"Mahindra Holidays & Resorts India Limited Q1 FY 2018 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Mahindra Holidays & Resorts India Limited Q1 FY 2018 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 -- the Managing Director and CEO of Mahindra Holidays & Resorts India Limited. Thank you and over to you, sir!

Kavinder Singh: Good Evening, Ladies and Gentlemen. I would like to warmly welcome you to the First Quarter of FY18 Investor Call of Mahindra Holidays. I would also like to mention that I am joined in this call by my senior colleague Vasant Krishnan -- who is an Executive Director on our Board; Akhila Balachandar -- who is the Chief Financial Officer; and Dinesh Shetty -- who is the General Counsel and Company Secretary.

So, I am pleased to announce that we had a fairly impressive quarter this year. Our member addition has touched an all-time high of 4,005 members during quarter one. We are seeing significant pull towards our brand. Our acquisition through digital and referrals are at about 50% of our total sales that reflects the growing pull of the brand.

In this quarter, we have made significant strides in improving our customer facing processes, in terms of digitizing them. Our mobile app which was launched in October last year has reached a significant amount of penetration. We are already finding that our members are doing bookings both on web and app; around 85% of the bookings are happening on web and app.

Our customer acquisition in digital route is also helping us to gain members. And more importantly, we are also seeing that the cost of acquisition through the digital route is coming down.

Our strategy is to provide an unparalleled experience to all our member families. We believe we are well geared to do so and we are constantly making innovations in F&B offerings and holiday activities. In fact, you can see that our resort incomes are up by about 10% and the F&B income growth is at about 12% and we feel that this shows that the work that we are doing in terms of increasing engagement with the members at the resorts is bearing fruit.

We have also been certified as one amongst the India's best 100 companies to work for. We have been ranked 98 in 2017. We have also been awarded India's Favorite Resort Chain by HolidayIQ amongst their community of 12 million travelers. Our trip advisor's ratings have also significantly improved and also we have received 27 Certificates of Excellence. So, the pouring in awards and accolades from the external world, show that we are on the right path and this is a moment of satisfaction for the management of this company.

We have decided to focus on creating opportunities in the product adjacencies. So, we have launched a product called Club Mahindra Bliss. This product is gaining significant amount of acceptance. This is targeted at prospects who are 50 - 55 years of age. This is a very flexible point base system, and we are finding that there is significant amount of acceptance for this product.

Also as we speak, we have to share with you another milestone. Our 50th resort Naldehra, near Shimla is born. It happened in quarter one and now we have 3,200 rooms with us and this makes us India's largest leisure hospitality provider in the country.

We believe that we are moving in the right track whether it is in terms of increasing our membership income, whether it is in terms of increasing our resort incomes and also reasonable amount of control on the cost particularly on the sales and marketing cost have been exercised and you can see that there is a reduction. And therefore, the numbers are there for you to see. Our income growth is at about 9%. Our profit after tax growth is about 6.9%. So, we believe that these numbers are healthy and all operating metrics are showing reasonable amount of health and I must also mention that we have successfully transitioned into the GST era, effective 1st July.

With this, I would like to throw open the floor for questions. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Just taking ahead your point on advertising, generally we mention that digital may not necessarily be the cheapest route for us. But in this quarter specifically, you have seen a decent reduction in our ad expenses. So, going forward, can we expect that this is the trend that we will see and it is not actually a cut in ad spends that has happened because we have seen a good growth in member addition also.

Kavinder Singh: Nihal, I would like to say that digital marketing is a forever evolving space. We seem to have made the right move in terms of investing in people and resources and we believe that we can bring our cost per sale down through the digital route. But what I have seen in the past that there are times when the landscape in the digital arena changes so fast and cost begin to again grow because at the end of the day we are dependent on the big daddies of the digital world whether it is Google or Facebook and they do sometimes increase their prices for marketing. So, therefore, I would not like to make a comment that this is for here to stay. But in this quarter, we have been able to control the cost much better than earlier. So, I thought I would share that. But we will have to continuously hone our skills as well as hope that the digital marketing rates do not increase disproportionately.

Nihal Jham: Sure. And generally, this ratio has been around 50%, I would assume for the last two years. Are we seeing an increase or do we have any plans of taking this ahead further?

