in the economy we do believe that we should ride back because the domestic tourism is the play in the next 10 years, I believe. Our product and



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our proposition is very nicely well set now. Brand proposition can further be improved through better communication, some level of spending which we will do. We are undertaking transformation exercises within our sales force and we are reconsidering our sales executive as relationship managers because we believe that our business is about a long-term relationship, this is not just about selling. You need to also service. So we are taking multiple actions inside to take advantage of the upcoming situation which we believe will improve. So I would be happy with much more which I tell my team. But to the external world my view is that we should remember one thing that we should get the members who will eventually spend money at our resorts but more importantly also we create resorts which will give them continued happiness because the last thing that we want is that we have members but we do not have enough resorts or we have members who are not spending in resorts. So that balance is something that we are trying to achieve and so far we have done a very good job we believe as we have evidenced by the numbers.

- Moderator:** We have the next question from the line of Nihal Jham from Edelweiss.
- Nihal Jham:** If you could just give me the AUR number for this quarter that would be helpful.
- Akhila Balachandar:** The gross AUR if you were to see the balance sheet and the P&L put together would come to around 3.93 lacs. But our AUR at a sale level would be roughly in the range of 3.5 - 3-6 lacs.
- Nihal Jham:** Akhila if I look at this number over the last 2-3 years the trend has been similar at around 3.5 lakh, so this is not reflecting the price increases that we have taken at the start of this financial year?
- Kavinder Singh:** So part of the reason why you don't see an improvement in the AUR is also because we have now a shorter-term product which we called as Bliss; it's a points-based product. So that's a product which pulls the AUR down because of the mixed issues. So if we were to grow our membership base as I was answering earlier and these products grow at their pace at which they are supposed to grow then you will see an improvement in the AUR because what is happening right now is that some of the AUR has got impacted by the product mix where Bliss has come in. but actually Bliss is great for us for two reasons, one there is a majority of the members pay upfront full amount, so it helps to boost us our cash. And the second part is that Bliss also; I mean that's not something that we desire but as the accounting standards income get divided over the 10 years; but this is not the reason we would want Bliss to be because Bliss is a customer need. So Bliss is a great product but what it does at a shorter-term level, it tends to create a distortion in the AUR because we are selling Bliss at obviously it's a 10 year product at a lower price. But on the room night basis Bliss is an expensive product compared to the 25 year product.
- Nihal Jham:** My apology I thought the AUR was only for the core Club Mahindra product.



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- Kavinder Singh:** No, it is for the mix of the products.
- Nihal Jham:** We are seeing some retirement as you mentioned over the last 8-10 months it's around 1,000 for last year and it's around 600. I just wanted to understand how is the trend being with the retirees, is it that you are seeing that the person who took the membership is converting to a Bliss or is it that someone from the family is taking up the core Club Mahindra product again, how is it progressing on the initial people who are retiring?
- Kavinder Singh:** People retiring because we sold about 10 years ago this product called Zest. It was a completely different product than what we have right now as Bliss. Zest was targeted at younger people, Bliss is targeted at people above 50, both are 10 year products. Zest was at that point of time growing very fast, we acquired few members and they were promised a set of resorts which will be low cost, closer to the city. At some point of time the company took the decision to withdraw the Zest product and as a result of that the 10 year tenure of some of these members is expiring. We do reach out to them to move to 25 year product. Some of them do take up because they have become a part of the member additions at the next level. But what we have found since the member profile was primarily based on a low transaction price at the price at that time for the Zest if I'm not wrong about a lakh rupee or slightly less than a lakh of rupees, so that is not the profile which would primarily be comfortable with the Club Mahindra proposition of today which is for the 25 year product which also includes obviously spending money on F&B at our resorts. So not much of success from the people who are retiring of that kind or profile however some of them have obviously looked at joining Club Mahindra at the 25 years. So we do some upgrades from Zest to Club Mahindra 25 as well.
- Nihal Jham:** You did mention about product modification. Now we have the core Club Mahindra product which is 25 year and you did introduce Bliss recently in the last 1-2 years which is targeted above the age group of 50. Other than that is there any product in between which you feel there is still a gap in our portfolio that you could just help us understand better.
- Kavinder Singh:** So we are looking at it, it's just that we are not in a position to speak about it because the work is still in progress and we believe that there may be an opportunity there. Having said that we need to carefully weigh the OPEX and the CAPEX model that we have where the CAPEX is funded by the member and also the value proposition from a customer's standpoint. The customers have to feel that this is a value proposition worth looking at. So both sides work is going on. Having said that I want to confirm one thing to you. Even if we were to do this product innovation this will be a part of our portfolio strategy in the sense we have multiple products. But we are not moving away from 25 years product because we believe that that product and that business model is here to stay. There is enough demand for 25 year product because the real value demonstration also happens in a 25 year product.
- Nihal Jham:** Any timeline that you would want to give this product as well?



