



“Mahindra Holidays & Resorts Q2FY14 Earnings Conference Call”

October 30, 2013



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MODERATOR: **MR. GAURANG KAKKAD – ANALYST, RELIGARE CAPITAL MARKETS**



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Moderator

Ladies and gentlemen good day and welcome to Mahindra Holidays & Resorts Q2FY14 Earnings Conference Call hosted by Religare Capital Markets. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurang Kakkad, thank you and over to you sir.

Gaurang Kakkad

Thanks Myron. Good afternoon everyone on behalf of Religare Capital Markets we welcome you all to the Q2FY14 earnings call of Mahindra Holidays & Resorts Limited. From the senior management team we have Mr. Rajiv Sawhney – The Managing Director and the CEO as well as Mr. Alope Ghosh – The CFO. So, now I would like to hand over the floor to the management for the opening remarks, over to you sir.

Rajiv Sawhney

Hello everybody good afternoon this is Rajiv Sawhney here. You would have seen the presentation which we had uploaded already about four hours ago if I am correct. We had filed this report with the stock exchanges yesterday so Alope, my colleague, will take us through the detailed financial performance after I give you the overall flavor of what has happened.

Basically as you would have read the income for the quarter grew by 15% with the PAT growing by 7%. Basically, during the quarter we are not happy with the growth in new sign up numbers of new members and we had shared in the last quarter that there were certain TRAI changes, certain guidelines which was making prospecting more I would not say difficult but we were used to doing things in a particular manner and it necessitated our making changes. During the current quarter actually in August TRAI again amended the rules and one of the key amendments was that if you call from any number then it's a certainty that your numbers will then be disconnected on March. So what that has necessitated us is for completely changing over the way we go about our business how we may go about acquiring customers the way we go about prospecting and two of the initiatives which we had started one was concentrating much more on referrals, concentrating much more on making our members, give us more members and the second of course is on the digital space.

We have significantly increased our efforts on that but let me first talk about the upgrades, the revenue mix that you see why we have in spite of members, new member sign up not growing at the expected pace actually declining in fact is that a significant number of our own members have upgraded, they have upgraded either by season or they have upgraded by the size of the apartment that they own. So, which is huge vote of confidence which is a huge endorsement people are voting with their cheques to the experience that we are able to provide them and that has resulted in the financial performance that you see. So, in getting more referrals and in getting more digital let me explain the digital thing for a minute. When people go on various



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sites, typically they would be called to action that they need to fill up so we are now setting up a central call center which would call back the prospects who have indicated their interest in less than one hour that is something which we hope to go live in a few weeks from now and equally there would be special handling based on the profile of the customers who are coming in. So, digital therefore is a huge offensive for us going forward. We are confident that the upgrades will now mature into referrals because those who have recently upgraded are equally confident in referring more of people to become members because what they have done for themselves they would recommend for their own friends and families. So, if you would turn to page nine of the presentation we have just captured very quickly what we have done as a response to the TRAI regulations and how therefore we are reimagining the entire sales process. We have got a new sales tool this took us about six to eight months to put together. It is a very complex piece of software which really works out of a touch screen. It does three things for us A, the entire selling experience is far more interactive, it is far more experiential, people are able to see videos, we are able to make them engaged by honing in on the things which are of interest to people and by doing that we also are able to analyze that the backend the behavior and as sales analytic tool it's something which is significantly able to do wonders for us. We have as of today launched this over the last week, 10 days across about 40% of our total locations. This is used not only in our retail stores which is the holiday world but also would be carried by our sales people who make visits to people's home and to people's offices.

The initial responses which is coming through what we are seeing is that there is 1.5x conversion rate improvement which means for every 100 people who met, if 10 were making up their mind consequent to the entire sales process to end up buying, now we are seeing that number travelled up from 10 to 15 so which is why I say 1.5x is the improvement and we expect this improvement to go further to pretty much we are working towards getting it to double up as our sales people get into the rhythm of using this new tool as they get into the rhythm of using Sell Smart. So, not only is something which leaves a good feeling in the minds of the members. It improves the experience like I said equally the chances of people who don't buy or whatever the reasons may be of leaving with a much more positively aligned state of mind is far greater and we therefore because we would certainly have captured the identity of the people who came met with us did not buy and when we would reach out to them again with a suitable cool off period. So, sell smart really if you look at it is something which we have lot of hopes from with reasons because like I said it's already working across 35 – 40 different locations and we are seeing results come in. Early days more because they cannot be in use for too long a period of time, the few pilot sites that were there had gone live a month-and-a-half ago that was when we were doing the testing, so what self-smart does is to standardize, to increase the engagement and engagement of the analytics. If you quickly, I will just give you a very brief walk through of self-smart if you look at screen 16. There is a sample screenshot of self smart which gives the entire icons which the salesperson is able to see, therefore this gives you an overview and if you look at screen 17 it is really a query of where do you holiday, what is your idea of a holiday and this is as a logical next step to customize the experience, to



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customize the presentation to the requirement of the concerned individual who is sitting across the table.

