# "Mahindra Holidays & Resorts India Ltd Q1 FY-17 Earnings Conference Call"

**July 29, 2016**

**MANAGEMENT: MR. KAVINDER SINGH- MD & CEO, MAHINDRA HOLIDAYS & RESORTS INDIA LTD.**
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**Moderator:** Ladies and gentlemen good day and welcome to the Mahindra Holidays & Resorts India Limited Q1 FY17 Earnings Conference Call. We have with us today Mr. Kavinder Singh-Managing Director and Chief Executive Officer and Mr. Vasant Krishnan-Executive Director and Chief Financial Officer. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh. Thank you and over to you sir.

**Kavinder Singh:** Good evening everybody and welcome to the Quarter 1 Mahindra Holidays earnings call. I am joined in the call by my colleague, Executive Director and CFO Vasant Krishnan. Let me just begin by sharing with you the member additions during the quarter. We have clocked 3630 units which are up 17.6% from 3087 units that we have clocked in the first quarter of the preceding fiscal year. The other news that I want to share with you is that our member base has now crossed the 2 lakh mark and this is a testimony to the immense faith that our customers and stakeholders have bestowed on us over the past two decades. We have in the past outlined several initiatives that we have taken in the area of member engagement and if you recall I had mentioned last time about our heart-to-heart engagement program both at resort and outside resort in the members hometowns. This initiative is now scaled up and we are seeing a good traction in terms of referral as a result of this initiative where we engage with our members in the cities of their residence by engaging with them and creating experiences for them in their hometown. Our investments in the referral program as well as the digital program and the alliances that we are doing with various brands are helping us to create desired pull for the product. We believe that these initiatives are continuing to yield results as evidenced by our volume growth this quarter through—more than 50% of our members have come in through—digital and referral route, a consistent trend that we have been observing and reporting for the past several quarters.

One point to note, our volume growth has come on the back of a price increase of approximately 5% in blue and white and 2% in purple and red memberships. The heartening feature is that despite the price increases we have a good traction in the blue and white member addition. In response to growing request from members to ensure that we get inventory in the West, we are pleased to report that we have added 145 rooms, predominantly in the Western region, 20 rooms we added in Goa, 75 rooms at Hatgad which is close to Saputara, 6 km from Saputara on the Maharashtra-Gujarat border. Saputara as you know is the only hill station in Gujarat. This is approximately 4 to 5 hours driving from Mumbai and will cater to the growing demand in the Western region including Maharashtra and Gujarat. The balance 50 rooms have been added in Jaipur and that should strengthen our existing offerings in Rajasthan. We have one in Kumbhalgarh, one in Udaipur, one in Jaisalmer and now we have it in Jaipur and that makes up for a complete circle. These resorts have been taken on lease basis.


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Having said that I am also happy to inform you that our resort in Assonora Goa is progressing as per the schedule and we should also be breaking ground on two expansion projects, one at Kandaghat near Shimla and other at Ashtamudi in Kerala very shortly. Our other Greenfield project at Naldehra near Shimla consisting of 116 rooms is also on track and we should be looking to open that resort by the end of this fiscal.

Coming to financials, I would like to highlight that the company has now adopted the Indian accounting standard commonly referred as Ind-AS with effect from April 2016. The profit reconciliation between the numbers reported under Indian GAAP and Ind-AS has already been published and therefore I will not repeat them here. I would however like to emphasize the impact on our business has been predominantly on account of fair value of employee stock options, in the current quarter we have taken an extra charge of Rs. 88 lakhs on account of fair valuation of employee stock options. You would also be probably aware that during the last quarter of the preceding financial year we had merged three of our resorts into Mahindra Holidays. In the full effect the merger has come in Q4. As required under Ind-AS there has been a retrospective effect of the merger with effect from April 2015. Consequently the results for the corresponding period Q1 June 2015 incorporates the results of the subsidiaries that have been merged into Mahindra Holidays and this should facilitate better comparison between the two quarters.

A brief overview of the rest of the financial numbers; total revenue came in at 253 crores up from 234 crores at 8.7% increase over the last year. The earnings before interest tax is depreciation and amortization for the quarter stands at Rs. 61.74 crores which is 50 basis points increase over 23.8% that we have clocked in Q1 June 2015. This is a reflection of the initiative that we have been taking in controlling our overall spends. Before I move on to PAT (profit after tax), I do want to spend a moment on depreciation that came in lower at 15 crores as compared to 18 crores from the quarter ended March. This is on account of the fact that the significant component of IT assets that was capitalized in 2012-13 has been fully depreciated. Profit after tax for the quarter stood at Rs. 30.1 crores as against 25.2 crores that we had clocked in Q1 June 2015. All other financial details are contained in our investor pack.

Before I open the floor to questions I just wanted to share one more piece of good news. We have become the largest leisure hospitality player in terms of our inventory which is (+) 3000 rooms now. That's something that we are extremely proud of along with the fact that we have crossed the 2 lakh mark in two decades of our operation that really clearly show the trust that we are enjoying on Club Mahindra brand. Just one more point I would like to highlight; our profit after tax margin is now in this quarter is at 11.9% versus 10.8% over the same period last year. With this I would now open the floor to questions. Thank you.