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**Kavinder Singh:** We would not be driven by any emergency of any kind because we believe that the product propositions needs to be tested with the consumers through various pilots which we do. And second we should ensure that we should set the rules of the allocation because we do not want one product to run away and the other product to not cope up along with the current levels of saliency. Saliency means contribution. So I believe that this kind of piloting should start in this quarter as I speak Q4. But you won't see much of that. There won't be any impact in the numbers in Quarter 4 but we believe Quarter 4 anyways going to be good quarter and it always is and we are seeing similar levels of momentum. So we believe that this is a great time to do piloting and then look at in Q1 or Q2 going forward if the pilot succeeds to introduce this innovation.

**Moderator:** We have the next question from the line of Ekta Bhalja from Karma Capital.

**Ekta Bhalja:** You have added 5 resorts during the quarter, but the room addition is just 43, so what would explain that?

**Kavinder Singh:** This is the net room addition that happens because what happens is we have moved out of the resort in Kerala Kumarakom that has affected us the number of additions there. Whatever you see is a net addition and sometimes in some of these resorts we have taken in inventory to test the destination. For example if I were to take an example of Khajuraho as you know the connectivity to Khajuraho is still not very good, so what we do is we take a small inventory in an existing resort. So that is why even if you see the resort count going up by 5 but you may not see too much of room additions because we do not want to upfront in destinations which are not yet proven with very large number of room inventory. So these are the two reasons why you won't see a very big number in the room, but the good news is the moment we see member traffic increases we are able to increase very-very quickly the inventory.

**Ekta Bhalja:** Out of the 57 gross room addition that you might have done in the 9 months, what would be on lease basis

**Kavinder Singh:** If you recall in the first quarter we have a resort of our own where we added about 54 units which is our own addition to an existing resort and further to that these are the 5 resorts that we have added and since these are destinations which are yet to be proven, so we have taken smaller inventory and net-off the resort that I was talking about Kumarakom which is specifically in Kerala where we exited, it was a small inventory though. So when you do this plus minus this is the net addition which turns out to be along with the fact that now we are present in; as I mentioned earlier that; we have now 57 domestic resorts and 51 international resorts.