If you look at screen 18 it tells you, how the membership works this is how it would be explained. My apologies when you looking at these still screenshots it doesn't bring to life, the reality of how engaging this tool is. If you see it in actual action it is far, far more engaging as you can imagine. For example, if you look at screen 19 it talks about how it is purposing sells to the size of dwelling that people may be looking for screen 20 talks about the season choices and what each season means, what therefore obviously the pricing is different so it makes it that much easier for the people and we take the prospectus feedback and we talk about. So, that's pretty much about sell smart.

As you would have seen we changed our identity last week. This change of identity is not just a change of logo, it's a change of heart, it's a change of, it signifies a logical next step of things that we have been doing for the last more than over a year whether it is adding more inventory, whether it is changing the booking process, booking online whether it is the new website, anything and everything that the member interacts with their experience has become significantly superior which we are showing certainly in the satisfaction ratings, but more important like I said in the number of people who are now upgrading either by season or by the size of the unit that they have. So, this change of identity is as you can see it is four hearts it's inspired by the Buddhist heart Mandalas which is the coming together of hearts of a family or members of a family so it gives us, it is contemporary, it is refreshing and we are very convinced that the number of people out there who are aware of Club Mahindra but have varying views of the company as it has moved over the years, those certainly would look to reconsider the new Club Mahindra and in the first one week we just finished one week as you know we have started last Tuesday and the first one week already we are seeing the traffic on our website the number of enquiries that we are receiving on the digital space it has gone up significantly in a very short period of time and that's the media presence remains. I hope you people have seen our advertising on various, of course each one of you would read the Economic Times so if you saw the ET on Friday you would certainly have noticed, if we are in the electronic space and we have given a very heavy weight to the digital space so we are very visible on YouTube, we had taken over Money Control at point in time per day. So yes, so the response is good to the new identity to the new look. Our members themselves have been writing into us, they have been tweeting into Anand himself about the overall positive feel about it.

On the inventory page, inventory as you can appreciate is a lumpy subject, it's something when it comes it comes in bulk when it does not come it does not so we are not losing sleep that at the end of H1 we have not added anything during the half. There are prospects that we are in conversations with and we obviously would be in a position to share with you the outcome as and when we have something to report. On our existing land parcels we had bought a property



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which we had shared with you last year in a place called Kandaghat in Himachal Pradesh very close to Shimla. We have a property in Coorg, which is actually amongst the first three properties that we ever had, since our oldest flagships that we had. Both these locations we are currently doing the drawings, both of them are capable of giving us a yield of 300 plus rooms combined, additional rooms which the land permits us to have, current occupancy levels give us the confidence that adding rooms in these locations would be accretive for us and we have as you know opened a new place in Virajpet about six months ago. Virajpet is very close to Coorg district we are getting extremely good response both in terms of qualitative part and even the occupancy and Virajpet again there are 75 more rooms which are work in progress. We expect that work to get those rooms to come into our inventory within the financial year and which is why we are confident that unlocking the key on some of our land banks would make sense for us. Alongside with acquisitions, alongside absolutely and we are also reexamining align parcel that we have in a place called Theog, Theog is in Himachal which is about an hour-and-a-half from Shimla. So, these are the three lines that we possess, two where we have existing resorts where in those areas we are in a position to add, one where we had not moved forward after having acquired the land about three years ago and now we are confident that this is the right time to examine that. So, that's pretty much from me to give you a flavor of the overall where we are, what we are. Of course, I am sure there will be questions which I will be happy to address along with Alope, after Alope walks you through the financial details, so Alope.

Alope Ghosh

Good evening to everyone. Like I do every time and this is more for the people who probably wouldn't have seen our presentation. I will just read out the details of the results including the income breakup, if you need to know that so I will first start with the quarter. And the number which I would be mentioning is rounded up, I just wanted to mention that. So, the operating income for the quarter which is Q2 and I am talking of operating income only over here was 171 crores versus 152 crores last year for the same quarter. Including all other income the total for the quarter was 194 crores. Now, the breakup of operating income is timeshare income 112 crores. ASF or the Annual Subscription Fee Rs.34 crores. Resort income with added room based compared to last year is at 24 crores and the travel business 1.5 crores this is what has contributed to the operating income.