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**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Aditya Bakul from Axis Capital. Please go ahead.

**Aditya Bakul:** Could you elaborate as to what was the reason for low income from VO sales that is one? The second one is in your presentation; in the media presentation you have highlighted your plans to have 500 rooms and the total CAPEX of about 550 rooms over the next 2-3 years. We do understand now that the incremental cost per key is going to be closer to 1 Cr rather than 70-80 lakhs. And the third question is more on the qualitative side. I'd like to know your qualitative feedback on all these ground initiatives you have taken. What would probably be the long-term impact of these and whether these are sufficient to ensure 8% or 10% growth in membership?

**Kavinder Singh:** The last question I will answer but the first two questions I will request Vasant Krishnan to answer.

**Vasant Krishnan:** We are sensibly showing the degrowth from 124 down from one category I think that was the first question. Aditya the income from sale of VO consist of really two components. One is the VO income as it was and the cancellation income that we recognize when a member cancels. So this time our cancellation income was lower as compared to the Q1 of the preceding fiscal which in a way is also good sign because that shows the increasing health of the business. That is the reason why we are seeing that -7% dip that you alluded to. This is the first part of your question.

Your second question was on the media briefing; so let me clarify what we said in the media was that in the next three years we will be actually looking at adding inventory to the extent of around 700 rooms. 500 to 550 rooms were in the context of our existing land banks that we already have in terms of our expansion programs in Ashtamudi and Kandaghat and our projects in Assonora and Naldehra. We are also looking at fresh land banks; we also spoke about some land deals that we are actively pursuing in the western parts as you know, a large part of our demand comes from that part of the world. That is why even in the opening speech, we talked about Hatgad and Goa where there is a large part of the demand. We are also aggressively pursuing the land deals in that region which will cater to the members residing in the Western region.

**Aditya Bakul:** So these 500 crores of CAPEX would correspond to 700 rooms?

**Vasant Krishnan:** That's right. We are still looking at a 70-80L per key. Let me clarify that again cost per key cannot be a uniform benchmark, it will depend upon location. These are very-very marquee resorts that we are constructing, which will be akin to some of our flagship resorts. That is why we might spend more money. However, having said that it is not to be taken as an indication that this is what we will spend all across.


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**Aditya Bakul:** Can I just go back to the previous question on the VO income. If I have to see had there been no cancellations in this year and if there were no cancellations in the previous year that is Q1 '16 then the sale of VO income would show 9% or (+9) something growth?

**Vasant Krishnan:** I did not say that. All I said Aditya was that relative to Q1 of FY16 as June '15 quarter we have canceled lower and that was a lower cancellation from a delta perspective that's all I said.

**Kavinder Singh:** You wanted to understand the qualitative inputs or the initiatives that we are taking and how it will impact the growth in the future, am I right?

**Aditya Bakul:** No, I just wanted your qualitative feedback on the various initiatives that we have taken already. How do you see these initiatives going forward and whether these initiatives are sufficient to give us 7%-8%-10% growth in membership?

**Kavinder Singh:** The initiatives that we have taken are largely in the area of internal processes and systems improvement and the member engagement piece. In the member engagement piece I did mention about the heart-to-heart program wherein we engage with members in their hometowns and we actually call them in either a 5 star hotel or a hall where we create a resort like fun atmosphere where we engage with them, solve all their queries, do any servicing issues. The idea there is that if the members are happy, enjoying this event that we have created for them we also get significant amount of uptick in referrals. So this initiative we have already scaled up in the Q1. In fact, what we did in the last 2-3 quarters of the previous year, we have ended up doing almost the similar level of contact in just one quarter. So, on a qualitative basis we are going to scale of this program even further that is one bit. The second thing that we have done is, we are chasing high quality prospects so that we are able to ensure that we are able to get the prospects that will be able to be with us during the entire 25 years' journey. So what we have done in this regard is we are doing alliances with various brands and we do cross promotions to be able to attract the right quality of the customer. So this is one initiative again from the internal metrics which is giving us very good result. The third initiative is how to get people 'Millennials' who are on digital, online and from there how do we get the right prospect; so we are doing significant amount of digital marketing which is continuing to give us a results as reflected in our referral and digital sales being almost 50% of our total sales. On the customer facing initiatives, we have also ensured that our website is upgraded. In fact, our website will now have the new look. The web bookings have gone up this quarter with 73% of the members ending up booking through the website which a year ago in the same quarter stood at 53%. We are seeing all-around improvement in customer promoter's scores, net promoter scores. We are seeing reduction in the complaints if there are any. We are seeing a significant amount of social media positive mentions because we are constantly ensuring that when the members are delighted they are encouraged to put their experience on the social media, we are seeing that moving up. All the internal metrics of customer satisfaction, engagement are on the upswing. As far as the internal


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metrics are concerned whether it is the collections of receivables, whether it is the systems and processes in terms of better information and ensuring that we are constantly improving our ability to add inventory in line with member additions. These metrics are also moving up. From the internal side whatever is required to be done in terms of creating inventory, improving the member satisfaction rates etc. that work is going on. We have done significant amount of work in our resorts, our food and beverage offerings have been significantly enhanced. We have new restaurants like one is Italian, one is Cherai, another one is Barbecue Bay in Madikeri which we have opened up. We are having multiple ideas on creating repertoire of restaurant brands in our resorts. You would know that the occupancy this quarter was at 89%, 2% up from same quarter last year. It's a huge opportunity for us to create excitement around the food and beverage aspect as well as the holiday activities. We are seeing significant amount of action in this area and we are so reasonably satisfied with them that we are taking measures to ensure that the growth momentum continues.

