



“Mahindra Holidays & Resort India Limited Q3 FY-15
Earnings Conference Call”

January 23, 2015



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Moderator

Ladies and gentlemen good day and welcome to Mahindra Holidays' Q3 FY15 Earnings Conference call. The Management will be represented by Mr. Kavinder Singh - MD & CEO; Mr. Vasant Krishnan – CFO; Ms. Deepali Naair – Chief Marketing Officer and Mr. Rohit Malik – Chief Sales Officer. As a reminder all participants' lines will be in the listen-only mode. 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. Vasant Krishnan – CFO at Mahindra Holidays. Thank you and over to you, sir.

Vasant Krishnan

Good evening, ladies and gentlemen and very warm welcome to the Q3 Earnings Call. For the last three, four quarters I have been opening the call with a brief summary of the quarter highlights but I have this very, very pleasant task of introducing our CEO and MD – Mr. Kavinder Singh. Kavinder joined us in early November and he comes with a very rich experience of nearly 30 years predominately in ITC where he has built the Sunfeast business and his last stint was in Pidilite before he joined us as MD & CEO in November. So without much ado, I will now handover to Kavinder for his opening remarks for the quarter three performance. Kavinder, over to you.

Kavinder Singh

Good evening ladies and gentlemen. This is my first Earnings Call and I am looking forward to the interaction with you. Let me begin with the highlights of the quarter:

Net member addition in this quarter is at 2,928 units. Over the same period last year, we have grown by about 38%. On a sequential basis, Q2 was at 2,912 units. We continue to grow this quarter and in order to enable you to have a deeper understanding of the growth, I must mention that these numbers are after the cancellation of those members that we consider not recoverable. At a pre-cancellation level, we have grown sequentially at 16% this quarter. And most importantly, our method of acquisition is moving in the right direction. Our digital and member referral sources of acquisition are gaining good traction and this quarter it has contributed to about 57% of our total sales volume.

The AUR (Average Unit Realization) for this quarter clocked at 3.6. It was 3.53 in the last quarter. This is a consequence of our improving product mix. Our resort income grew 19%, up from Rs. 30 crores in Q3 last year to Rs. 35 crores this quarter. As you are aware, Q3 is always a high revenue earner from the resort segment and this quarter has been no different. We are seeing growth in F&B revenues, FIT revenues and holiday activities year-on-year and our efforts to increase spends at resorts are beginning to show results.



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Speaking about resorts, we added one resort this quarter in Madhya Pradesh in Kanha. The total room capacity there is 64 rooms. We have soft launched 28 rooms and the balance will be coming in January. This quarter we are optimistic of adding another 275 to 300 rooms.

With this, I will now open the floor to you for questions.

Moderator Thank you very much, sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from Rohan Admane of Networth Stock. Please go ahead.

Rohan Admane Sir, I have two questions. First one is that could you provide me a number for this vacation ownership and ASF in terms of EBITDA and EBITDA margins and the second one is that cash inflow from both these businesses – vacation ownership, and ASF business?

Vasant Krishnan So Rohan, you know that our Investor deck which you would have doubtless seen uploaded on our website contains these numbers. We do not give granularity in EBITDA segment-wise as yet so we have given you the vacation ownership broken up into what we do for the resort fees; what we do for the vacation ownership piece etc. So if there are anything specific on that I am quite happy to take your questions.

Rohan Admane Actually, it is regarding this part how is the trend is moving forward in terms of overall outlook from the economy side? So that is why I just wanted to understand then how is the profitability for this vacation ownership and ASF is going and the cash inflow from this?

Kavinder Singh So let me try and answer that question this way that we are seeing as far as our past performance is concerned, our trending in terms of our profitability; in terms of our core business, it has been very steady. I mean last quarter of course you did see the impact of the Bell Tower merger which kind of did not make it explicitly comparable and we are also talked about the increased depreciation charge. But if you remove all that, at an EBITDA level, depreciation is not relevant. You would see that the performance of our time share business has been very consistent.

Now, coming to your question as to how do we see the future, clearly, I think the worst is over in terms of the economic conditions. Macroeconomic trends are definitely looking up and we are very hopeful and optimistic that this trend will continue. How that translates into discretionary spend; how that translates into discretionary spend for vacation ownership and then translates into our topline is something that remains to be seen and has to play out over the next few quarters. All that we can tell you is that we are very bullish and that we are taking steps as far as increasing topline via newer channels - digital, HFRP and we will speak about them in due course – these are beginning to show good results.



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If you see how digital and HFRP are steadily contributing more and we believe that digital is really the future and how that is contributing more to our sales volumes is also playing out in results because this quarter we have shown a 16% growth in our volumes pre cancellation. So I think we are pushing the right buttons and we should hopefully maintain this going forward. Of course, we do not give any detailed guidance either in terms of topline or bottomline.

Rohan Admane

Sir, and regarding this cash inflow part of vacation ownership segment and ASF segment?