Besides that we have interest in other income of 18 crores and others of about 5 crores. PAT for the quarter was 28.8 crores versus 27.01 crores last year which is a growth of 7% on year-on-year basis. Cumulative member base currently stands at about 165,719 this is what a brief about the quarterly results. Now, I will just get into the half yearly results which the operating income for the half year was 337 crores versus 299 crores last year, so growth of 13% on year-on-year basis, including all other income the total for half year was 379 crores versus 329 crores last year which is a growth of 15% on year-on-year basis. Now, break up of operating income is timeshare income 218 crores, Annual Subscription Fee 64 crores, resort income 52 crores and the travel business 3 crores. Interest and others 32 crores with other income of about 9 crores.



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PAT for the half year was 49.8 crores versus 45.9 crores last year which is a growth of 8% year-on-year. So, now I would leave it for the question and answer session.

Moderator Thank you very much sir. Participants we will now begin the question and answer session. First question is from the line of Nimit Shah from ICICI please go ahead.

Nimit Shah Is it possible to give the breakup of the vacation ownership income of 112 crores?

Aloke Ghosh Vacation ownership Nimit as you know consist of three components 60%, 40% and our cancellation income. I mean we share this as a one line item.

Nimit Shah Correct, I was asking because the membership growth for this quarter has declined but the vacation ownership has increased by 10% so I just wanted to know how much has been the contribution from the cancellation or from upgrades.

Aloke Ghosh See, without mentioning the separate numbers cancellation income Rajiv just mentioned about upgrade, so upgrades we will see a substantial rise, so that in the time share income we have had a big element of cancellation income for two reasons one is in terms of numbers and I am talking of member numbers a little higher number as compared to last year was cancelled and number two when we cancel the members whatever they have paid for as you know the prices have increased over a period of time we take that into cancellation income so there was an increase in that element as well. So, it's a combination of higher number of cancellations and higher price which lead to a higher realization from the cancelled members.

Nimit Shah And this quarter the cancellations number was how much, 1000?

Aloke Ghosh It was about 1094 .

Nimit Shah And what will be the average membership fee for this quarter?

Aloke Ghosh Average membership fee for this quarter would be higher than what we have gross before which is around 5.8 lakhs per member and that is primarily because of higher realignment which we have already spoken off.

Rajiv Sawhney Nimit if you look at the mathematics if I as a member upgrade from Blue Studio to Blue One Bedroom I will give you as a company let's say Rs. 1 lakh, I am saying that will improve the AUR but the number of members sign up is zero that is why

Nimit Shah That's why there is a significant jump in this average membership fees?

Aloke Ghosh Yes.



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- Nimit Shah** Correct I got it.
- Rajiv Sawhney** This is not representative of the new members signing up value.
- Nimit Shah** And if you can split like what will be the new membership increase that is the fees increase as far as the new membership is concerned that was I think 10% to 12%?
- Rajiv Sawhney** Well the price increase over the same period last year to this year is in the ballpark of 11% to 12%.
- Nimit Shah** That remains.
- Rajiv Sawhney** Yes.
- Aloke Ghosh** I mean that would be to say that everybody has actually bought exactly the same product variant.
- Nimit Shah** Correct. And coming to the room addition plan like what will be the capital work in progress as far as the room inventory is concerned and do we stick to a number of 350 – 300 rooms of inventory addition for this year?
- Rajiv Sawhney** Yes, Nimit that's what I said that we are not losing sleep that H1 looks as zero, we have a project and I just mentioned, I will repeat. See, we have Virajpet where we have 75 rooms underway.
- Nimit Shah** That will come before this year?
- Rajiv Sawhney** That's right. And there are other projects like Kanha in MP as we have spoken there is Munnar expansion in Kerala and there is Naldera in Himachal, so these are projects which are underway. I talked about couple of projects which we are going to undertake where we are going to use our own land. I did not talk about land acquisitions; I know your question is more to do with FY14 which is in the next six months. I also mentioned that we are looking at some acquisition possibilities, I am unable to share any detail on that because once it happens it happens.
- Nimit Shah** And would our cash flows be sufficient for the CAPEX plans or would there be any necessity to raise debt as and when required?
- Aloke Ghosh** No, Nimit we don't see any reason to raise debt now. Our methodology has been that when we wanted to add we will go in for additional securitization, we don't see any change in that plan right now. As you know the IPP funds is something which we have raised also for projects.