**Moderator:** Thank you. The next question is from the line of Chetan Wadia from JHP Securities. Please go ahead.

**Chetan Wadia:** Can we have the broad numbers for HCR performance for Q1?

**Vasant Krishnan:** As of now we are not putting the HCR numbers for Q1 in the public domain. As and when we do that we will of course put it in and publish it on our website. Having said that I am sure you have already looked at our five-month performance of HCR when we took over in September, from September to March we have clocked 3.4 million. But we are still collating the numbers for HCR for this quarter. We will be putting it up on our website & will get back to you as and when we do that.

**Chetan Wadia:** Can you just touch upon what has led to this increase in others or in the total income and non-operating income for the quarter?

**Vasant Krishnan:** You wanted to know the other income?

**Chetan Wadia:** It has gone up by 74% to 20.79 crores from 11 and non-operating numbers gone up by 62% to 4.27 crores instead of 2.6. So what has led to this increase can you just touch upon it?

**Vasant Krishnan:** The other income would primarily comprise of our surplus funds, interest income. So if you look at interest income, it's largely buoyed by interest income which we have on the EMI installment sales that came in much stronger this quarter. One of the reasons I want to highlight it here is to show this income at a net line that means the amount of money that we pay on the securitization of the loan is deducted from the gross interest that we have got from the customers. You would also know that we have not done any securitization over the last 2-2.5 years and as we are paying our securitization loan the amount of interest that we are paying to the banks has also started to


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come down significantly. That has resulted in the net number going up. So it's a function of two things, one at the gross level we see a higher interest income as more number of members were added on and at the net level we got another kicker because the interest on securitization loan has come down resulting in that increase to be subsume in that number of 20.79 crores which is up from 11.92 crores in the first quarter of the previous fiscal.

**Chetan Wadia:** You were thinking of taking the initiative to approach the NRIs in the Gulf and the Europe and the US region for the membership of the Club Mahindra and now also the HCR combine. So what are the efforts that we've taken in that respect and have you met with any initial success?

**Kavinder Singh:** As far as the Dubai operations are concerned as you know we have a sales office in Dubai. We are seeing a significant growth in our overseas sales to the NRIs. In fact we have distribution arrangements in almost the whole of Middle East including Qatar, Oman, and Saudi etc. We are quite happy with the way we have been able to grow our membership base. In fact, we feel that we have made the right decision. We don't normally share this data but in the internal metrics I'm saying almost 4% to 5% of our sales coming through this particular office. We are also looking at some countries in Africa to expand our offerings. So this has been a good experience and the rate of growth is highly satisfying to us.

**Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

**Ritesh Poladia:** There is a 40% increase in ASF, any particular reason for such kind of an increase?

**Vasant Krishnan:** ASF income is a function of the volume of members that contributes to the income. Every member who is an active member has to pay ASF. Last year we did add those members so every year you will see that growth coming in. So that is one reason why in an ASF income you will see an interest. The second reason is that compared to last year we also took a rate increase of around 3% odd. So there are two factors that contributes to ASF income, one is the body of members to whom we can bill and that is consistently rising because we have also shown that growth over last year, all of whom already would have commenced and therefore ASF income would kick. Secondly the rate of `increase also resulted in that number coming in at 52.8 crores.

**Ritesh Poladia:** Another question on VO income. You said that there was a lesser cancellation fee.

**Vasant Krishnan:** Relative to the last quarter of the previous fiscal.

**Ritesh Poladia:** I just want to know if we reduce the cancellation fees this quarter also and the previous quarter also, would there be a growth?

**Vasant Krishnan:** No, I did not understand the question.


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**Ritesh Poladia:** If we exclude the cancellation fees what we have received in Q1 FY 17?

**Vasant Krishnan:** We don't want to get into that level of granularity but net of that when we track it. We find that it is in consonance with the sales value that we have clocked for this quarter that would be that number.

**Ritesh Poladia:** Another on heart-to-heart kind of programs, so out of 2 lakh members any ballpark number how many members we would have touched upon?

**Kavinder Singh:** Obviously you are right; there is physicality to touching the members. What I have done and spoken to the marketing team, these events are physical events. We send invite to say 100 people; we get about 50-60 coming in because some people cancel last minute. What I remember of the number is that I think from the time we have started we would have touched about 8000 to 10,000 families so far.