Kavinder Singh

So as you know, we have a down-payment plan and we sell in installments and a large portion of that does come in 36 late months and we are not seeing any different trends this quarter. It is more or less in sync with the trends of the previous quarters.

Moderator

Thank you. Our next question is from Niraj Mansingka of Edelweiss. Please go ahead.

Niraj Mansingka

I had one question on you referred to the pre-cancellation 16% sequential increase. Can you give some more clarity on that number? There are two parts of the cancellation; one is a natural cancellation where customer cancels immediately or in a short duration and other is in parts there going to be some receivables coming in. So can you give some breakup of how many cancellations in the quarter was because of the past and because of the normal business side?

Rohit Malik

Hi Niraj, this is Rohit. Niraj, in real sense I think we have gotten out of that all whole trending of present and past cancellations. For different reasons we give different kind of wait time to members so if the member has come into us and said he is unhappy with the way we are able to provide holidays we possibly try and pacify him and therefore give him that kind of time. If he straight away comes back and says that he does not want to continue because he is suddenly feels the financial constraint then we would not kind of give him that kind of time and we will cancel straightaway.

So that past and present cancellations I think to begin with it is not a category that we are looking at anymore. Having said that as Vasant mentioned the fact that we are getting better people to come in and that is an effort that we started in a planned four quarters ago. It started showing us results about two quarters ago and that is kind of now beginning to play a significant role and therefore people signing up with us since then have a better profile - the propensity of them to come back and cancel with me either because of lack of holiday planning or because of the financial constraint is reducing. And that is why you are seeing this kind of growth both in pre-cancellation and post-cancellation numbers.

Vasant Krishnan

Just to add to what Rohit is saying so that I can connect the dot from an accounting perspective and from a number perspective. The short-term cancellation that Rohit was alluding to what we call the recession cancellation normally happens within 15 to 20 days of him signing up. So that



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from an accounting perspective happens in a very short-term measure. That is what I really meant when I said the pre-cancellation number because I embed the recession cancellations into that and provide for it because that is really is part of the game.

The cancellation that I am now talking about is after it comes on board I mean we do find that everyone does not really last the course so some of them we are able to wean back; some of them fall by the wayside and when we come to that judgment call that member is irrecoverable we provide for that cancellation and that is the cancellation income and that is the reduction from the member base that you see. Now that is what when I said that we are growing at 16% I gave you the color this time as to what we are growing at the pre-cancellation level because a lot of our expense lines are flexed along those lines. So it will help you understand the numbers better. So yes, this time our net of cancellation or after taking into account the cancellations we have that number of 2,928 units but the 16% that I was talking about was the pre-cancellations of the non-recoverable members.

Niraj Mansingka

But is it possible for you to share the total cancellations for the quarter?

Vasant Krishnan

At this stage, we do not want to get into it but I think we have opened it up by telling you what the percentage is at the pre-cancellation level. You will of course realize that this the first quarter that we are opening up with that number.

Niraj Mansingka

Yeah, actually you were doing this detailing five quarters back and then we had stopped.

Vasant Krishnan

So we will be working on that but at this stage we do not want to get into that level of granularity as such.

Niraj Mansingka

Could you share the receivables that were there in rupees crores for the quarter?

Vasant Krishnan

Yeah, so we are not seeing any upward trend in the movement of receivables that also links up to the same question that you have asked me that the overall overdue percentage to the total receivables if you look at it even last three, four years has been very steady as a percentage which you have been seeing around 18% and this quarter there has been no difference. So it has been a very steady quarter both in terms of our receivables, our performance.

Niraj Mansingka

No, I think the number had been trending upward from a 90% of the revenues; the total receivables?

Vasant Krishnan

So we look at it as a percentage of the overall receivable base because that is the number because if it starts going beyond that number then there is a case for us to may be accelerate the pace of cancellation. So you have to give that much time for a member to be able to because we know



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that over the past several years that we have been doing this business that there will be members who would stop paying you after say 4, 5, 6, 7 installments remember this is a 25 year product, okay? And then you will take a holiday after a year; year-and-half and then he comes back and pays all his dues in time, right?

So we always have a measure as to what should be the percentage to the total dues and that is how we track it. So when I said that it is something that it is steady I meant from the percentage to the total receivables. And you will see that number of course in another two to three months when we publish our annual report.

Niraj Mansingka I was more referring to the another six months excess of six months the receivables which are touched almost Rs. 300 crores for last two years. So that is what I was trying to see if you can get?

Vasant Krishnan So that is what I said you will see that in greater degree of clarity in another three months and we will publish it but I can tell you that is not something that is out of sync with the past.

Niraj Mansingka Is it possible to give a number of that amount?

Vasant Krishnan No, at this quarter I do not want to do it. I just told you the percentage is the same.

Moderator Thank you. Our next question is from Atul Mehra of Motilal Oswal Securities. Please go ahead.