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- Nimit Shah** And last question in this year we have amalgamated our subsidiary and there was a loss of 10 crores as far as FY13 was concerned that is Bell Tower? So Alope, I just wanted to know what will the figure be for this year or like that or for first half Bell Towers how much losses were there?
- Alope Ghosh** See, Nimit we keep ourselves restricted to the standalone results at this point of time that is what we declared at the quarter end okay and there is of course a plan to merge Bell Tower, Emerald Palm as we call it, we are effective from 1st April and the matters with the stock exchange. So, the results will after the necessary approvals and get merged with the parent company as and when it happens.
- Moderator** Thank you. A kind request to participants please limit to a maximum of two questions at a time, you may come back in the queue for more questions. The next question is from Jaysingh Suchak from JM Financial. Please go ahead.
- Jaysingh Suchak** On the realizations front just wanted to know so if I don't consider the upgrades for this quarter, wouldn't be the realization from new members?
- Alope Ghosh** Yes, just a minute Jaysingh, you can ask your other question.
- Jaysingh Suchak** And what would be the same number for last year like in terms of 2QFY13 that's one more. And one more was in terms of the online bookings, it's still at 50% or is there some change on that front?
- Rajiv Sawhney** It is tracking about the same. We see that growing Jaysingh because we have made the engine even more versatile, we have made it more robust, we have made it more interactive because we have become far more feature rich and the effort was to mirror the websites to the call center so that people who go online don't feel the need to then call up, so we still notice a lot of mixed behavior where people come on to the website go 90% of the way and then they pick up the phone because of certain special requirements or certain exceptions. So, we have upgraded ourselves so that the best site is able to give and provide all the exceptions so that there should be no need to talk to human being or me so that gives us the confidence. So, well I will put it this way, while the percentage is kind of constant the total number of people who are using it is higher because year-on-year same period we have about 19% to 20% more members who have holidays so the total number of rooms booked is that much higher so that many more people have booked online, but we are not happy with that, we want to take that number up to beyond 60 and which is why I told we are doing all the effort that we are and we are confident that that will happen.



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Jaysingh Suchak So, just on the member addition front so obviously one which has been subdued in that regard how do we see like no guidance but in terms of how do we see the traction with the festival season coming up and these new initiatives for the rest of the year?

Rajiv Sawhney We remained positive Jaysingh and I will tell you why two – three reasons. One is that realigned the way we were doing things after the TRAI notification then one more came in August so we had to move back to the drawing board and redo what we were doing. So that is something which was like a bolt from the blue so we had to redo our structuring. So, both for digital and I talked about specifics on what we are doing on digital and on referrals and referrals I gave you the reason why we are very confident that if upgrades are accelerating at the pace that they are clearly shows member satisfaction and member willingness with their cheques. Sell smart is a big player in that because the conversion rates that we are seeing, I am repeating what I have had mentioned earlier. The sell smart conversion rates are significantly better like I said they are tracking to 1.5x, we expect that to improve as people get into the rhythm as our sales staff gets used to using sell smart because whichever country it has been using because this is something which is being used in the vacation ownership industry in the western market and clearly they have seen wherever it has been used. Our people have seen those sites we have studied that closely before we took the decision to make the investment, it has gone up by two to three times in cases the overall productivity. And alongside with that we are on track to getting into newer towns, towns like Amritsar, towns like Nashik, towns like Ujjain to name a few where the newer geographies should help us. We are happy with the way the business in UAE is tracking. We have signed up partners in the satellite countries to Dubai, which would mean Oman, which would mean Qatar and couple of others, so one is there is an organic growth in the UAE which is promising which is coming through as per the plan and the second part is that we are now based on that expanding our footprint. We are equally looking at venture in to Singapore, again to capture the non-resident Indian market the PIO market that is something where we will be participating in a fair, in a real estate fair actually in the coming two weeks time, which will give us, which is like to check the waters. So, basically the newer geographies so it's a combination of these things which should see our numbers, new member and number comeback to what we have been used to and do better than that, yeah.

Jaysingh Suchak Just wanted those numbers on realization front?

Aloke Ghosh Jay as far as the realization is concerned the normal add has had if you take out the realignment has pretty much reflected the 10% price increase which we are talking about so it has clocked between 3.7 to 3.75 lakhs. So, the additional amount which you see is because of the realignment.

Jaysingh Suchak 3.75 would be the fresh people for this quarter?

Aloke Ghosh Yes.