**Ekta Bhalja:** No, I get that. What I'm trying to understand is the owned room addition that we have done

**Kavinder Singh:** So owned room addition specifically if you are asking in the last nine-months is 54.



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- Ekta Bhalja:** And on lease basis?
- Kavinder Singh:** So that's exactly what I'm saying that I am not right now because this is not in public domain, we are not declaring is on what is leased but at an overall level you should be comfortable that our owned to lease ratio is maintained at 60:40.
- Ekta Bhalja:** I was just asking on the addition. Anyways what would be the CAPEX that you would have done in the 9 month for this 54 rooms?
- Kavinder Singh:** So nine-months CAPEX it's not only for the 54 rooms, 9 months CAPEX also includes the CAPEXes for the ongoing projects. The 9 months CAPEX as we speak is approximately 100 crores.
- Ekta Bhalja:** Because I don't see that number in your balance sheet.
- Kavinder Singh:** This balance sheet that we are releasing is something which is more an abridged version of the balance sheet and typically we are required to give a full balance sheet in the half-yearly and the full year accounts.
- Ekta Bhalja:** If I take 100 crores and the cash addition that you have done so that would be 220 crores of cash flow from operations. So could you share the 9 month cash flow from operations of last year?
- Kavinder Singh:** Similar levels. Typically again this is the number that we do not put it out in the public domain every quarter. But just to give you the comfort that as you can see of our total cash balance is more moved up to 694 crores. Our capital expenditure is very much in line with what we have done last year; last year we spent about 150 crores CAPEX. We are slated to do very similar levels of capital expenditure this year. You know that we generate above 300 crores of operating cash so free cash flow of 150-170 crores happens on a year-on-year basis.
- Ekta Bhalja:** The fourth quarter would be the highest quarter in terms of cash flow generation so that should not be a worry is what I'm trying to understand.
- Kavinder Singh:** No that's fine. I think you have a point there but at the overall level I don't think cash is an area of concern for us because of the fact that we are already sitting on 694 crores of cash.
- Ekta Bhalja:** And what would be the reason for a 7% percent QOQ increase on lease rentals?
- Kavinder Singh:** 7% increase on the lease rentals.
- Akhila Balachandar:** So Ekta where exactly are you picking this up because if you see we have shared both



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- Ekta Bhalja:** The lease rental cost excluding the Ind-As impact that we have was about 35 crores in this quarter versus 32 crores in second quarter. So if we have not done any major lease addition in terms of rooms so what is leading to 7% QOQ?
- Akhila Balachandar:** I have added leased rooms, so this was leased rooms of last year Q3, we have added rooms. So therefore you should not just look at the room addition in the current year.
- Ekta Bhalja:** We are looking at QOQ basis.
- Akhila Balachandar:** It's an addition of Q4 last year and compared to that this is for the leases that we have taken over the year I would say from the 2 crores or 1.5 crores increase in lease is primarily on account of the rooms that came in over the last one year.
- Ekta Bhalja:** And the leases for lower sales and marketing expenses. So is that sustainable, have we done any cost optimization measures which is leading to it or it's just the lower advertisement and publicity cost?
- Akhila Balachandar:** If you remember in Q2, we did increase our sales and marketing expenses and the idea was to launch few initiatives and one of the key initiatives that we took was on this Santa campaign which was spread across multiple channels including digital, print, a number of other like for example; even in lot of events it was not there On Air but they had promoted it through events for example initiatives in malls, initiatives in schools and a number of things. It is not something that we have started and spread over the 2 quarters. So sales and marketing if you see YTD we are fairly much in control and as per what we would like to spend. Quarter-on- quarter yes, depends on when we want to push the sales and how we want to drive, what are the initiatives. Like Santa I cannot do in Q4, right. It makes sense to do it right from September October and that's the right time to start push. So these are more tactical but overall I think YTD we are fairly on the track.
- Moderator:** We have the next question from the line of Tarang Agrawal from Old Bridge Capital.
- Taran Agrawal:** I have two questions, the first is whenever I look at your balance sheet you have around 1,698 crores of trade receivables. Would that be possible for you to give us a split between how much of those are ASF trade receivables, how much are VO and how much are others?
- Akhila Balachandar:** We do give these in the annual report to the extent that these are required as per regulatory requirements, both on the deferred revenue side and the receivable side but otherwise on a quarterly basis; this is an ongoing business. On a quarterly basis to be releasing some of these becomes difficult because people do pay up more towards the time, they end up holidaying and we see a number of initiatives that we take over a period of time. We have not released these



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numbers quarterly or half yearly, we are just sticking to the quarterly numbers at a receivable which is fairly indicative but directionally it is indicative of the way it is heading.