**Ritesh Poladia:** Over this kind of an initiative would be at least over three-four it would be running?

**Kavinder Singh:** No, that's not the way to look at it. Heart-to-heart is about engagement, it's not necessarily that I will do it only in the cities where people are residing. We are doing huge amount of connect with our members at resorts also. We are running programs like what's cooking in terms of what's new in terms of the food that we are serving. So we are trying to engage with members on food, quality activities etc. which is also classified under the heart-to-heart program. What I gave you the number was largely in the idea of in city experiences. But in resort as you know last year if I remember correctly 100,000 unique members holidayed. So I'm not saying that we would probably be able to touch all of them. But a very large percentage of the people who holiday in resorts will also be a part of this heart-to-heart program of creating a connect. It's not that the member will just walk in, enjoys holiday and go away. Our aim is to connect with the member through various activities so that the member feels the sense of belonging to the Club Mahindra community which is what we believe is the single biggest reason for them to give referrals for Club Mahindra membership which is intricately tied to our growth plans.

**Moderator:** Thank you. We will take the next question from the line of Nimit Shah from ICICI. Please go ahead.

**Nimit Shah:** Would you explain the impact of the new Indian accounting standard like what line item does it impact? Does it impact the revenue booking in anyways?

**Vasant Krishnan:** You would have seen the profit reconciliation…

**Nimit Shah:** It does not have a significant material impact.


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**Vasant Krishnan:** Except for the fact that….

**Nimit Shah:** Except for the ESOP.

**Vasant Krishnan:** ESOP fair valuation of around 75 lakh.

**Nimit Shah:** I just wanted to know whether it impacts the revenue recognition…

**Vasant Krishnan:** It does not impact any revenue recognition.

**Nimit Shah:** This quarter whatever rooms we have added they are entirely on lease, the 125 rooms which we have added?

**Kavinder Singh:** That's right, is all on lease.

**Nimit Shah:** What will be the breakup out of these 3000 rooms in terms of lease and ownership?

**Kavinder Singh:** We've got that 65-35 model so that it's still moving.

**Nimit Shah:** On a consol basis currently that stands 65-35?

**Vasant Krishnan:** These factors that we are going to be around 117 rooms from Nalbehra by the end of the fiscal and Assonora is well on track that's another 200 rooms. Our expansion plans in Kandaghat and Ashtamudi all of which are kick starting this year. All of them would be owned.

**Nimit Shah:** This year CAPEX would be how much in that case?

**Vasant Krishnan:** This year we would be budgeting around like you said these are all phased out over the next three years. So they will peak the year afterward so this year we should be targeting to spend around 100 crores odd because some of them are still in planning stage. They will peak in the next two years.

**Nimit Shah:** This rate increase which we have done,when was the last increase because last year also in the middle of the year we did some rate increases around 2%, am I right on that?

**Vasant Krishnan:** Last year we increased, you're talking about the membership fees?

**Nimit Shah:** Yeah.

**Vasant Krishnan:** Last year we increased it by about 4%. This year it's slightly higher than 4.5%.

**Nimit Shah:** So this increase is effective April?


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**Vasant Krishnan:** No, this increase is effective I think towards the April end.

**Kavinder Singh:** Some effect of that you will see now doing in the next quarter.

**Vasant Krishnan:** Full effect will come in this quarter.

**Nimit Shah:** I think that's a good increase and it's been taken well by the market as well because it's positively reflected in the member and additions as well. One thing I would like to again clarify though the earlier participant has also raised this question. I think the member addition 18% and the VO income still does not reflect because you explained about the cancellation income. But if you leave apart the cancellation income will the VO income should have grown by similar 15%-18%?

**Vasant Krishnan:** Not necessary because it is also a function of the AUR that is also functions of how we have got in the members. By design we have got in more of blue and white this quarter. Like we said this is something that we keep calibrating quarter-on-quarter basis. so we have pushed the pedals more at the bottom and we wanted to test it out also we have increased the prices and the heartening feature; is in spite of the price increase the market has taken it well. It will manage to have that base at the bottom still expanding so that gives us the confidence as we…

**Nimit Shah:** But still it would be a double-digit type of a growth?

**Vasant Krishnan:** We don't want to get into that level of granularity at this stage. But it is in consonance with our sales value growth.

**Nimit Shah:** What is the average realization?

**Vasant Krishnan:** I would put it around 3.4 per unit or thereabout.

**Nimit Shah:** As against last year of?

**Vasant Krishnan:** It was around the same range. There is no significant variation in the AUR over the last 2-3 quarters.

**Vasant Krishnan:** I'm talking about the last year, Q1 FY16?

**Kavinder Singh:** It would have been a slight dip.

**Nimit Shah:** Last year it would be lesser than 340?


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**Vasant Krishnan:** No, last year might be slightly higher so the AUR might have slightly dipped. But then again I'm talking like to like. Now we are also factoring the increase in the membership fee so I just wanted to link it up with my previous answer.