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- Jaysingh Suchak** And last year same quarter again it would be round about 3.4 or whatever it will be 10% - 11% lower so it would be similar mix?
- Aloke Ghosh** Yes.
- Jaysingh Suchak** Just one last question is that we had small interest component which we have paid this quarter is there any particular reason for that.
- Aloke Ghosh** That is because we have gone for some amount of overdraft and that is the interest component which we have shown in the P&L, so instead of securitizing we took a short term overdraft.
- Moderator** Thank you. The next question is from the line of Tejas Sheth from Emkay Global. Please go ahead.
- Tejas Sheth** My question is that this is your lower addition of members more to do with the lower touch points because of the TRAI regulation or it's more due to the discretionary spending in the macro environment?
- Rajiv Sawhney** No it is because of the former than the latter because discretionary spending would demonstrate itself in member upgrades equally. Let me give you feel of what has happened. If we were to be able to reach out to 100 phone numbers earlier we would typically be able to reach out to 90 to 92, now because of the new restrictions, because of everything that we need to comply which obviously we have to and we are doing that 100 from 90 has become 50 so that is the contraction in the number of people we are able to reach out to the number of contacts that we are able to make for prospecting for lead generation and that is like it is the new normal which is why what we have shared in our presentation also which we have uploaded we are saying that it's really we need to recast, reimagine what we are doing the way we do because clearly what we have been used to doing what the industry has been doing and it's not just our industry it's any direct selling business, any direct selling industry which has relied on generating prospects so that is the singular reason.
- Tejas Sheth** I just wanted to know any change pertaining to the acquisition cost owes this change in your strategy towards pool strategy, how you see your change in the acquisition cost.
- Rajiv Sawhney** Cost of acquisition is looking favorable because as you can see the mix if we acquire more customers through upgrades it is really inside job so to speak and it is not happening out in the open market space so this mix change makes it favorable.
- Tejas Sheth** Do we see acquisition cost as a total price going below 30%?
- Aloke Ghosh** Yes in this quarter we have had it below 30% as Rajiv has said so we have clocked below 30% in this quarter.



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- Tejas Sheth** And sir just last question, how many members upgraded in this quarter if you can share the number?
- Aloke Ghosh** No, we generally don't share that number.
- Moderator** Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.
- Nikunj Doshi** My most questions are answered. Just one question these upgrades on what the amount we receive is again 60/40 in that manner we account of it's entirely accounted in the year?
- Aloke Ghosh** No, we do the same thing which is 60/40.
- Moderator** Thank you. The next question is from Jatin Khemani from Aadhar Securities. Please go ahead.
- Jatin Khemani** My first question is regarding advertisement in sales promotion annually we spend north of 140 crore on this I was wondering if I could get a break up for this in terms of advertisement and sales promotion?
- Rajiv Sawhney** Yes, you can ask your next question as we give you that detail.
- Jatin Khemani** My next question is regarding employee cost. Annually, we spend 160 crores on employee cost, I want to break up in terms of, say what constitutes sales and marketing team, resorts and corporate if that's possible.
- Rajiv Sawhney** See, I mean, what do you want as a break up? See resort would include all the operational expenses of the resort. The sales and marketing expense would include the promotional expenses and the employee cost would include all the employee related expenses.
- Jatin Khemani** My question was the 160 crores which is the employee cost, how much is for the sales and marketing team, how much is for the employee of resort and how much is the corporate head office?
- Rajiv Sawhney** Okay we generally don't share that number.
- Jatin Khemani** Okay no problem and what about the first question, break up of advertisement and sales promotion?
- Rajiv Sawhney** The percentage of sales and marketing expense as a percentage is about 28.5% that is what it would include, out of which the major chunk there would be two major chunks one is what we call as a sales variable cost including the sales variable cost would primarily include commission incentives to sales people and the offer cost and the other one would be your sales



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fixed cost these are the two major components. Sales fixed cost would primarily include the holiday world rent and service charges that's it. So, these are the two primary components which is 28.5% of sales.

Jatin Khemani I was actually trying to figure out how much of the 142 crores we spend on mainstream advertisement as in print media, online.

Rajiv Sawhney No, we generally don't share that information.

Jatin Khemani Could you throw some light on NRI business, how is traction going there, you mentioned in your last con call that you are accounting big one NRI market so how is that fairing?

Aloke Ghosh Yes, NRI Dubai is doing as per plan, we have signed up partners in Oman, in Qatar and in Abu Dhabi and so we should see good increase in that market and that has inspired us also to look at Singapore where we are making our first foray sometime in November which is more doing a dipstick at this per time as far as Singapore is concerned and we will build on that so we will obviously take our experience of Dubai into Singapore also.

Rajiv Sawhney In some it's going as per plan yes.

Jatin Khemani Alright and one follow up thing on employee cost. It was mentioned in your annual report that we have 2680 employees. So, does that include resort staff?

Aloke Ghosh Yes it does.

Jatin Khemani So, if I do the math 160 crores by 2680 per month average salary comes out to be 50,000, how come the figure is so high just wondering.