Atul Mehra My question is related to digital as well as referral so as we see more and more sales happening through our digital as well as the referral program so can we see a decline in or somewhat lower amount of selling expenses going forward or where do we see that trajectory happening?

Kavinder Singh So I do not think that the fact that we are growing through the digital and the referral route that it will lead to the reduction in selling expansion because the whole idea of building through the referral route is that you are trying to make members get members and therefore you are attracting the right profile of the people and as far as the digital route is concerned and as you know that it is a new route and it is evolving and this is also helping us to get the right quality of members. So there is no reason that if our member profile is being sourced from these two methods that our selling expansion should come down. I actually do not see any linkage there at all.

Atul Mehra No, but generally the cost of acquisition through these routes could it be a lower amount than the traditional amount that we used to spend per new addition is that one way to look at it?



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Kavinder Singh So on cost of acquisition if you see the trends over a longer period of time where the referrals and digital have been growing on an overall basis our cost of acquisitions have been coming down. So that is because of the change in mix and of course there are some other cost rationalization measures that we have taken and that is what Vasant eluded to in terms of the actions taken in the last four, five quarters even Rohit was mentioning which is helping us to bring down the cost of acquisition while improving the sourcing mix.

Atul Mehra And do you see on the ground a second question over here is generally on the ground do you see any kind of revival happening in terms of member enquiries or in terms of the general on the ground action in the sense of higher memberships? Is that a trend that is already happening or there is some time to that?

Kavinder Singh So if you see the numbers and if you see how we have performed in Q3 the answer is, yes. And equally we must be aware that the entire proposition of ours is actually being continuously tailored to meet the requirements or aspirations of the new gen consumer which is coming in today and therefore we see the relevance of our product actually increasing going by the overall trends in the time to come so to give a simple answer the answer is, yes.

Atul Mehra And one final question on Holiday Club. So if you can briefly elaborate on how the performance has been for the quarter as well as when do we plan to further stake in the company?

Kavinder Singh So the time we acquired it I think the timeshare business has actually grown so that is good news. This Spa business of course is stagnant I would say the hotel business but that is something that we recognize at the time acquisition itself so that portion of the portfolio might need a little bit of restructuring. But the good news is that yes, it has come up to our expectations and at this particular point of time we are not seeing anything that is different from what we saw when we did the acquisition.

Atul Mehra And in terms of timeline of furthering our stake in the company is there something we can look at or particular time end over there?

Kavinder Singh So we have got time to acquire the balance within that period as specified in the agreement. So at this particular point of time the management is looking at how to deal with the balance investment.

Moderator Thank you. Our next question is from Chetan Wadia of JHP Securities. Please go ahead.

Chetan Wadia Sir, my first question is on the resort and the room addition for the FY16; do you have any plans drawn out as of now?



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- Kavinder Singh** So for FY15 or FY16?
- Chetan Wadia** FY15
- Kavinder Singh** So we had talked about the room addition of around 500 if you recollect let us say around 500 rooms over a period of 18 months. So that is the plan that we are working to and at the rate at which we are constructing and acquiring or in negotiations with these we believe it will be somewhere around close to 400 by the end of the Fiscal. Then we will take it forward from there then we will drop our plans.
- But at this rate I would think that we should once we cross the 500 mark which we should may be at the earlier part of the next Fiscal we will draw out our plans for inventory expansion thereafter. But yes, we have got our land banks which can add significant inventory and we have already kick started that process of appointing architects and having conceptual designs and once those approvals are all in place we would be in a much better position to share with you in terms of number of rooms as well as the timelines for completion. So you just bare with us for may be another three months we will come back to you with a more definite reply.
- Chetan Wadia** And sir, just spoke about having the land and developing the same. So what kind of CAPEX are we looking out for this for FY16?
- Kavinder Singh** You should for any construction you should budget around 75 lakhs to 80 lakhs rooms.
- Chetan Wadia** And sir, second question to you is have you taken any price increase for the quarter do you plan to take any in the next six months?
- Vasant Krishnan** Sorry, I did not get the question like?
- Chetan Wadia** Have you taken any price increase at the membership level for all the categories in this quarter Q3 or do you plan to take any in the next 6 months?
- Vasant Krishnan** So as far as price increases are concerned we have not taken any price increase for the quarter. If you are asking me the question would you contemplate the price increase I mean that is something that we would look at it on depending upon market conditions. We are not taken any price increase in this quarter.
- Chetan Wadia** And sir, one last question. The membership addition is much higher than the room addition that you are doing right now so how many members which actually ask for the holiday did ending up taking a holiday with you?



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Vasant Krishnan So when you look at member addition and room you also have to factor two things. One that there would be a body of members whose holiday start dates would not have commenced. There would also be a body of members who do not holiday and that is part of the course. So we have internally a measure and we have very kind of the detail in terms of category wise who holidays well and we are fairly comfortable at an overall basis.