**Moderator:** Thank you. The next question is from the line of Rishab Bothra from JHP Securities. Please go ahead.

**Rishab Bothra:** Our presentation on transparency level to my understanding is not that great of up to the mark which Mahindra group should have mentioned in the presentation in terms of disclosure requirements. A lot of questions which are being asked would not have been asked if the disclosure requirements are of better standards. You explained very well on the VO side, I have question from the ASF side. If ASF increase have been quite significant, how many members have availed ASF on like-to-like basis, how much was the backlog which have been cleared in this year?

**Vasant Krishnan:** Let me answer and revert to your comment and then answer your question. As far as your comment is concerned I'm surprised to hear that because our investor presentation has been very fairly standardized over several quarters now. So I'm quite happy to have a dialogue with you off-line and figure out wherein we can improve. Improvement on the disclosure standards is a continuous journey as I call it. As far as our messaging if you will have a look at our transcripts over several quarters it is fairly consistent in what we have been saying, key words that we've been pushing. The results are therefore all to see. So I'm quite happy this dialogue with you because I think as a company we would always like to improve and satisfy our stakeholders as regards to the disclosure standard.

Now coming to your question on annual subscription fee, annual subscription fee is not something that a member elects to pay or not to pay. Once you get in the membership of the company annual subscription fee is an obligation that every member pays it once the holiday start date kicks in. All I said was that with the increase in volume as increase in the rate has also some element of the contest look at our receivables and we make hard adjustment there. It's a function of these 2 or 3 aspects. All of which have played very positively for us this quarter.

**Rishab Bothra:** My understanding was since you mentioned whenever we met earlier also or someone explained that you're member does not avail a holiday this year, his holiday gets accumulated…

**Vasant Krishnan:** Holiday credit is accumulated; he has to pay the ASF.

**Rishab Bothra:** So he has to pay ASF before availing that already?

**Vasant Krishnan:** Absolutely.


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**Rishab Bothra:** How much is the backlog still lying which can come if a member wants to avail a holiday in this…

**Vasant Krishnan:** Nothing because he is billed and he paid.

**Rishab Bothra:** But he will be paid only once he avail the holiday?

**Vasant Krishnan:** Not necessarily, he has to pay so there is no question. I just said that maybe a slight misunderstanding. He is billed and revenue is recognized.

**Rishab Bothra:** Whether he avails holiday in a particular year or is not material?

**Vasant Krishnan:** There are bodies of members who accumulate holiday but still continue to pay their ASF.

**Rishab Bothra:** For resort income you have three features room, F&B and holiday activities. Your F&B and holiday activities income has not increased substantially but your room income has increased. So can you give me a split of how room income is arrived at?

**Vasant Krishnan:** Sir, room income is nothing but like I said we have got that optimization program that continuously runs between members and nonmembers. So room revenue is a function of that. We have also got 3000 rooms now in our kitty and that gives us the flexibility to be able to move these line without separating them.

**Rishab Bothra:** Sir, it could be nonmembers they have availed more of in this particular quarter?

**Vasant Krishnan:** Or it could also be that our food and beverage revenues also seen 4% uptick, right.

**Rishab Bothra:** But 4% and 42% let say someone have availed room.

**Vasant Krishnan:** No that is on a smaller base Rishab otherwise you will end up….

**Moderator:** Thank you. We take the next question from the line of Nimit Shah from ICICI Securities.

**Nimit Shah:** Sir, one thing on the leased property. These are total leased or partially leased for all the three locations.

**Vasant Krishnan:** Sir, they are fully leased now so there is no partial lease here.

**Nimit Shah:** So we own the entire property now on a lease basis.

**Vasant Krishnan:** That is right.


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**Nimit Shah:** And is there still a scope for expansion in that property like Jaipur Saputara or these are 50 to 75 rooms.

**Vasant Krishnan:** They are the full resort property that we have taken.

**Nimit Shah:** Okay.

**Moderator:** The next question is from Atul Mehra from Motilal Oswal Securities. Please go ahead.

**Atul Mehra:** Sir, I just wanted to check in terms of what is the kind of sourcing now that happens through digital initiatives for us in the sense that I believe social media, etc., would be a good source for leads for us.

**Kavinder Singh:** Yes indeed. You see what is happening is this landscape is evolving extremely fast, so we work with performance marketing agencies and also we work directly with google, Facebook and yahoo and various other twitter, Instagram, etc. So, what is happening is that when people post their happy experiences, it sets off a series of positive mentions, which creates the inquiry flow into our landing page at the Club Mahindra website, that is one source. The second source is that, today the social media players I mean facebook, google, etc., are able to specifically target our consumer segments through the user's digital habits, so there is a huge amounts of analytics that goes on which we are banking on to be able to target a customer who is likely to buy. So that is what is evolving both in social media and in the search area and we believe that we are at the cutting edge in this area in terms of being able to source a fairly significant part of our sales through these methods; however, I must add that these are coming at a higher cost than we would ideally like to, so this is what it is right now and we will have to really either become better at it or we need to find a way of negotiating harder with these guys whether it is google or facebook or yahoo but unfortunately right now there is not much of choice but these giants who control the space.