Aloke Ghosh So, that employee cost also includes sales incentive paid to the sales personnel. See, under employee cost you also have a clubbing of the sales incentive which is paid to the sales people, so the maths which you have done would not be the right way to determine it.

Jatin Khemani And you would not be able to share that break up right?

Aloke Ghosh No.

Moderator Thank you. The next question is from Manju Bhashini from Sundaram Mutual Fund. Please go ahead.

Manju Bhashini Question on Zest, what is the cumulative number base in Zest as on date because there has been continuous cancellation from the Zest membership for the last two to three quarters, what would be the member base as on date?



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- Aloke Ghosh** Yes, Manju you can ask the other question as we give you this answer.
- Manju Bhashini** The other one is, I think there was mention about the new products with different age groups a few days back, if you can elaborate what are the products that we are considering and what would be the split to nature of these products will it be three days or less than that because that was launched for that earlier right, for younger population wanting to holiday only three days but frequent holidays. On one hand there is cancellation in that product and on the other hand we are looking to launch further new product, so I just wanted to understand that initiative.
- Rajiv Sawhney** Yes, just to clarify specifics on new product we will share at the appropriate time, Zest we have stopped fresh sales for a while now and when you were looking at Zest cancellation what you are seeing is for us every Zest cancellation there is addition in Club Mahindra because those people have basically upgraded. The Zest customers have upgraded themselves to Club Mahindra and so that is the way the movement has been. On the product I would request a little patience and we will come back to you at the appropriate time and share with you and all its detail.
- Manju Bhashini** Sure.
- Aloke Ghosh** On the Zest member Manju which you asked is around 9,900 currently.
- Manju Bhashini** So, the endeavor is to convert all the Zest members into Club Mahindra members over a period of time is that the correct understand or how much do you think would be more reasonable to assume here the conversion?
- Rajiv Sawhney** Well, its ongoing thing. We are in conversations with Zest members, encouraging them to upgrade, encouraging them to and meeting them half way in terms of whatever it is and as you can imagine some people make up their minds, some would like to wait, some would like to consider and this is something which in timeshare is quite normal in the foreign markets people have moved from a product construct of number of days to a point system and when they did that it took some time for the population to migrate and not everybody eventually migrate but learning sales 80% - 90% of the people do end up by waiting over a period of year-and-a-year or thereabout, so that is something which our member relations team is constantly in touch with our members to talk to them.
- Manju Bhashini** And what would be the realization of Zest member vis-à-vis a club Mahindra member just trying to understand what can be the incremental fee we can generate by upgrades?
- Rajiv Sawhney** See Zest what we had sold at, at that point of time was about 1.1 lakh per member and Club Mahindra you know what it is.
- Manju Bhashini** 3.75 okay.



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- Moderator** Thank you. The next question is from Kiran Tulsi from Edelweiss. Please go ahead.
- Kiran Tulsi** Just wanted to understand the volume occupancy this quarter to 75% from 90 last quarter so is it more seasonal or is there anything more to that?
- Rajiv Sawhney** It is absolutely seasonal, if you say it is better than same period last year.
- Kiran Tulsi** And also can you throw some light on what is the occupancy for Club Mahindra members per se and what is the occupancy from non-member point of view.
- Rajiv Sawhney** I would say 95% of total occupancy would be members.
- Kiran Tulsi** Alright and just one more data point so last quarter I believe you had some expiry of short term contracts about 495 so was there any such expiry this quarter as well?
- Rajiv Sawhney** No.
- Moderator** Thank you. The next question is from Pooja Swami from Span Capital. Please go ahead.
- Pooja Swami** My first question is regarding your incentives paid to your sales staff. As we understand your membership fees is like 17 lakhs for Purple Group, 2 lakhs to your Blue Group, so is the incentives paid on the membership fees or how is it paid to your sales staff?
- Aloke Ghosh** Yes, it is paid on the membership fee but it is paid on graduated basis so 100% is not paid at one go, it is paid for different colors and different schemes at different point of time based on the payment cycle of the member.
- Pooja Swami** How is it in terms of your online feeds and referrals like you have shown intention to increase your acquisitions through online so will be the incentive payment in this case?
- Rajiv Sawhney** So, let me explain that it is not that we will acquire customers online being a complex product, being a high ticket item the conduit, the channel of acquisition would be via online but, I mean we would get introduced to the prospect through online but eventually it would always be a face meeting where prospect would needs to know understand, appreciate before he or she signs up and commits for 25 year commitment.
- Pooja Swami** So, you mean the introduction will be only through online but the final acquisition will be face to face?
- Aloke Ghosh** Absolutely, fulfillment will be face to face.



