“Mahindra Holidays & Resorts India Limited Q1 FY19 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Holidays & Resorts India Limited Q1 FY19 Earnings Conference Call.

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

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kavinder Singh – Managing Director and CEO of Mahindra Holidays & Resorts India Limited. Thank you and over to you Mr. Singh.

Kavinder Singh: Good evening everyone and a warm welcome to our earnings conference call for the quarter ended 30th June 2018. Along with me I have Mrs. Akhila Balachandar – our Chief Financial Officer. I hope you have had the opportunity to look at our quarter one FY19 results as well as the investor presentation, both of which have been uploaded on our website and stock exchanges.

Let me start the call by giving an update on the changes in the Accounting Standard. The accounts up to 31st March 2018 were prepared according to Indian Accounting Standard 18 where non-refundable admission fee of 60% was accounted for as income in the year of sale and balance 40% which is the entitlement fee was deferred over the tenure of the membership. Government of India vide notification dated 28th March 2018 has mandated that from 1st April 2018 the accounts have to be prepared in accordance with Indian Accounting Standard 115 which talks about revenue from contracts with customers. As per this new standard, income from vacation ownership contracts need to be recognized over the tenure of membership and only incremental costs incurred for obtaining the membership need to be deferred over the tenure of the contract. Other costs are to be charged to profit and loss account for the period. For the purpose of comparison of our business performance we have shared financials as per Indian Accounting Standard 18 as well.

Having said this, let me highlight that business fundamentals will remain the same. Our profitability will remain the same over the tenure of membership. Unit economics does not change. Operating cash flows remain the same. There will be a significant increase in deferred revenue in the balance sheet and balance sheet remains strong in terms of our asset base as earlier. Though as a result of adoption of Indian Accounting Standard 115, reported income and profits are lower.

It gives me immense pleasure now to announce that we have maintained our growth momentum in terms of member additions. We have added 4,577 members for the quarter ended June 2018 which is 14.3% growth year-on-year. As per Ind AS 18 our income from operations grew by 7.7%, Rs 287.6 crores versus Rs 267 crores. Our resort income grew at 11.8% clocking a healthy revenue of Rs. 64 crores for the quarter. Our occupancy was robust at 89.4%. Coupled with improvement in other operational matrices we have seen the growth of 13.8% in Profit After Tax to Rs. 36.8 crores as compared to Rs. 32.3 crores last year same quarter. Basis the new accounting standard 115 our total income was at 242.3 crores and Profit After Tax stands at Rs. 13.73 crores.

Coming to our business performance in the first quarter of FY19, I would like to share some highlights. As you know our focus has been on acquiring quality members through higher upfront payment and reducing EMI tenures. As you know that we have discontinued 10% down payment Blue Studio 48 EMI option, this helps us to increase member lifetime value with us of the members that we acquire. Our focus on sourcing leads through digitals and referral continues. We are also following a focused market strategy and increasing our customer acquisition activities in Tier-2 and Tier-3 towns. We have also done an innovation by doing a pilot in using the artificial intelligence tool in GCC markets which has given us encouraging results in terms of lead generation through the digital.

Our member engagement initiatives like Heart-to-Heart in cities are helping us improve our referrals in select markets. Also, our social media engagement helps us acquiring leads through social media on digital. Member engagement in our resorts through host of programs, an all-inclusive F&B packages and new F&B options is helping us increase our resort revenues. Our 11.8% resort income growth is due to focused efforts in F&B, holiday experiences and room revenue. Yet another notable achievement was that our resort costs have grown at a much lower rate because of improved operational efficiencies. As I mentioned, our occupancy remains robust at 89.4%. Our focus on digitization of consumer facing processes is yielding significant benefits. Our booking penetration though our mobile app which was launched last year stands at 41.3% while the overall online penetration which means all the bookings and all the transactions that members do, is at 89% on our mobile app and website. We continue to adopt new technologies and innovative strategies to provide the best experience to our members. As a marketing initiative to we embraced May 15th as World Family Day wherein we believe we owned the day and change the Times of India masthead to The Family Times of India.

Our new product Bliss is gaining momentum. This is a 10-year product, points-based product and now being sold in 14 cities and targeted at (+) 50 years segment and the interesting part of this product is that we do not sell this product without accepting minimum 30% down payment.

Our construction of new resorts adding to approx. 200 units at Goa and Kerala continues as planned. Curated experiences and dreamscapes which are in city experiences are available to our members on our website as part of our strategy of building an experience ecosystem for our members.

We have been ranked 66 among the top 100 companies to work for in India by the Great Place to Work Institute, last year our rank was 98 and this is a significant movement upwards for us and this is the second consecutive year where we have been certified as a great place to work. Recently we have been awarded the Porter Prize for creating distinct value in the travel and tourism industry for the second consecutive year. These achievements showcase that our teams have not only been maintaining the highest standards set but also surpassing them year after year.

I would now like to conclude my speech and would open the floor for questions and answers. Mrs. Akhila Balachandar is there with me, our CFO to answer any questions related to Accounting Standard and any other questions that you may have which are very specific to financials.

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

Nihal Jham: My first question is on this Ind AS part that how the accounting will be done now for our sales and marketing expenses. As I understand and earlier we used to book 60%, we used to have a big upfront marketing spend which in a way used to compensate us for that. Now will the sales and marketing expense that we do will also be amortized over 25 years or 10 years however the contract maybe.

Kavinder Singh: I would request Akhila to answer this question.