**Atul Mehra:** Right, but sir in terms of contribution if you were to look at it, what would that number is towards.

**Vasant Krishnan:** So what we do is we have been declaring the digital and referral contributions because we believe these are pull leads, these are something that has come to us, we have not chased them and that number is above 50% for last I think 7 to 8 quarters now and we believe that it is fairly healthy. The other way we are trying to get leads is through the alliances which I was telling you cross promoting with the upper end brands but that is another good source of leads for us. The reason we do not split this and share it out in the public domain is because of the competitive pressures because there is a significant amount of competitive activity we are seeing particularly in the digital space, so that is something we would like to sort of see that we can sort of keep


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maximizing without upping the ante on the competitors' side, because competition seems to be copying almost every strategy that we employ in the digital space.

**Atul Mehra:** Right and when you talk about the digital medial being costlier so is it because of the conversions not happening up to the mark or is it because by default they are.

**Vasant Krishnan:** In fact, the conversions are better in digital, the customers are stickier. It is a good source but the costs are high. So even after having higher conversion, the cost tends to be higher than the other forms of customer acquisition but I still feel it is worth investing in digital, you will be amazed we are able to target our message sometimes at a specific customer level based on the search habits. If someone is searching Goa, we are able to target with our Club Mahindra Varca, so it is that specific. So therefore it is a very smart way of targeting the prospective customers and we are happy doing that because it does create the right buzz for the brand also in the digital space which is the dire need of the hour in any case. By the way when I say that the costs are higher, I am including the marketing cost as well as the lead generation cost together, so if we were not spending and creating leads, suppose we were not getting leads through the digital we would have anyway spent certain amount of money on digital marketing which is now not avoidable. It is okay. It is relative when I say costs are higher, it is not that the costs are absolutely so high that is unaffordable.

**Atul Mehra:** But in terms of our media spend now a significant portion will be towards digital.

**Kavinder Singh:** You are right, absolutely right.

**Atul Mehra:** And secondly sir, in terms of we have to say cumulative member growth of about 9% and also at the same time we are running high occupancies about 90% or so. So how do we really plan for growth over the next 5 years perhaps, so how do we balance the two and what would be the targeting internally in terms of growth?

**Kavinder Singh:** See in our business, it is important that we synchronize the inventory additions with the member additions and please understand that every member that we get in we get him for 25 years. So it is a long-term lifetime value of the customer, so we need to constantly balance the costs of acquisition to costs of servicing and thereafter the costs of giving service in our resort operations. So this is a constant balance that we try to strike in terms of the cost bit of it. Coming back to the growth bit which you were talking about, see as long as we keep enhancing the value proposition, whether it is through the Heart-to-Heart program, whether it is through the member engagement in resorts which is again Heart-to-Heart now, food and beverage, holiday activities, and doing something for the families, as long as we do that right and we are able to reach out to the right quality of prospects, the potential for the business we are quite upbeat about. We believe there is at least 5x the current member base that we have is the potential opportunity, I don't know how long will it take to get there but we believe that it is possible to do that, because


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Indians are holidaying domestically much more than the outside. Just for you to know last year Indians took domestically 1.4 billion trips as against 1.2 billion trips the previous year. Now obviously these are for various reasons not just for holidaying, these are domestic trips but it does tell a lot about our movement habits. We do move from one place to another place and also with the depreciating Rupee, we are seeing a positive momentum in our occupancies even in the current quarter that we are running, we are seeing the occupancies at fairly healthy levels. So it is important for us to track that occupancies remain high. We add the inventory where it is required which as Vasant was mentioning in the Western region that is our focus area. And we are also now promoting our members to holiday in Finland, Sweden and Spain with the acquisition that we have done on the Finlandsubsidiary. We believe that is another big area that has opened up for us. So if we keep ensuring that the holidaying habit grows, if we keep reaching the right prospects, if we keep adding the inventory where we need to add in time and if we keep managing the cost that I mentioned on the three pieces whether it is acquisition or servicing of the resorts, and the opportunity which is steering at us because of the fact that there are 4 million households which would earn typically Rs. 2 to 3 million per annum and they are all our target consumers and if you look at it, the penetration is just 5% and with the growing base of the disposable income households. I mean we believe that there is really no limit to it.

**Atul Mehra:** But having said that how do we plan for this growth for next 5 years for instance.

**Kavinder Singh:** The only way to plan for the growth is to keep adding inventory.

**Atul Mehra:** No I mean what numbers you are looking at, so is it 15-20% or what kind of numbers

**Kavinder Singh:** So we do not let out this kind of guidance into the future we have never done that.

**Atul Mehra:** Because your room inventory has to be in line with that.

**Kavinder Singh:** Yeah so if you want to know about the room inventory and from there if you want to see our confidence level we are planning 500 room additions in our own properties Greenfield and Brownfield plus as Vasant was mentioning we always have the option to add up through the lease option if we get a good resort we are also open to acquiring resorts if we get a good quality resort. So acquisition of resorts leasing of resorts and building of resorts you can already see a plan of 500 to 700 rooms in the next 2 to 2.5 years, so that should give you a fair idea of what we are looking at into the future.

**Atul Mehra:** But then that will be little bit modest right, given we are at 3000 rooms at this point of time so if you talk about 500 rooms over 3 years so it will be more like 6-7%.