- Taran Agrawal:** Broadly what is the ratio?
- Akhila Balachandar:** So our ASF receivables will be far lower, the primary component is the VO for the simple reason that in VO we allow members to pay over a 36-month plan and a 48-month plan which means I collect the membership fees over a 4-year period or a 3-year period from him.
- Taran Agrawal:** So these numbers are generally published in the annual report, right?
- Akhila Balachandar:** As I said to the extent required that all the relevant requirements are given.
- Taran Agrawal:** The second question is the interest income is only on the VO receivables, right? There is no interest that we charge on our ASF receivables?
- Akhila Balachandar:** We don't charge interest on the ASF receivables. What we do in ASF is unless and until a member pays his ASF he cannot holiday in our resorts. That is the key deterrent. There are terms and conditions in our contract whereby we can levy interest but till date we have not done that.
- Moderator:** We have the next question from the line of Ankit Kanodia from Smart Sync Services.
- Ankit Kanodia:** Can I have a little clarity on two components in our accounts; one is the interest component and other is the FOREX adjustment, FOREX gain and loss because of the AS 116 impact there is a huge difference between what you want to ideally show and how you report it right now?
- Akhila Balachandar:** Sure, can I have your question please? What's your question I didn't understand?
- Ankit Kanodia:** Can you split the interest component and clarify whether what does it includes after this AS 116 impact?
- Akhila Balachandar:** If you go to the investor deck and we have given a P&L for the quarter and YTD which is without the impact of Ind-As 116. Now as per the company goes we are debt free, in fact we are sitting on a cash of 694 crores. The entire interest practically speaking is on account of the 116 requirement only. There is a small minor thing; for example sometimes account could be overdrawn, I mean we have the overdrawn facility and therefore there could be a very small interest but predominantly the interest is on account of the changes of 116 as mandated by 116.
- Ankit Kanodia:** Exactly that is what I want to know; what does AS 116 mandates you to put that, what is that item?



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- Akhila Balachandar:** Do I have explained you the requirement of 116?
- Ankit Kanodia:** No, I wanted to know the items which are there in that interest component?
- Akhila Balachandar:** Let me explain to you for a minute the 116. Basically the lease rent that the company pays, what 116 says is that lease contract which you have over a period of 5 years, 10 years you need to capitalize it in your books and therefore if you see the balance sheet we have created two-line items. One on the asset side called right to use asset and on the liability side something called the lease rent liability. So this basically indicates the liability towards lease rent over the tenure of the lease contract right and therefore I have a right to use asset. Now how this gets charged off in the P&L is a particular component is charged off as depreciation on the right to use asset. There is a component of interest which will be on the lease rent liability, it is like following if it's for the EMI model of loans and of course the lease liability which gets squared off from the balance sheet itself. So the component of depreciation, a portion of lease rent and interest is charged through the P&L.
- Ankit Kanodia:** So when you see this wherein your interest component overhead, profit prior to, I'm talking about slide #69.
- Akhila Balachandar:** Just give me a minute.
- Ankit Kanodia:** In this the #4 item which is less finance cost; as reported is around 64 crores, right? And impact of Ind-AS is 47 crores so do you mean to say that this 47 is completely lease rentals?
- Akhila Balachandar:** The way you should read it is, this 47 is fully lease rental. That's correct.
- Moderator:** We have the next question from the line of Shreyans Jain from Renaissance investment.
- Shreyans Jain:** Just had a few questions, now if I look at your member addition while I understand we are focusing on the quality of the member but last 5 quarters we have seen the number come-off so just wanted your thought because these numbers also include the Bliss members. So what I'm trying to understand is, is the plain vanilla 25 a product coming out significantly and what are the thoughts on this in this medium to long-term like how are we looking to scale this up to 20,000 because going at run rate for 18,000 in Q4 looks a huge task given the environment that we are in right now? So just wanted your thoughts on this.
- Kavinder Singh:** So, on the member additions I mentioned earlier that the economy, the slowdown and discretionary consumption has definitely taken of at least 4%-5% till YTD level if you were to see compared to last year our member additions. The Bliss is a very insignificant portion of our total portfolio, so there is no loss that we can say that we have got compared to the last YOY basis on the 25-year product. So I am not alarmed, I am aware of the fact that there is a sentiment