Kavinder Singh: Referral and digital ratio you are right, it has been around that for last 18 months - 20 months. We are happy because we are growing. As a company, if you recall 2015 - 2016 we grew by 26%; 2016 - 2017 we grew by about 15%; and this quarter we have grown by 10%. So, the good news is that on this growth we are maintaining the referral and digital ratio which means the referral and digital are growing in line with our overall sales. So, there is certainly growth that we are experiencing. But obviously, as management we would like to take this ratio up. But having said that, there is another interesting development that has happened, the balance 50% which is the data that we use to generate through various engagement activities, we have started doing alliances with various brands and those alliances are also helping us to get high quality leads which are not captured in digital or in referral. So, it is not necessary that this 50% should become more but it would be certainly good if it becomes more at an acceptable cost.

Nihal Jham: Sure, sir. Sir, second question on GST as you mentioned, so what is the tax slab that we will fall in? I mean, for the hotel industry we see that generally for rates above Rs. 7,000 it is basically based on the rack rate that is provided but in case of our offerings, how is the GST rate expected to be?

Akhila Balachandar: Hi, Nihal. Akhila here. See, Nihal, basically there are two components, one is a membership fees and this is coming under the residual category and therefore being charged at 18%. In case of our F&B offerings that will depend on whether we are an AC or a non-AC restaurant and accordingly again a 12% and 18%. And third, we still have some portion of FIT business, there if at all and when we sell the rooms at above 7,500 we would be at 28% otherwise our broad rates are 18% or 12%.

Nihal Jham: Sure. And just one last question, we obviously mention the TripAdvisor rating, so is that now the main gauge for customer satisfaction, earlier we used to come out with the CAPS score, are we regularly tracking that also. We are trying to understand how the customer satisfaction is tracked going ahead?

Kavinder Singh: Net promoter score or customer advocacy scores we are tracking internally. We are also tracking external scores from TripAdvisor. The reason I quoted that was because we have seen improvement and we have been getting Certificate of Excellence, so it is more an external validation. The customer scores are obviously done by a third party but they are done for the company. So, those are also looking up and we are also seeing external validation.

Moderator: Thank you. We take the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Couple of questions on the results. Can you please explain what is the reasons for the employee and rental expenses to go up? And secondly, the income from ASF has actually declined Y-o-Y what would this be attributable to?

Kavinder Singh: As far as the employee expenses are concerned, the increase that you are seeing is due to the fact that we have taken significant amount of off-roll employees on-roll. So, in some manner, we are actually going to save cost because these off-roll employees you tend to pay an extra percentage to the service provider. The decision was taken that we will take our telemarketers and some of these people who are on off-roll, we want to instill a sense of pride in ownership. So, we have taken a conscious decision to bring them from off-roll to on-roll, so this is a temporary blip and that is what has led to this kind of an increase. So, this was on the employee cost, what was the second question? And on the ASF, and lease rentals. So, lease rentals I must say that our lease rentals have shown a significant increase and that increase is because we added about 148 units in quarter four and again, as you know that in our business inventory additions tend to be lumpy and over a period of time we find that the inventory utilization and the good news is that we added 148 units and we are still finding our occupancy remaining rock steady at 89% in quarter one. So, even with about 7% room nights addition, if you were to compare Q1 to Q1 and we have still maintained an occupancy of 89%. And obviously you are seeing the benefit in the resort revenues which have gone up by 10% and F&B which has gone up by 12%. So, you can see the benefit is flowing through in the income on the other side while yes, the cost has gone up on the lease rentals. And the third question is on the ASF income. I would request Akhila to answer the ASF income.

Akhila Balachandar: Aditya, Akhila here. On the ASF income basically last year, we migrated to IndAS standard. Under that, there are some standards basically the expected credit loss the ECL, where we need to provide for expectation of loss even when there is no loss. Basically, the old iGAAP stated that you need to provide an incurred loss model that is as and when a customer is delinquent whereas under the expected credit loss, you had to forecast and make some provision. If you remember we had done some of these adjustments under IndAS in the second quarter and also during the year end in the last year. From this year onwards we will be making a quarterly provisioning and quarterly adjustments as required as per the Accounting Standards. So, to that extent there is a little amount of de-growth in the ASF income but over the years we believe it should even out.