**Kavinder Singh:** Yeah but we have always had the leasing option isn't it?, acquisition of resort option so I am saying it will play out and as you would also want us to manage our cost better right! we do not


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want to have the inventory ahead of the member acquisition because fix cost will add up quickly and you will see profitability going down. I do not think any analyst or investor would want that.

**Moderator:** Thank you, the next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** I will just be delving a little further on the digital part and take the sales and marketing expenses if I look at it quarter-on-quarter there has been an increase whereas our member addition it is not comparable but I am just looking at the sales and marketing expenses assembly per member. How should we look at this going forward and is it not that digital is generally a cheaper mode of advertising compared to the traditional methods that we are using?

**Vasant Krishnan:** Okay as far as the sales and marketing costs are concerned you have seen it rising please understand that we are also growing our members base and there is a certain cost of acquisition and it is I would say to some extent certain pieces are fairly variable. However, the piece which I was mentioning about the digital cost which you are eluding to in digital the cost of reach could be lower per person but you have to be very specific in targeting what you want because we are not looking at a person who is not married, we want someone who is married, we want someone who is 30 plus, who has a certain amount of income, and who owns a certain amount of mobility vehicle whether it is a car or whatever. When you start doing sharper targeting the cost tend to raise number 1. Number 2 the players who are able to fulfill the entire sales process in the digital I do not know whether they end up lowering their cost because that is not what I am seeing in the e-commerce players also even today, they do not seem to be making any money despite the fact that they sell everything online. In our case please understand the sales process is still off line. Digital is only a way to source leads so digital marketing is creating awareness about Club Mahindra. It is creating significant amount of pool for people who could be interested in our product. 3rd we are tapping the future generations because the newer generations are spending more and more time on digital including search. So we believe that investment in digital is going to pay off in the long run number 1. Number 2 cost of digital over a period of time will come down but if you want very sharp targeting and if you plan to do offline sales process which we still do because we believe our product requires certain levels of transparency like face to face meetings to instill confidence, the cost of digital in the short term are likely to remain high.

**Nihal Jham:** Sir just a follow up, how do we see our sales and marketing expenses are going forward? What will be the best way to look at it?

**Vasant Krishnan:** So the best way to look at our sales and marketing expenses is that please understand that in our business since it is a direct sales methodology, we do spend money in discounts. There is a certain amount of discounting there are sometimes offers. Of course, the offers are linked to paying the higher down payment which we monitor. And the very fact that the sales incentives are also variable. So the piece which we believe over a period of time will give us economies of scale is our marketing expenditure particularly the brand marketing expenditure which over a


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period of time already is giving us benefit. Had it not been for that our cost could have been much higher which if you see our sales and marketing cost grew by roughly about 20% and as I told you digital has contributed little more than what we would have liked it to and our member additions was of the order of 18%. So it is not that our costs are running away. We exactly know how to control it and the marketing cost the brand building cost as today are obviously we are getting a huge advantage of the fact that we are adding larger number of members with very similar level of marketing spends that what we use to do. Marketing spends would mean brand marketing spends, member communication spends, they are giving us now the economies scale.

**Nihal Jham:** Sir just one last question of the discount part related to accounting so I think the new IndAS provisions says that you need to net-off discounts and you have seen that in some other companies also. So would such a provision apply for us?

**Vasant Krishnan:** No such a provision will not apply for us.

**Moderator:** Thank you, we will take the next question from the line of Arjun Khanna, Kotak Mutual Fund. Please go ahead.

**Arjun Khanna:** My first question is in terms of our inventory balancing we have seen for a past couple of quarters we have been pushing White and Blue. So how is the mix currently between White, Blue, Red and Purple?

**Vasant Krishnan:** In terms of inventory as a question in terms of inventory for this is a balancing that we are continuously monitoring internally and the 3000 rooms that we have now added right, I think we are in a fairly comfortable position and what I think gives us further comfort is the fact that we are going to be adding at least a 100-odd more units by the end of this fiscal with now there are coming in and I think this is going to be flurry of activity with next 12 to 15mnths over the project as I just told you. So I think we are in a comfortable position as we speak, our occupancy rates are good and high and it has given us a little bit of headroom to be able to optimize our inventory and also see how best we can utilize this for the benefit of others which results a best resort revenues going forward.

**Arjun Khanna:** Right I understand that numbers can actually move across this period with lesser amount of eligibility in terms of number of days but is it possible to tell us in terms of inventory how much belongs to White Blue, Red, and Purple.

**Vasant Krishnan:** We do not have inventory classification that way. We have got peak seasons. We have got blackout periods where the Blues and the Whites cannot vacation because that is how the product is designed. So there is the important matrix that we track is how many people are getting first time holiday when they ask for and some of this is even there in our annual report so that kind of numbers that we track internally either we are able to give them their first choice of holiday


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or if not we are able to give them that then another choice of holiday or something which is a different experience for them. So we are not seeing that number as being alarming that we need to worry about. We keep on adding inventory all the times so that we are able to offer all kind of flexibility to a member.