Chetan Wadia So can you send some kind of a percentage let us say out of every five or ten members who ask for the holidays seven did end up taking a holiday which is kind of numbers?

Vasant Krishnan So obviously I mean if you ask me are you looking at it from a resort-to-resort perspective there would be cases where a member may opt for a holiday in a particular resort and we might not be able to give him that particular resort but if you are asking me the can that satisfy him from the bouquet of our resort the answer is, yes we can. And I think those details are indeed contained in our customer delight at every touch point. So some more details are there. So maybe we would like to pursue that.

Moderator Thank you. The next question is from Sumant Kumar of Elara Securities. Please go ahead.

Sumant Kumar I would like to know what is the outlook for the membership addition going forward. We have seen a 12,000 room addition in FY14 and expected in FY15 also. So what kind of room addition we can see in FY16 and FY17?

Vasant Krishnan So I think your question is on member addition, am I right?

Sumant Kumar Right.

Vasant Krishnan So typically we do not give guidance as to how many members we will add but as I mentioned in the opening remarks that directionally we are moving towards a better demand and a better let us say meeting of the demand and the way we are looking at it is that we need to continuously focus on the input side which is trying to source our newer members through the as I was talking about the sourcing mix which is the members referring each other rather members get members as well as the digital part. So our directional movement towards getting members through these routes and ensuring that we get the right profile of members if we are on track.

So therefore the outcome in terms of members' additions as you can see in Q3 and we talked about it that we are up on over the same period last year or the same quarter last year by 38%. So this augurs well for our business because the focus on doing the things right is certainly going to yield dividends as we go forward in terms of member additions but I would not like to fix a number that we will achieve or we are going for. We will continue to focus on doing the right



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things which will help us to get the member additions moving at an even brisker pace than what it has been possibly in the past.

Sumant Kumar So when we talk about 38% growth in membership addition but our vacation ownership segment has shown only 2.7% growth. So could you please breakup the numbers how it has come to 2.7%?

Vasant Krishnan Can you repeat the question again; I did not catch the point?

Sumant Kumar We have shown 38% membership addition growth but our income from sale of vacation ownership grew only 2.7%. So I need the breakup how it come to 2.7% the membership realization and all and the cancellation of member kind of?

Vasant Krishnan Okay, so let me answer the question. See the correlation between units and income there is a AUR in the middle and that is why we give you the EUR numbers. It is a function of what was the AUR that you clocked in in that quarter; what is the AUR that you are clocking in this quarter; what is the realignment business that you did in that quarter; what is the realignment business you did in this quarter?

And when you cancel you also cancel at a particular rate and depends upon at what point of time he took that membership because that is what is getting derecognized. So there are a number of variables that play out. And when we do the math we will come to the percentage. So it will not be possible for you to draw a direct correlation between growth in members or de-growth in members versus growth in income or de-growth in income.

Sumant Kumar But can you give what is the cancellation number because it is difficult to analyze the vacation ownership revenue when we talk about 38% membership addition when we talk about the 2.7% growth in that segment. So if we get some sense on the numbers in cancellation of member so it will give some direction?

Vasant Krishnan In order to help all of us understand these numbers better what we are now doing is to give you a growth as I said last quarter also and in this quarter also you are growing quarter-on-quarter on a pre-cancellation basis. So at this time I think we told you that we grew at 16% sequentially and that was the same a little bit more we grew last quarter. So that helps you understand as to how the business is growing at a pre-cancellation level. There is also another way in which you can look at our cancellation is what is there like I told you the percentage of over dues to our total dues we keep that also constant. So we get that and then the fact that we are growing our room membership it will give you some idea as to how to look at our business.



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So as that for example since you are now raising the point let me address it fully. You would see that if there is a growth in our member base or a growth in our units pre-cancellation you will also see that effect in the employee line for example. If you notice if you looked at our clause 41 you would have seen that employee cost moving up from I think it was around Rs. 40 crores last quarter to around Rs. 42 crores this quarter and that happens because our employee lines contains a fixed component it contains the incentive component and as the business grow as the volume grows and that is how you can figure out as to whether the overall business is growing or otherwise.

And because all these lines are showing indications of growth. And cancellation as I told you while we do not come out with those numbers I mean the percentage of cancellation to our net remains the same because that reflecting the percentage of overdue to total receivables of the remaining more less constant.

Sumant Kumar Is it possible to give average membership for Q3 FY15 and Q3 FY14?

Kavinder Singh Average membership?

Sumant Kumar Yeah, average membership fees?

Kavinder Singh You mean the AUR is 3.6 this quarter.

Sumant Kumar And what was in Q3 FY14?

Vasant Krishnan Q3 FY14 it was around 3.61

Sumant Kumar So it at the same level?

Vasant Krishnan Yes.

Sumant Kumar And talking about the A&P benefit we are getting I have seen the four, five, six, seven quarters we are getting A&P benefit. So can you tell me that how many quarters from here these kind of trend can continue?