Aditya Bagul: Okay. Ma'am, could you quantify what is the amount of provision that we have made?

Akhila Balachandar: That is not in the public domain and it is well within the accounting standards and norms.

Aditya Bagul: Sure, ma'am, that is quite helpful. Sir, if I may just ask one more question. There was a small update couple of months ago, saying that MHRL would be looking to enter the U.S. holiday market. With some resorts in Vegas or something like that. can you please give us some color on this and if it is true then is it in advanced stage?

Kavinder Singh: We are consistently looking for properties, we are not looking to buy businesses. But we are looking to either get inventory arrangements or buy a property which comes to us at a right price. Our opportunities shows that there is a significant potential for us to look at some inventory or a property buy in Orlando. And we are finding even Vegas is now a family destination. So, these were the two things that we had mentioned and we are constantly looking for opportunities in Sri Lanka as well, Southeast Asia and one in Western Europe, if there are opportunities we will look at it because we believe that I must just share with you that we are constantly enhancing member experience we have done some deals with some hotels in Disney, Paris, as well as with hotel in Prague, Berlin, and as we speak even Venice and Florence are being added. The deal is that these hotels are willing to give to a Club like us a very-very special price which will not be available in the market and we are offering it to our members for them to experience these destinations. But we are not committing any inventory. So, therefore, you will not see any inventory addition and therefore it is in some manner zero cost, it is on actual utilization. So, we are trying this and we are finding good response. So, we believe that these markets or these destinations have potential for our members. So, wherever we find that there is significant pull for the destination. If we can have inventory arrangements or if we find property buy which is at a very reasonable cost we would like to acquire to that. So, it is in that spirit that comment was made.

Moderator: Thank you. We take the next question from the line of Rahil Jasani from ICICI Securities. Please go ahead.

Rahil Jasani: I would just like to follow-up on the earlier asked question, first. I wanted to ask on the GST rate you mentioned that on vacation ownership our membership fees will be at 18%. So, I was wondering what was the tax impact earlier and will there be any price changes or any impact because of GST?

Akhila Balachandar: So, basically the earlier rate was under Service Tax act, the rate was 15%. So, now the rate has increased to 18% and therefore, the future membership or the ASFs will be at the new rates.

From an impact perspective, our product pricing is fixed and taxes are extra. So, to that extent there will be an increase in the price to the members but we will not have any impact of it.

Rahil Jasani: Got it. Another follow-up on the employee expenses you said that you took some employees on-roll. So, it is on a permanent basis or was it a one-off for this quarter only?

Kavinder Singh: No, so this is a one-time event and this event has happened. So, our total headcount has not increased.

Rahil Jasani: Okay, got it. Just another last question. I wanted to ask on vacation ownership only, what would be the average realization which you would be getting per member in this quarter?

Akhila Balachandar: We are currently averaging it around Rs 3.2 L to Rs 3.3 L and…

Rahil Jasani: Would that be I think lower than last quarter Q4?

Kavinder Singh: I think it has been around the same line Rs 3.2 L to Rs 3.4 L is what have been trending for several quarters and that trend is continuing in this quarter.

Moderator: Thank you. We take the next question from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain: My question was primarily we have taken 8 years to double the members from 109,000 to 222,000 members today. So, in how much time do you feel that you will be able to double from here on?

Kavinder Singh: As far as future goes, we normally neither give this kind of guidance nor we even think internally like this. Our aim is to create experiences which are unparalleled which are for the family and therefore, as you would appreciate that it is destination specific, it depends on number of resorts that we are able to add. It would depend on our customer acquisition growth rates. So, I would say that the comment that was made by Vasant that we have grown on a higher base, so if you see last year we grew by about 15% on a base of 16,000 members, so we did about 18,550 and we have opened the quarter at about 4,000 members which is again the highest ever in quarter one. So, our aim is obviously to grow members but parallelly we do not want to compromise on the experiences and the overall satisfaction, customer satisfaction levels. And therefore, this is a journey that we are on and we are quite confident that our proposition is robust, we are in fact making it even more robust by digitizing most of the customer facing processes. I gave an example of mobile app, you would be surprised that people are uploading their family pictures on mobile app which is something I never expected because you have better places to upload your family pictures on Facebook. But we created that option and members are engaging and we are finding that our F&B offerings are also gaining traction. 12% growth in F&B is a very good growth. We had 7% extra room nights. Our occupancy remains steady at 89%. So, we are looking at these metrics which are more input metrics, we believe if we keep focusing on them, the outcome is going to be positive, how soon, how quickly, time will tell I guess but I think our rate of growth is reasonably good, if you look at our track record of the last three years now.