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- Pooja Swami** And I just want to know your view on the accounting term like do you think the accounting treatment of accounting 60% of your membership fee upfront and amortizing the balance 40% over the period of membership is suitable because when you work up the numbers like even if the 60% is reduced to 50% the profit is affected to a great extent, so what is your view on that.
- Aloke Ghosh** Yes, I mean this question has been asked so many times and we have answered this so many times so my request is that this particular call is for the Q2 results and the half year results so if we have discussed this many times over if you want answer on the 60/40 you can call up separately and I will be happy to explain.
- Pooja Swami** Okay sure, I will get that afterwards. Just last one question. What would be your amongst your rooms 2400 approximately what are the leased room?
- Rajiv Sawhney** Yes, about 35% of our rooms are leased of the total.
- Pooja Swami** How many of these are due for renewal in next one to two years?
- Rajiv Sawhney** These are mostly long-term leases we sign up long term lease so that is what it is?
- Pooja Swami** So, there is no renewal in next one to two years?
- Rajiv Sawhney** No.
- Moderator** Thank you. The next question is from Rahul Bhangadia from Lucky Investment Managers please go ahead.
- Rahul Bhangadia** I am sorry I joined a little last you were mentioning something about income from cancellation of membership if you could just kind of re-explain that, sorry about that?
- Aloke Ghosh** So, what we mentioned was that cancellation income in this quarter was a little higher for two reasons one is of course and when I say higher compared to the same quarter last year for two reasons, one is the number of members cancelled was higher than last year that is one. And number two when we cancel we also see what the member has paid up because that is taken into cancellation income or whatever he has paid up. Now, due to price increase that component has also been higher so these two factors have contributed to the cancellation some being higher than what it generally is.
- Rahul Bhangadia** And that you would have recognized in the sale of vacation memberships or there in the income line?
- Aloke Ghosh** No it is in the sale of vacation ownership in timeshare income.



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- Rahul Bhangadia** And is there are number that you have given for that?
- Rajiv Sawhney** No, we don't give separate numbers for that.
- Rahul Bhangadia** Just one technical kind of question on that. So, the cancellation policy is such that the person doesn't get the refund or something like that, is it and how does it?
- Aloke Ghosh**
- Yes, if you see our policy I mean you can have a look at that, so I will not spend too much time on this but what it says is that 60% of the membership fee is admission fee and 40% is entitlement fee so 60% component is non-refundable that's how is the split.
- Moderator** Thank you. The next question is from Gaurav Jalan from Avant Garde Wealth Management please go ahead.
- Gaurav Jalan** How do you think about the total number of rooms that you have vis-à-vis a membership fees? So, are you just looking at the ratio of your total rooms which available to a membership fees and currently that ratio is around 76% so is there a number that you look at as a target and are you happy with where you are currently?
- Rajiv Sawhney** On a stand still basis we are alright the maths you need to do also is the number of people who are eligible for a holiday because what everybody who is called a member if you had signed up last month or last two months ago or three months ago and you have paid lot of people by on EMI, Equated Monthly Installments so it takes them time to reach a particular milestone after which they will become eligible for a holiday so for a room sufficiency we always take the eligible number of members to the rooms available that is one part and secondly, we have indicated earlier in this call also that we continue to be seized of the needs to increase our inventory and we are working towards that and we are making progress because it is lumpy in nature you don't see anything at this period of time so far in this half.
- Gaurav Jalan** Okay so roughly it would be end let us say fiscal '15 how much do you think you will spend it in capital expenditure to add rooms?
- Rajiv Sawhney** Well end of March '15 starting from April 13th we have said we will add 1000 rooms, how much of those we will build, how much of those we will buy some of them we will also lease would then infect our CAPEX because obviously if I am leasing them there is no CAPEX it is OPEX above the line cost for me by way of lease rental so that mix at this point in time, I am not able to give you a view on what I have told so far is that project A, B, C, D is underway so that's for sure. In my acquisition whether I acquire through buying of asset or by leasing remains to be seen. We would in-principle prefer to buy because then the terminal value of the asset remains with us as you know our members sign up for 25-year term which is a right to use



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at the end of 25 years the property reversed back to us and we are there in a position to release inventory and sell to fresher sets of members so we prefer owning assets but we need to be conscious of what is available depending on the kind of location what the choices are, just to give you a very small example we were looking for something in Mahabaleshwar last year and it is not possible to build in Mahabaleshwar because of Supreme Court ruling and of the properties that fitted our requirements, the only one which we viewed in on was available for lease and not for buying so we chose the lease option therefore. I was just explaining to give a flavor of our thinking.