Vasant Krishnan Did you mean the ASF?

Sumant Kumar No, A&P, the advertisement and promotion cost has gone down?

Vasant Krishnan So you are talking about the advertising going down, is it?

Sumant Kumar Right.



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Vasant Krishnan

So Deepali, would you want to take that?

Deepali Naair

So you know two things have happened. One is that on the digital side, the money that is being the advertising and promotion spending has gone in to the cost of acquisition mode and on the advertising and promotion side we have indicated last quarter also that we have actually bunched up and not made spends in brand building. So that is not an indication of a continuing trend in a particular quarter when we decides to do let us say television advertising and it is time for the brand that we need to do it there will be an expense that will come in at that point of time. So it is not an indicative of an ongoing trend. This is a trend yes for overall efficiencies and when you do not do a blockbuster advertising, there is a certain continued spent that happens. So you would have seen a spike in October of last year and at a quarter when we do the advertising again you will see a spike in that quarter.

Sumant Kumar

So we have seen that we are giving white goods like iPhone 6. So can we assume that the A&P expense going forward will increase a bit?

Kavinder Singh

The offers are not from the A&P cost however there is a thought through advertising that we are doing where we may at different points in time use offer as one of our communication platforms. The fact that we advertise will increase our A&P spends but offers have got no linkage with our A&P spends.

Sumant Kumar

And what was the key reason for higher other expense this quarter?

Kavinder Singh

Two reasons. One is that we had to take a one-off. Four to five years ago we had this very unfortunate incident because of the Tsunami there was some extensive damage to our resort in Pondicherry and in one other place and we had of course extensive discussions with our insurance. So finally the claim came a little lower than what we had anticipated therefore the difference had to be flushed out so that explains one. And we had also talked about the resort income going up so when the resort income goes up expenses on room and F&B production and service really gets consumed there.

Moderator

Thank you. The next question is from Anil Kini of Envision Capital. Please go ahead.

Anil Kini

Again the question on the offers that you are giving to the members the white goods that you have been mentioning right now. If you take an average cost of an iPhone say Rs. 50,000 to Rs. 60,000 and right now your AUR is somewhere around 3.6 lakhs that is nearly 15% to 17% of the entire AUR. So does that mean your acquisition cost going ahead will go up? What does it really mean to it?



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Kavinder Singh

So I think possibly you have kind of gotten straight by the advertising so what happens is that I mean there is a math behind; there is a grid at the backend so the Rs. 53,000 is not something that we pay on our product which brings in 3.6 it gets paid on a far higher priced SKU may be at about (+7) lakhs or something. Yeah, so I mean therefore one is not drawing a right linkage when one is saying Rs. 53,000 at a 3.6 AUR.

Anil Kini

But that really means that the cost of acquisition should actually go up going ahead, right?

Kavinder Singh

No, not because of this there may be a conscious decision to invest for a long term benefit to the business which could be more on the technology side or process side. But on account of promotions we do not see our cost of acquisition going up.

So I just want to close that loop because if we are looking at the sales and marketing expenses in the Clause #41. It has got three components to it. One component is the brand building which I think Deepali explained fairly elaborately so I will not again belabor that point. The second is our investments and as digital HFRP are a little bit more expensive in the short term and that is the investment that you are seeing why it is going up. You would also note that this particular quarter we had spent a little bit more on tactical advertising, you would recollect that in the month of October we had an offer in terms of a grand draw for Mercedes. So all of that is reflecting in that line.

In the overall percentage of cost of acquisition to sales it has gone up a tad in this quarter as compared to last. Would that be a trend I mean it is a range we are within that range. So this is something that we have to keep on tweaking to see depending upon the market conditions there would be a point of time where we might have to increase the offers, create some excitement in the market. So as long as they are within the range we are okay and we are within the range. So this is absolute number is going up because these specific instances that I just talked about.

Anil Kini

Another question on this is previously you had stop giving white goods as an offer. You have restarted it so just wanted to know the strategy behind this? What is the thought going behind this offers now?

Kavinder Singh

So I think it is a very clearly thought through segment that we have tried to attract. So when we have done white goods we have essentially gone ahead and offered a product which is premium and aspiration in nature. For a certain target group upwards so we kind of tied it with the fact that iPhone 6 has been recently introduced and iPad Air 2 has been introduced so there is going to be fair bit of advertising done by the manufacture or the resellers and so on and so forth. And these products typically are targeted at a certain income upwards profile. So I think that is where we came from and we decided to go ahead and offer them as a freebie along with their membership. Compared to a white good which if I can possibly think of the last example that



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we used to do before we discontinued which was televisions which was there in household 32 inch was possibly something which a middle income would also want to own and so and so forth. In our experience also after we had run this offer for couple of months is that what we have attracted as a TG is possibly what we had in mind when we designed the offer.

Anil Kini

Another question on this front is you are right now currently trending at 970 odd members per month which you are doing similar number last quarter as well. So after introducing this offer have you seen any upticks in the run rage per month?