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issue; having said that Quarter 4 the momentum we have seen despite the conditions that may be prevailing, we have always seen the momentum and we are confident of delivering the numbers to very similar levels and may be more in the coming quarter. So the point that I want to mention to you is that the last 4-5 quarters is not indicative of our potential and we do not see that 20,000 is a very big number and it cannot be achieved. It is something that we are gunning for as we move forward and we believe that the actions that we have taken this year and the capability that we are building internally will help us to get there while the momentum on addition of resorts will continue as well to welcome the new members as well as the existing members to newer and newer destinations and experiences.

**Shreyans Jain:**

And the second question was where are we on the thing that we were supposed to buy some inventory in some already existing hotel, so where are we on that?

**Kavinder Singh:**

As I mentioned that we have three sources of inventory acquisition. We have our own Greenfield which we are building for example in Goa, we have our Greenfield resort that is right now coming up and should be up and operational in the year 2020 that will add another 150 rooms. We have another Greenfield project that we are going to kick-start which is in Ganpatipule which will add another 120 to 130 rooms. We have a Brownfield expansion planned in Kandaghat which is resort up near Shimla, that's another 140 rooms that will get added. So we are on track to accelerate our capital expenditure to build our own resorts Greenfield and Brownfield. We of course take long-term leases which we call as a dry lease which is where we operate the resorts and manage the experience completely including the refurb of the resort. The third one which you were talking about that if we can take leases in existing hotels, so there are times when the destination is extremely relevant for our members and we are not present and we do not believe that, that destination will have the capacity to hold 100 or 150 rooms. That is where we take small inventory in a very good hotel. In an existing hotel for example if you take the Mount Lavinia resort in Colombo, it's an amazing resort. We have taken a small inventory and we are seeing good traction there but we do not believe that Colombo is a destination which will be able to fill a 100-room resort. So because we have to see the resort economics and therefore we do like to have our resorts upwards of 80 to 100 rooms and therefore in the period we see the destination will take time to pick up. We do take inventory in good resort properties in the leisure destinations and then we consistently monitor the member experience because that's one thing that we are very good at of constantly tracking member experience and if we believe that the member experience if it all which has not happened till now but if it all we believe the member experience is not going to be good we will pull off the plug from the inventory. So these are short-term leases we call them and these are to test the destinations and for example we took a lease property in Ganpatipule and we saw the response and now we are building our own resort in Ganpatipule as I was mentioning to you earlier.



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**Shreyans Jain:** Do you think this thing becomes 5% to 10% of our room inventory in the medium to longer term?

**Kavinder Singh:** As far as I am concerned whether it is eventually inventory taken in a hotel or which is a short-term lease and the inventory that we take on a long-term lease, they all come out with the leased category and that is today standing at 40%.

**Moderator:** Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the conference back to Mr. Kavinder Singh for closing comments.

**Kavinder Singh:** I would like to thank for the huge interest in our company, in our strategies and I am really appreciative of the questions that have been asked. As I have always mentioned that we learn a lot from these questions, we rethink about our strategies from these questions and I continue to give you the assurance that we will take your questions and think about them and how we can improve our strategies but we believe that we are on the right track and we believe that these interactions are very helpful and the fact that we were able to put up the investor deck on Saturday and we have this interaction today on Monday, slightly later in the day should have helped you to go through the numbers and engage which is what we noticed and we are very appreciative and very thankful for this interaction. On behalf of my colleagues I would like to now declare the end of this conference call.

**Moderator:** Thank you Mr. Singh. Ladies and gentlemen on behalf of Mahindra Holidays & Resorts India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.