Manish Jain: And my second question is on room inventory, if we are at 3,200 by again just to go in the first question, when do you expect to double this to 6,500 for example?

Kavinder Singh: So, we need to double or do whatever percentage increase on inventory in line with our customer acquisition rates. We do not want to be too much ahead and then you see that already, you notice our lease rental cost have significantly jumped from Q1 last year to this year because inventory tends to be lumpy. We need to constantly balance the customer acquisition rates and inventory acquisition rates. If they go out of sync, you know if we have lesser inventory, higher customer acquisitions then customer dissatisfaction will become high. If we have lesser customer acquisition and we have more inventories, we will not be able to maintain it then again the customer experience can become an issue or the cost will run high and the P&L will suffer. So, it is a constant fine balance. Since, we run this business we have a very deep understanding, zone wise, location wise, where do we need to put what experience and what inventory whether we should be in a hill resort or whether we should have a beach resort or whether we should have a wildlife resort. And as you can see that we obviously get leads for both land as well as the resorts very regularly because people understand we are in this business. So, there is a separate team which is constantly monitoring this area in a very-very fine with toothcomb manner and this is a fine balancing act that we need to continue doing even going forward.

Manish Jain: And I noticed that on slide #27 of your Presentation you have put in Rs. 600 crores CAPEX plan, but Naldehra is mentioned as 110 units. So, 55 has become operational you see 110 more coming in?

Kavinder Singh: No, 55 has come in out of 110 units. So, indeed out of 110, 55 are in already in this quarter. So, as we speak now there our Phase-II project is still on that is a part of the project which is undergoing completion and the balance projects are anywhere we have been giving brief the Goa project, Assonora project is on stream. We have the Ashtamudi project which is also on track and Kandaghat expansion project has to start in a couple of months from now.

So, we are 3,200 now and if you add the 550 odd units that can come over the 2 - 2.5 years, so we are clearly looking at a number closer to 3,700 - 3,800 from the construction. As you know the option of leasing always exists. So, last year as you know we probably added about 273 units though the leasing route.

Moderator: Thank you. We take the next question from the line of Rahul Veera from Elara Capital. Please go ahead.

Rahul Veera: Sir, just wanted to understand in terms of the difference of cost of acquisition via the two methods whether it is digital and other sources. What is the gap between the two sir?

Kavinder Singh: Cost of acquisition of digital tends to be higher. Cost of acquisition through other methods tends to be lower. Part of the reason is that we invest money in the various digital platforms as I was mentioning earlier Google, Facebook, etc., then we get leads and then we have to physically fulfill those leads the way we do the other sources of lead. So, the reason why the digital cost tend to be higher because people who are dominant in the digital space whether it is Google, Facebook, and few others, they know what we are getting out of them and they are obviously wanting to extract their price. We obviously want the leads to come through the digital because that shows the pull of the brand and it also helps us to build the brand in the digital space, and I just want to share this with you, my belief is that there is some serious disruption happening in the area of internet penetration. You know that with the Jio Phone launch there is going to be a mass scale internet penetration which will increase very dramatically and I am pretty confident that as digitization increases and interest penetration increases our investments in digital will pay off even better. And I just want to also mention to you that post-demonetization we have noticed that a lot of our members are coming in through the credit cards which itself is another good sign because when we get members from the credit card we know the credit history of the member is already there. So, as you know we sell on EMIs, so it always helps if more and more people come through the online and the credit card route. So, we are seeing positive momentum as a result of the government's desire to create digitization, disruption like Jio Phone. So, we will see more and more people in the digital space, we will keep investing in the digital space to get higher quality leads, full leads for our business which over a period of time will be good for our business. We do not know whether the cost of acquisitions through digital will come down in short time but certainly in this quarter they have come down compared to the quarter last year.