**Arjun Khanna:** Because you mention in the press release that roughly 3% of we had higher members holidaying with us compare to the same previous year but in terms of members we are up around 8% hence I was kind of curious on this number.

**Vasant Krishnan:** That is what I was saying so it's a function of many things and many moving part a holidaying patterns, they emerge, etc., all of them do not take holidays. Purple members need not necessarily holiday during their Purple seasons right depending upon their profile they may also holiday during non-Purple season that is the advantage of more number of days. So the number of moving parts that we have. We have got our internal algorithms through which we track all of this and as we speak now the situation is fairly comfortable.

**Arjun Khanna:** In terms of VC, we have seen in earlier times there were upgrades. Just trying to understand how are these upgrades actually run through in terms of P&L how much goes to VCO for members upgrade from Green and Red?

**Vasant Krishnan:** Upgrades follow the same pattern as a new member with the only difference being that in terms of revenue recognitions there is no difference. There is a certain proportion say 50% that we account upfront and the balance over the tenure over the membership. So there is no difference in accounting from a revenue recognition perspective. All that we do is that when you upgrade we do not add him to the account because he is already a member.

**Arjun Khanna:** Right fair enough that helps and sir how much is the securitization income for this quarter.

**Vasant Krishnan:** There is no securitization income. Securitization income comes into play recognize the arbitrage between what the bank charges and what we charge the members. So I have told you for several quarters we have not had any securitization income. This interest income is purely on account of the fact that the as I told you that A) Because of the fact that we have got a gross interest income which also moved up and also because of the fact that the securitization interest that we pay on our loans it is also started to come down as we are discharging our loans so both of them have had possitve impact on interest income going up.

**Arjun Khanna:** And lastly sir of our overseas unit when would we start its consolidation on a quarterly basis?

**Vasant Krishnan:** This year we have taken the position that we will do standalone. So as we go forward we will keep you informed of it.


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**Arjun Khanna:** Right so do we have an exemption for this?

**Vasant Krishnan:** We got options to go as per the law. We have an option to publish standalone or consolidated. We have taken the option to publish standalone. As and when we get the decision it will be put up in the website.

**Arjun Khanna:** Perfect is that option available for next year also?

**Vasant Krishnan:** These options we exercise every year. So this year we have exercised the option for standalone.

**Moderator:** Thank you, due to time constrains we will take the last question from the line of Nimit Shah, from ICICI Securities. Please go ahead.

**Nimit Shah:** While the digital and referral has been great for us and I think the member additions has been very strong, how do you see that ratio moving up? Like 50% was the ratio last year as well but how do see that in the coming years whether 60-65% could be from this source?

**Kavinder Singh:** So Nimit Shah what we are trying to do is to grow the business and we do not put these ratios in front of us when we are going after the business. We want the growth to happen both in digital and referrals and in the other forms whether it is alliance or prospect reach out methods. The reason is that if we were to chase a ratio on the ground it becomes extremely difficult to manage that because if you notice we have been growing almost now for last 6-7 quarters if are able to maintain the ratio the good news is that this high base of 50% or 52% as a percentage of total sales is also growing at similar pace otherwise it would not have remained at 50%. So our aim would be to grow overall; whether it is referral whether it is digital whether it is PRO or what prospect reach out to our alliances and we obviously press the pedal in all these areas but there are times when we achieve one moving up more than the other so that is what is the outcome but our aim is to drive the referral and the digital piece higher than what it is today.

**Nimit Shah:** Sure and sir any color on this "Club Mahindra Fund Days" the corporate product which we have?

**Kavinder Singh:** Yeah, the corporate product is still there. We are in fact going to drive it much harder this quarter, coming quarter we have restructured our internal team to do the promotion of fun days there is an opportunity that we see that we need to drive and we hope that we will be able to share some result soon.

**Nimit Shah:** So this one, any corporate joins in, he is a one member or if we take 50 memberships it adds to 50 to the total member.

**Kavinder Singh:** This does not get added to the number of members that we have shared with you the (+2) lakh members. These corporate memberships are 1 for example if there is a customer say any


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customer any corporate so that becomes one membership so they share it between their employees and therefore that does not get added to our numbers.

**Nimit Shah:** So as of now how many corporate would be there?

**Vasant Krishnan:** So at this point of time I do not have the number with me and some of the corporate we have which have topped up and therefore I would have to probably get back to you on this number.

**Moderator:** Thank you, ladies and gentlemen due to time constrains that was the last question, I now hand the conference over to the management for closing comments.

**Kavinder Singh:** So I would like to thank all of you for patiently listening through the opening remarks as well as taking interest in our company and asking all the questions. As somebody mentioned about the disclosure, we would be very happy to constantly improve this area on a regular basis. We are obviously trying to meet the expectations of the analysts and the investor community and we remain committed to ensuring and sharing in-time whatever developments happen in the company and this is an effort in this direction and we will continue in that. Thank you.

**Moderator:** Ladies and gentlemen on behalf of Mahindra Holidays and Resorts that concludes this conference call for today. Thank you for joining us.

*This document has been edited for readability purpose.*


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