Vasant Krishnan

So like we mentioned they are on a sequential basis we grew up by 16% on a pre-cancellation basis so therefore what you are seeing is the post cancellation numbers and obviously you would not have seen an uptick between Q2 and Q3 where we ran this offer. So the answer is actually from our side yes, that we are seeing an uptick as a result of these marketing interventions that we have done which is more promotion and trying to attract the right target group as Rohit was alluding to.

Moderator

Thank you. Our next question is a follow up from Niraj Mansingka of Edelweiss. Please go ahead.

Niraj Mansingka

See I had one question on the price increase. If you see your average vacation ownership realization 11 quarters it has remained the similar range from 3.3 lakhs to 3.6 lakhs range. But the cost of CAPEX has gone up since then. What I remember it was around 55 lakhs to 60 lakhs now we are talking of 75 lakhs to 80 lakhs room. So what is your thought process that my point is that I think you had also done some economics I am sure in the past 11 quarters back so obviously if the CAPEX has gone up do not you see an outcome leading to a higher price increase for the vacation ownership membership going forward?

Kavinder Singh

On pricing, our thoughts are as follows – I think you have raised an important and the relevant question which is relevant to us and it is certainly getting discussed internally. So the view that we are taking right now is that the environmental conditions are fairly benign at an overall level. We are not seeing inflation rate galloping; we are not seeing even if you see the crude prices the way they are coming down and we see this is the time actually where people would possibly be looking at let us discretionary spending as we go forward basis the reforms that government is doing including in the area of tourism and infrastructure building.

So it is really a judgmental call that we will take as we go forward that whether there is a need for a price increase and at the end of the day it is critical for us to balance the price and the volumes that we are trying to target. So it is a constant let us say juggling that we will have to do and we will have to take a call at an appropriate time because the price value equation that we are trying to sort of arrive at we do not wanted to get disturbed just because our AUR has not



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moved up because at the end of the day as I was mentioning to you it will be a function of what member additions we can get in relation to the price that we are offering our products.

Niraj Mansingka

I have two, three more questions. One is on the sales and marketing I am sure the overall cost has really gone down over a period of last few almost 10 quarters it did not trending down it is right now almost 20% of revenues. In a slightly longer period may be two to three years where do you see this stabilizing at?

Kavinder Singh

So it is difficult again to answer the question. We are as you have rightly picked up we are taking actions to improve not only reducing the cost but improving the sales and marketing related actions improving the effectiveness of those actions. So obviously some good work has been done in the last few quarters which is leading to this kind of a let us say number. However, as Deepali, my colleague, Chief Marketing Officer pointed out that we have been actually under investing in the brand so there is a case for doing certain amount of what we call as above the line expenditure which could include even TV advertising as we go forward. So there would be small let us say blips that you will see in the advertising and marketing expenditure but at a trend level we do not see them going up significantly whether they will go down significantly we will have to really see whether there are some elements that we can still tweak but as I mentioned earlier these are the things that we constantly review and we obviously would be interested in driving them down.

Niraj Mansingka

Other thing is and this is to Kavinder specifically and it is his first conference call. I hope we wanted to know from your thought process strategically how you see the company considering that you have a land, bank considering that you have invested in the holiday club, and considering there have been some slowdown in the past. How you see the evolution say three years down the line or slightly even longer? Just wanted to know your thought process?

Kavinder Singh

So early days for me but I must say that having come from a consumer sector background and I believe that this business is actually more consumer than any consumer business can be and therefore what we are engaged as a team here right now is to understand our current member profile. I will take a slightly longer route to come to your answer just to give you a perspective. So we are trying to sort of understand our current member profile from our database we are doing some amount of data mining; some amount of data analytics work to see who is our consumers today; who is our member today and who will be our member tomorrow.

So we are seeing also the consumer behavior changing and as you know that consumer behavior actually in the last 5 to 7 years the way the Internet penetration and the Smartphones and various other things that has happened which has brought information at the fingertips of the user. So we are trying to see what is the impact of these consumer behaviors which are now very evident on our incoming members of the future and how the member profile will change and we know



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for sure it will change the question is in which dimensions it will change. So we are trying to sort of get a sense of that and our belief is that we may need to tailor our product and we may need to tailor our entire value proposition not in a very big way but making some changes which will make it may be more relevant as we go forward. So there are those sort of exercises which are underway as I speak but if you were to ask me that am I positive about the business over the next 2 to 3 years the answer is an unqualified, yes.

Niraj Mansingka

And how do you see the evolution of your assets you would say? Would it be more partnership driven or land bank driven construction and what are the offering to customer like in the Holiday Club and for example offerings in Dubai and other places outside India. So some color on that?