Rahul Veera: Sure. Just to understand the quantification behind it like between the two different sources, what is the gap between the two, let us say assume for digital it is Rs. 100?

Kavinder Singh: It is a very complex situation. First of all, it varies region to region, number one. Number two, it depends on the conversion rates. Number three the entire reason for the cost to be high or low could be also due to the quality of the salesforce that we have in a particular region. So, we actually do not look at data like this. Our aim is to constantly improve these input variables which helps us to bring the cost down. Some campaigns are more expensive than the other campaign, so what you always get if I were to say would be an average cost, an average will tell you nothing because certain campaigns are highly effective and certain campaigns are not. So, it is a constantly evolving field and fairly complex. So, we have a very smart digital team which has been there with us now for almost 2 years and they seem to be getting their act better and better day by day.

Rahul Veera: Sure, fair point sir. So, sir is there any one number that you would be looking in terms of and you can provide us as a cost of acquisition per member?

Vasant Krishnan: I think we have always been saying the cost of acquisition on a per sale basis is around 25% and that kind of number is what is holding, this quarter it has been marginally lower. I will go back to what Kavinder started in his opening comment about the sales and marketing to be lower, that point also came up in another interaction. But I just want to caution that this may not necessarily be a trend that will go into the future because I think we are committed to increasing and deepening our digital involvement and therefore that will be making more investment in digital assets, whether it is content, creation of website, constant improvements in our website, other applications, etc., because all of this basically go into your inputs for your acquisition engine. So, we would like to keep it in this range. So, we are happy that we have got this down this quarter. But we would like to keep it in this range of around (+/-25%).

Rahul Veera: Sure, sir. And sir, one last question, just wanted to understand, if you could throw some color on the international business HCR side?

Kavinder Singh: We have not put that in the public domain. But let me give you a broad trend that last quarter when we published the consolidated results we did speak about HCR having come around. The said trend we are seeing into this first quarter. So, we are cautiously optimistic that when you look at the overall performance of HCR it should be equal to or better than what we did last year. But lots of stuff that has been done we will wait and see how those results pan out.

Moderator: Thank you. We take the next question from the line of Ami Desai from SageOne Investment Advisors. Please go ahead.

Ami Desai: Just wanted to know we have done a recent tie-up for gifting experiences, so how is the response from the customers on that initiative?

Kavinder Singh: Okay. What we have done is on our website we have launched in 7 cities gifting of experiences or even buying the experiences not necessarily gifting. We are finding fairly good response. There are 3 cities, Bengaluru, Mumbai, and Pune, we are seeing that there is a significant amount of traction for these experiences and what we are really doing is we are not really creating any income stream for us. What we are doing is we are using the skill of our company in which we had invested Giftxoxo and now they are calling themselves as Xoxoday. So, we are trying to bring their experiences to our members at a fairly discounted price, so that our members can have leisure experiences in the city. So, we are finding reasonably good response and this shows that there is a market for experiences, leisure experiences in the city.

Ami Desai: Right, sir. Thank you, sir and one more question on this, so we are seeing players like Airbnb coming in and so what are your thoughts on that and how do you…

Kavinder Singh: So, our strategy seems the way Airbnb or any other player would come in we understand that they are in the business of providing accommodation, we are in the business of providing experiences. So, let me just explain you the way we internally see it. We are trying to become even more richer experiences for our members. So, when a member checks in to our resort with his family, he is assured not only a great accommodation but also whatever happens in the resort in terms of holiday activity. Now whether that holiday activity includes a theme dinner, whether it includes children to be enjoying in the fun zone, whether learning new skills or the parents using the spa, or there are various classes that we do which children can enroll themselves in while they are on a holiday to learn new skills. So our belief is that Indian parents want their children to have a wholesome experience, they do not want to just check in to a hotel or into an Airbnb and then just go out for some sightseeing which they will have to figure out themselves. In our resorts, people do go out for sightseeing but they tend to spend most of the time in resorts. And the fact that it is a safe family environment also adds to the overall experience. So, we believe that we are in the business of creating experiences, memories for the family, and spending quality time for the family rather than just checking into an accommodation which may be cheaper or may not be and worrying about the safety, security of the family because you are not sure whether that accommodation is safe and also running around for almost everything whether it is food or if you want to do sightseeing. So, we believe that our proposition can get strengthen if we increase our in-resort experiences which is what we are beginning to do and you can see already our F&B income is grown by about 12% which means that most of the activities obviously have a correlation with the F&B income because when people are doing these activities they are also consuming food and beverage. And our holiday activities, there also income has grown by about 9.5% - 10%. So, we are seeing that this is what really people want in the holiday and this is what we will keep making it more and more richer in terms of variety of experiences, we believe this in some manner insulates us from the players like Airbnb.