Gaurav Jalan

Just one other question on this. Do you benchmark yourself as in global players on this kind of room availability to membership ratio? I was just looking at Marriott Vacation worldwide their ratio seems to be very different, it's 160% which means many more kind of room is available versus members so I was just wondering whether why such a big difference.

Rajiv Sawhney

There are two difference essentially A, they sell only by sampling which means every single customer who ever signs up first is invited so therefore they have to keep so many rooms for non-members to come and sample them. B, when they sell they sell it is actually, it's strictly thinking fractional ownership so you end up owning a week. Whereas in our case it is floating, in our case the choices are much wider so there is essentially a difference of the way you look at, I mean I am saying we are the same broad species but we are different. We can talk about that at length separately if you wish.

Moderator

Thank you. The next question is from Divyesh Saha from Pragya Equities. Please go ahead.

Divyesh Saha

Regarding the addition of the members, I think our membership addition is far, far below over true potential and one of the reason which I found out to be is that there is a parallel business going by travel agents who sales our holidays at Rs.2000 to Rs.3000 per nights and there were many shortcomings in our marketing strategy in last three four years we have almost overtook everything but I think one of the shortcoming is this that there are many members who have got multiple memberships and they sales the through travel agents so what are our views, how we can stop that things, so that our deserving member can get the benefit of the rooms.

Rajiv Sawhney

See let me answer that question that there used to be a time when people used to advertise in publications like the Midday it does not happen anymore. There used to be a time when there used to be an abuse we put a foot down very strongly and we have also been through the benefit of genuine members following a very strict principle that during the season time we do not permit members as guests. So, the member should be themselves asking for a holiday or coming themselves, so they have been I would say what you talk about is something which may have been present in some shape form or manner. It is marginal at best today but I take your point on board we will certainly recheck and reconfirm and make sure that if there is anything else which is happening we must curb that so that the general people like you said



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must not pay the price for people who are making into a trade because that's not what it is meant to be.

Divyesh Saha Mr. Rajiv I do agree with you what you are telling but I still receive a lot of SMS about marketing and if you want we can talk on a personal line because it's off the record, I can give a name of the person who has got multiple memberships and who sells regularly in a week, days and holiday and seasons.

Rajiv Sawhney I would be happy if you could share that with us we can-

Divyesh Saha If you can talk to me off the line I will be happy to help you out, thank you.

Rajiv Sawhney Certainly.

Aloke Ghosh We will take one more last question before we end up.

Moderator We will take the final question from Vikas Sharda from Antique Asset. Please go ahead.

Vikas Sharda One question on cancellation of membership that typically how long would you wait before the member basically is stop paying the installment that you would cancel the membership and has it norms changed over the last few years?

Aloke Ghosh Yes for our EMI policy we have a particular period which we follow with the statutory auditors that if a member does not pay within a specified timeframe which is an agreed timeframe with the auditors and our collection team we declared it to the auditors at the end of each quarter and cancel so we have an internal policies specifically wherein that period is identified at the end of each quarter and people who fall in that bucket we analyze with the collection team and declare to the auditors and as a part of good corporate practice we write it off on a quarter-to-quarter basis.

Vikas Sharda And during this period means, when they are overdue you would charge interest or means or recognize the income or how would it work?

Aloke Ghosh We have a policy on provisioning of interest also so if a member doesn't pay beyond the particular period we make a provision against that interest so to answer your question if the member scales up beyond that particular period of non-payment we do not recognize the interest.

Vikas Sharda And you said that your cancellation income goes up because the price of the membership has also gone up so I recognize that means whatever the member has paid if we cancel the membership he loses it but how would the current price of the membership affect the cancellation income?



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- Rajiv Sawhney** No that's because as you grow and as your price increases so if a product which was costing us say 75,000 just to take an example moves up to 1,20,000. The member would be paying you a higher installment EMI as well right. So, what I mean is the higher price would impact his EMI payment because he will pay a higher amount EMI and when he cancels out because of the price increase there would be an impact due to that because he is buying a higher end product or a higher price product than what he was buying before.
- Vikas Sharda** That is for the new member right, means for the person who is trying for a certain membership fee?
- Rajiv Sawhney** We have been taking these 10% price increase from year-to-year for some time so even if it is old member whatever cancellations we have done before, the new cancellations would be at a higher price impacting the cancellation income in a positive manner.
- Moderator** Thank you. I would now like to hand the floor over to the management for closing comments.
- Rajiv Sawhney** Yes, so just wanted to conclude. Thank you everyone for attending this quarter two results call. If you have any specific queries which you want to ask you can get back to me on my personal line in the office and we could talk about it. Thank you very much everyone.
- Moderator** Thank you sir. On behalf of Religare Capital Market that concludes this conference. Thank you for joining us you may now disconnect your lines.