Kavinder Singh

Okay, so you have asked actually many questions rolled in to one let me see whether I can answer in a manner that will satisfy you. So as far as the members are concerned they are really looking at an experience whether in India or whether outside the country or whether it is Finland or wherever. They are obviously interested in what experience they can get and our aim and that is I think is truly the business aim that we want to ensure that our members get differentiated experiences whether in India whether outside the country whether in beaches whether in hills or whether in wildlife resorts. So we follow a mix of strategies. We look at a situation where if we are in a position to acquire land and create a resort that we would ideally want to create we do that because it is an important part of the experience. There are times when we realize that there is a particular destination where there is a demand and we will take time to deliver on that so we took the option of the leases also. And coming back to your question on holiday resorts or international destinations as you know we already have about four destinations and we certainly have a desire to be a global players otherwise would not have taken stake in holiday resorts. So our aim is to be able to give over a period of time experiences to our members both in India, Middle East, Southeast Asia and Europe of course we now have a footprint at least in the Nordic part of the Europe. So we are sort of focused on giving experiences and delighting our members and in this quest we employ a mix of strategies whether it is ownership; whether it is leasing or whether it is an acquisition that we did. So I guess the answer will have to be all of what you said to ultimately deliver the experience that we want to deliver.

Niraj Mansingka

I am sorry if you can allow me I can add some few number of questions it will be quick. One, what was the digital, and FMRP funnel, what was the conversions?

Kavinder Singh

So we mentioned to you that earlier if you see the same period last year from digital and referrals we were getting about 34% of our sales. This quarter we have touched that number at 57% which means our sourcing mix is changing in the direction that we wanted it to change. So that if you are looking for that number then it is 34% to 57%.

Niraj Mansingka

And what was the percentage of rooms given to the non-members?



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- Kavinder Singh** So percentage of rooms given to non-members I would probably not the offhand with the number right now because it is something that it is more like a tactical thing than when you have a slightly lower occupancy you may possibly sort of offer it to the non-members but as a strategy we have continuously looked at these numbers not exceeding I am not saying that it is a policy but probably 3% to 4% I guess.
- Niraj Mansingka** And last on the depreciation. Why was the depreciation on a sequential is slightly lower?
- Vasant Krishnan** Niraj, depreciation was also function of asset retired. So if the assets retired you will also have a depreciation which will reduce.
- Niraj Mansingka** So can you give that which asset you had?
- Vasant Krishnan** I can give it to offline.
- Moderator** Thank you. Our next question is from Puneet Gulati of HSBC. Please go ahead.
- Puneet Gulati** First of all on the broad strategy front how would you look at what would be the right proportion of number of rooms per member that you would aim at, what do you think is a comfortable number and where are you right now?
- Vasant Krishnan** When we look at the members to rooms ratio two factors play out. One is what is the overall room-to-member ratio after taking into account the fact like I said that some members may not be in a position to holiday, when the holiday starts they should not be there, and some members because of the fact that they are not trigger their payments also cannot holiday. That is the three that has to come into account is the fact that there will be some members because we know from experience they do not holiday even though they will be completely regular. So we comes to what is called an adjusted eligible base and when you take the adjusted eligible base and then we can say just take 1:50 we are extremely comfortable. Now having said that there would be occasions because some of you who might be members might have experienced this that in peak periods in certain shall I say favored destinations now this could be either Goa for example or some Kerala you could have a situation where in a particular resort there could be some stress in peak periods. So when you look at it from a bouquet perspective again remember that we never say that we can offer you a room in a particular resort. We always say that we can offer you a room in our resorts per se. It is the week per whatever, right and that is to be dealt with on a holistic basis. So if you look at it from that perspective I think we are comfortable with the 300 odd rooms that we are adding this quarter I think that situation will only improve with the land banks that we have and the construction that we are about to commence, and details of which we will announce in the next 3 to 4 months. We will be adding much more and that will only



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further and further improve the position and improve member experience in terms of may be getting a resort of their choice more time than they do today.

Puneet Gulati

So but what exactly are you doing differently over here because the previous feedback from the customer was slightly patchy so how are you improving that?

Deepali Naair

So let me just add a few things. There is a continuous effort that we do especially during the times when we know there are certain resorts come in the off peak period. For example for the January-February-March quarter when the occupancy levels are slightly lower and we know it is winters in the North of India and we know therefore that not as many people will demand let us say Manali or the Shimla property. We do a lot of anticipatory work with our current members. We do different segmentations certain people who have holidays in those months or it will be through holidays and also see this places and those kind of segmenting work that we do and we do very personalized offers to these guys in the space I am just reminding them that why do not you holiday with us in these resorts and they are able to reshape their demand therefore in this manner. And this is a continuous yearlong effort now which is why you are able to see our overall occupancy levels for the year at about (+80%) levels which is on account of some of these efforts because otherwise you will always have huge demand during the peak periods than less. This is one example. Apart from that the second example is that we know now because of the data that we have for the last few years that there are certain resorts which may have a similar pressure on week days versus weekends. So in the catchment area then again we work with the members to promote the week days demand and so on and so forth. We also sometimes try and create events inside our resorts which could be a kite festival or coffee festival depending on where they are located and what the local flavor is to get people to especially promote the resorts where we think that we have certain occupancy levels that we. For example we may not need to do this effort of course for our Goa, Munnar, Kumbhalgarh and some of the other very, very popular resorts but we need to do it for our newer resorts and we need to do it for the off peak periods in certain resorts.