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

Nimit Shah: Sir, just wanted your thoughts on inventory addition like we plan to add 600 rooms over the next 2 years to 3 years. But just wanted your thoughts on a mid-term perspective that over the 5 years - 7 years what sort of inventory addition plans are you looking at and what will be the mode of that whether it will be mode of lease or we will maintain two-third, one-third ratio which is currently there?

Kavinder Singh: Ratio of two-third, one-third seems healthy. We are okay if it becomes 70 - 30 or 75 - 25, it does not really matter in my view. As far as we are concerned, for us the property makes all the difference. It has to be a property which creates great experience whether owned by us or leased by us because we do not want to compromise on the experience, so we are not looking at ratios as such in our plans. Coming back to your earlier question or rather the fact that you are saying, how do we see next 5 years to 7 years ahead? I think the process of land acquisition in some of the exciting destinations is already on. If those land acquisitions happen properly and in time we can begin more projects. Our cash position is healthy, if you look at our cash position we are probably much better than that what we have been in the past and we also have the option of debt to grow our business. So, land acquisition is continuously on, existing projects are on, leasing options are being looked at, and refurbishing a resort which has come up for lease, which is not fully ready is also being looked at, so that we create great experience in a destination where you cannot build new resorts for various restrictions and of course, starting new projects the moment we get land those processes are already on. So, we believe that we need to just calibrate this creation of the resorts along with leasing in line with our member acquisition rates. We do not want to be too much ahead, we do not want to be left behind either. And you know the reason why I am saying because if we do either of that it will create different kind of problems.

Nimit Shah: Correct. So, the reason why I am asking because an annual addition of 20,000 members would require a CAPEX of roughly 200 rooms - 250 rooms on an ongoing basis. So, while we have incurred or we have planned for the next 2 years to 3 years, just wanted to check your thoughts whether this inventory additions of 200 rooms - 300 rooms will continue for I think 5 - 7 years, if we want to add new members annually.

Kavinder Singh: In 2015 March, we declared our annual results we showed 425 units added.

Nimit Shah: Yes, last three years has been quite healthy.

Kavinder Singh: 2016 it was about 63 units if I remember correctly. And in the last year it was 273. So, if you look at it we have added around 750 odd units - 800 odd units which if you divide by 3 we are at about 250 units. So, in some manner, we are actually not only caught up with the past but we are kind of now comfortable if I may say.

Nimit Shah: Sure. And sir, the amount of land bank which we currently be holding which can add for our Greenfield as well as Brownfield projects.

Kavinder Singh: So, Vasant, would you like to answer?

Vasant Krishnan: Sure. So, there are multiple ways in which inventory can come adding around 300 - 350 units per annum through a combination what we call leasing or whether just getting into inventory arrangements or even constructing our own should not pose a very big challenge that is point number one. Point number two is that if you look at it, our existing resorts have got excess land which we can always tap into, in addition to that we are also continuously sourcing and looking at opportunities to expand our land bank. To take all of them together, we do not foresee a situation where we would find inventory to be a big constraint in our growth plans.

Nimit Shah: Yes. Sir, I got that. But current land bank which we would be having on our balance sheet, any number?

Vasant Krishnan: Let me give you an example, we have got excess land in our resort in Virajpet, we can always tap into that. Our Ashtamudi project is an expansion project, our Kandaghat is an expansion project. And now what we will do is that when we are going in for land banking, we are also now really looking at large format resorts because we also understand that now doing 40 - 50 - 60 rooms given the state of maturity of our member base, it does not really make sense. So, we will really have to look at at-least 150 to 200 rooms assuming of course, the destination can take it, I am not saying that we will do 200 rooms in forest, you cannot even do that**.** So, assuming that the destination and other things being equal, we are looking at large format plus this land for expansion, so I mean those plans are all in place. So, coming back and circling back to where it all began we do not really believe at this point of time that 300 to 350 units adding per year should be a really big challenge for us.

Nimit Shah: And sir, one more last question, the tie-ups which you have done how does that work like you talked about this Disney tie-up. So, have we committed particular number of rooms for particular time frame or how does it work exactly?

Kavinder Singh: So, what we have done is we do not commit rooms there, for the simple reason that if we were to commit we would have to have a fixed cost incurred on a regular basis and there could be occupancies which may not be 80% - 90% or 100%. What we have done is we have worked out a deal with them that they will give us a pricing and it is an interesting thing that we discovered that they are open to giving these kinds of pricing to clubs like us because we are club and they would do that to our members, one – obviously to promote their hotel amongst our club members and they get the F&B revenue because our members go there and spend there. And obviously, they will get the rental also which will be much lower than what they advertise in the market. So, it is on pay per use basis that is why we do not count it in our inventory. But we are creating wider experiences for our members which leads to better satisfaction and therefore, a pull for our brand.

Moderator: Thank you. We take the next question from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar: Sir, my question is regarding the Tier-II cities membership growth and how is the growth in Dubai also?

Kavinder Singh: So, as far as we have Dubai office which is targeting the NRI based in Gulf. We are not experiencing the growth that we experienced in Dubai say few months ago. So, there is a bit of slowdown in Dubai and that is something since Dubai or the international sales accounts for only 5% of our sales, it has not impacted our overall growth rate. So, the reason you know why the rates would be down because there is a bit of an insecurity, the oil prices being what they are, there is a significant amount of you know cut backs on various projects in that region. So, a lot of Indian are fully not secure and they do not probably want to invest. So, we are trying to revise the market by doing some engagement activities and increasing our referral program in Dubai. But at an overall level the region is in bit of flux right now and therefore, we have not seen the growth that we use to see about a year ago in the Dubai market.

Sumant Kumar: And how is the growth in Tier-II cities?

Kavinder Singh: We are finding there is a significant amount of enquiry, interest in Tier-II cities, some of the Tier-II cities perform much better than the other Tier-II cities. So, at this point of time we are mapping the smart cities which government have declared. We know that those cities will grow and we are mapping the Tier-II cities which are likely to give a higher business than the other Tier-II cities. Our strategy is being planned as we speak and our targeting will become sharper and better as we go forward.

Sumant Kumar: So, how the Tier-II cities contribution in our growth is increasing say 10% and the ratio of key metropolitan city and Tier-II cities.

Kavinder Singh: We grow, as you know that in bigger cities the base will be higher. Percentage may look low but absolute number of members added is very high even now in the cities. The growth figure may look very high in smaller cities but since the base is low the absolute number is low. We should not get carried away by growth. For example, if you say in Faridabad as an example I am giving you, I am selling 5 units a month, if 5 becomes 10 its a 100% growth. If I have to look at let us say Mumbai city where I am selling let us say much more as an example it is let us say 20x, okay as an example, now on that even a 10% growth or a 15% growth we will beat the 100% growth of Faridabad.

Sumant Kumar: So, could you quantify what is the ratio of metropolitan cities and all Tier-II cities together?

Kavinder Singh: I would not track that because there is really no need for us to track that because if the ratio is high or low it probably means nothing because we may have probably not gone into that market. So, let us say Tier-II ratio is lower than the bigger cities that could be because I am more present in bigger cities than in the lower cities, so we really do not look at that data.

Moderator: Thank you. We take the next question from the line of Rishabh from JHP Securities. Please go ahead.

Rishabh: Just wanted to understand, we mentioned that we have grown our revenues despite increasing few of the cost but when I look at the profitability front PAT has improved from Rs. 30 crores to Rs. 32 crores and which to my understanding is only on account of other income. So, operationally we have not improved our performance despite you mentioning that revenue has also increased on several front, I am speaking of Y-o-Y basis because margin has contracted from 23% to 21%. Whatever increase we have seen in profitability at PAT level is on account of higher other income.