Puneet Gulati

And lastly on the CAPEX front you said that a typical room cost is roughly about Rs. 75 lakhs. Is there a need for additional land bank acquisition as well or how long can you do without any land bank acquisitions and how much would a Greenfield project cost versus just a room addition?

Vasant Krishnan

So do you say land bank did I hear it right?

Puneet Gulati

Yes.



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- Vasant Krishnan** So we have the land so when I said that I will come up with a plan in the next three to four months we are talking about adding rooms on lands that we have already banked. So that is off the table. Sorry, I missed the second question there was one?
- Puneet Gulati** And is there any plan to add more to this existing land bank over next one year or so?
- Vasant Krishnan** So land banking is a continuous activity. So if I buy land today I might mature it after two or three years. The land banks that I am now maturing I have actually bought them two to three years ago. So land banking we are continuously scouting for lands, destinations, and creating destinations. So that is a continuous activity.
- Puneet Gulati** Is there a budget that you have in your mind for this every year apart from the room CAPEX?
- Vasant Krishnan** Such that while there is no formalized budget because some of them are have to be dealt with in an opportunistic manner and remember one thing and if you are coming from land is very expensive please understand that here because of where we are we are not in prime time and we are not in Mumbai. The land is not as expensive as one would think it is not a per square foot kind of rates.
- Puneet Gulati** But you acquire large parcels also?
- Vasant Krishnan** So I do acquire large parcels but even then it is not a very significant item. But having said that we do try to plan in a manner that when we are ready for say construction, every year we should be able to add around 300 to 400 rooms I mean that would be very good utopian situation. Luckily for us over the next one or two years we have the land but as we go forward if you find something we are in fact as we speak we are talking to a couple of land aggregators and we would bank them.
- Puneet Gulati** So without adding any land for how many years can you continue to add rooms at 300 rooms a year kind of rate?
- Vasant Krishnan** No, there is no question because we will be adding the lands.
- Puneet Gulati** Can you give some broad number?
- Vasant Krishnan** No, I have already said this that we would come out with a more definitive plan in the next three months to tell all of us how are we give clarity as to how this land is going to be proposed to be exploited in what formal manners over the next 18 months.
- Moderator** Thank you. The next question is from Ruchak Mehta of PPFAS Mutual Fund. Please go ahead.



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- Ruchak Mehta** So my question is about the free cancellation member growth. So you mentioned that sequentially we have seen a 16% growth over here, however, on a net level if you were to check quarter-on-quarter that number is kind of flat number. So are we saying that the cancellations have gone up considerably in this quarter compared to the last one?
- Vasant Krishnan** I would not use the word considerably but I would say yes, it has gone up as compared to the last quarter. So please understand that cancellation is a function of as once it falls beyond a particular bucket I mean then the collection team will mandatorily tell us that look this is turning out to have gone beyond the normal time that we have we reached and that is the particular point of time that we have to then take a call on that particular member and cancel him. So in this particular quarter more number of members fell into that bucket and we had to cancel that. On an overall YTD basis that percentage of what we cancel to the pre-cancellation number is within the target and within what we had budgeted at the beginning of the year and within the norms of what we are seeing in the business over several years now.
- Ruchak Mehta** But any change in the threshold that you have internally in terms of when you will decide to cancel a member, any change in that in this particular quarter or that continues to be the same?
- Vasant Krishnan** No, there was no particular change in the threshold.
- Moderator** Thank you. Our next question is from Rohan Admane of Networth Stock Broking. Please go ahead.
- Rohan Admane** Sir, what is our digital spend in Quarter 3 FY15?
- Deepali Naair** We do not kind of give that number out normally because that is quite confidential to us in terms of running the whole digital spends numbers but I can share with you that we track the number on measures such as cost per se; cost per lease; cost per impression. So we do track measures such as those so we do not give that number out.
- Rohan Admane** But could you give me an idea about the trend means are we spending more on this digital thing and are we going to spend more in FY15 as well?
- Deepali Naair** So the digital spend number given that Kavinder shared with you that the mix on digital and HFRP is actually increasing so it is a digital contribution to the overall numbers are increasing then definitely in absolute numbers the digital spends are going up and that is the trend that will continue in the coming quarters.
- Rohan Admane** So our budget outlay would be much better in this digital spend area?



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Deepali Naair Our budget outlays would be better for the digital spend area that is right.

Moderator Thank you. Sir, there are no further questions from the participants.

Vasant Krishnan Thank you very much.

Moderator Thank you. On behalf of Mahindra Holidays that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)