Akhila Balachandar: So, if you see our EBITDA it has actually moved from 24% to 23% despite an increase in the lease rentals. The only other component in between is the…

Rishabh: So, but ma'am you mentioned that the occupancy rate has been 80% despite higher room inventory. So, member would have contributed there as well in the ASF income or the resort income.

Akhila Balachandar: Income.

Rishabh: Yes.

Akhila Balachandar: So, the improvement in the PAT and the EBITDA is directly on account of operational income and if you see our other income it is only Rs. 6.5 crores.

Rishabh: Yes, so Rs. 6.5 crores from Rs. 4.3 crores. So, we have additional PAT of roughly about Rs. 2 crores and we have additional other income of Rs. 2 crores. So, where have we improved on the operational side?

Vasant Krishnan: Look at it this way that when Akhila mentions EBITDA take out depreciation below EBITDA, so also when we look at it internally, a lease rental is nothing but a cost of accommodation when she says EBITDA has increased I mean we do not have that number in the public domain but when we look at it internally, we know that the operating profit is going up because we take away the cost of accommodation and this time the cost of accommodation because of lease rentals have gone up. We take that out of the equation completely and you take depreciation obviously we will take EBITDA, you do not take depreciation, EBITDA has grown much more. So, that is what we say when we say that the operating metric we take accommodation out of the equation has significantly gone up, that you might not be able to see it there.

Rishabh: But sir, will it be right to look at excluding the accommodation cost because....

Vasant Krishnan: Because for us a lease rental, it is a fiction of accounting that lease rental is an expenditure, right now that is why it is coming before the EBITDA line. But for me whether I take an accommodation and I own it and I take it out of my own resources and I sacrifice interest income and I put depreciation line or if I take lease rental for me it is cost of accommodation, cost of providing that service. So, that is an internal way of looking at that number and an external way of looking at that number, externally because accounting standard dictates that lease rentals have to be an expenditure it goes pre-EBITDA.

Rishabh: Got it. And sir, last question, on the manpower side you mentioned that we had taken some man power on-rolls. So, this becomes a permanent feature no? But on the other question you mentioned it is one-off event.

Vasant Krishnan: Suppose I have 100 people on-roll and I have 50 people off-roll and if I decide to take 25 people from off-roll to on-roll my total on-roll has become 125, that is why you saw the employee benefit expenses going up because that shows only the on-roll cost. Event to 25 going and joining 100 and becoming 125 is a one-off event and I also mentioned, our total headcount has not changed. It is a reallocation between off-roll to on-roll leading to an increase that you are seeing there in the employee benefit expenses, this is what I said.

Rishabh: So, off-roll expenses was accounted for in which head earlier quarter?

Vasant Krishnan: Off-roll expenses are service charges which are not employee expenses. Employee expenses are only those expenses for employees who are on-roll. So, those expenses can be of two parts, if there are incentives that are paid they will be sitting under the sales and marketing head. If there are services charges non-incentive, they will go on the other expense line.

Rishabh: So, the decrease in sales and marketing cost can be on account of this as well?

Vasant Krishnan: Yes, and partly also because of the fact that our digital acquisition costs have been lower.

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

Vasant Krishnan: Thank you all for joining the call. I just wanted to kind of close it by saying that this quarter has been good as Kavinder has pointed out, we had our highest member addition at 4,005 members. Overall, if you see quarter one always contributes the least and we improve as we go along. So, we are cautiously optimistic about the initiatives that we have taken especially in the digital space. More importantly the stickiness of the customers and thanks to the digital investments that we have made I think augurs well for us. Resorts are growing at a very healthy clip. The 50th resort opened, 55 rooms added, the balance of Naldehra will be coming in quarter two. We are also in very advance stage of tying-up a few leases and inventory arrangements which we will be announcing in the quarters to come. So, as I said we are not seeing any great challenges in the inventory addition for this year to meet our growth aspiration. So, all-in-all, we will wait and see how the future holds. But up till now I think the steps that we have taken and taking are all panning out to our satisfaction. Thank you all for joining the call.

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