Akhila Balachandar: As per the Standard, revenue will be recognized over the tenure of the membership. As per the Standard only the incremental expenses which are directly linked to the acquisition of the contract would be deferred over the life of the contract. So, expenses which are not directly linked will have to be charged to profit & loss account in the year of the expenses being incurred. So, sales and marketing expenses would get bifurcated into two categories, one, which are only directly linked to the acquisition of the contract and others which are not directly linked and therefore, a portion will get deferred and a portion would get charged to the P&L.

Nihal Jham: But will this allow us to continue with the kind of expenditure we generally incur on Sales and Marketing or will we need to reduce it now that there is this change that has happened?

Kavinder Singh: In terms of looking at expenditures I think our focus on controlling expenditures has always been there irrespective of the Accounting Standard. So as far as the business imperative is concerned that continues to be to reduce the costs of acquisition and that focus will always remain.

Akhila Balachandar: Let me add to what we have said earlier, a small part of the cost which are directly linked to the acquisition of the members would be deferred, the time cost specifically marketing cost would not be deferred. Things like commissions, incentives, which are directly linked for acquisition of the customer, for example, some offers that we give, the schemes that we give, those would get deferred. In terms of profitability in terms of the life span of the customer the unit economics will still not change. It is just the point of time where they are accounted in the books would get changed.

Nihal Jham: Now getting on the member growth which has obviously been pretty robust. I just wanted to understand that there are two initiatives which are going on since the last six months and wanted to understand their contribution in this growth. First is the launch of Bliss, so the question is that is it that a big portion of the growth is Bliss related? And secondly, how much traction are we seeing from the Tier-2 and Tier-3 cities?

Kavinder Singh: As far as the Bliss growth is concerned, Obviously Bliss as an absolute number is still insignificant in terms of our overall product mix because we continue to be selling our 25-year product and that is dominant. So, while Bliss is growing it is gaining acceptance, but it is still insignificant in the overall scheme of things. As far as Tier-2, Tier-3 markets are concerned we have made significant in-roads into the Tier-2, Tier-3 markets and some of the growth that you are seeing is coming through those initiatives and we are also focusing on some high potential markets and some of these information from a competitive intelligence point of view confidential, therefore, we don't bring it out but we have a very clear strategy of going after specific Tier-2, Tier-3 markets where we see potential is high and where we are using various methods to reach out to those markets which we believe are unique in their way and which is helping us to get this growth.

Nihal Jham: One last question, on the accounting aspect again, I see that while our members have grown by 14% again the VO income growth is that 6%. So, is it that there has been a fall in the average realization per member that we generally see or how do we explain this?

Akhila Balachandar: This you are comparing with…?

Nihal Jham: The normal Ind AS 18 Standard, not the 115. There also I think it’s a 6.5% growth in VO-ASF combined whereas the members have grown by 14%.

Akhila Balachandar: To some extent that is a mix of the Bliss also coming in. The average AUR for the 25-year product continues to remain at around Rs. 3.3-3.4 lakhs, so there we have not seen any reduction in the AUR but the component of Bliss as compared to the previous quarter is definitely on the higher side.

Nihal Jham: But I'm assuming that would be an insignificant portion for now to our VO income?

Kavinder Singh: The other part is that the other components of VO income which include ASF income, they do not grow in proportion to the number of members growth in quarter. Also there is an impact of Bliss because we compare Q1 to Q1, the Bliss number was much lesser, here the Bliss number is obviously higher though insignificant in the total scheme of things. Also as I mentioned ASF component will not grow at the rate at which the members have grown. So, you will see a lower number in revenue compared to the member growth that you are seeing.

Moderator: Thank you. We take the next question from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Due to the change in accounting policy to Ind AS 115, the revenue impact of Rs. 53 crore Rs. 17 crore impact on expenses, Is this perspective or there is an element of prior period items in this?

Akhila Balachandar: The standard mandates is, all open contracts as on 1st April, 2018 need to be restated from the inception as if we have applied 115 to them from the date of inception which means basically we had to restate every contract retrospectively, so this reduction will have an impact of that change. The impact of the change up to 31st March, 2018 has been taken under the transition provision directly to the reserves. But whatever impact comes in the quarter is what has contributed to the reduction of the 53 crores.

Ritesh Poladia: So, this is not essentially a one-time of the previous month? If I believe, about 2 lakh members would be impacted, accounting would be impacted. For this quarter it is covered.

Akhila Balachandar: Let me re-explain. In the past, we used to recognize 60% upfront and 40% over the life of the membership. Now what we will be doing is even for the sales which have happened in this quarter, the membership fee will be spread over the life of the contract, so I will no longer be recognizing the 60% upfront. I would be directly proportionately recognizing over the life of the contract. What that also does is for the contracts for which I was taking only 1/25th of the 40%, now I will be taking, say, a 4-percentage income. I hope that clarifies.

Ritesh Poladia: Can you give us this Rs. 53 crores bifurcation for the 4,577 new members impact and the previous members impact? Is that possible to share?

Akhila Balachandar: The way to look at it would be that the current number is the income that we will be recording, the current number of Rs. 170 crores income from VO, ASF and others, is what we will be recording for the quarter for the members who have been with us over the (+2) lakh members that we have today. Basically, let me re-explain. In the previous Accounting Standard it permitted us to recognize the 60% of the non-refundable admission fee upfront and the balance was deferred over the life of the membership. Now what we need to do is as and when the sale happens we will be recognizing proportionately over the life of the contract. And since I had done a retrospective implementation of the contract which is what the standard mandates us to do, we will be taking credit for even those members who have been acquired in the past, so for those members also we will be proportionately taking the income over the life of the contract.

Ritesh Poladia: Now coming to the expenses, the Rs. 7 crores which is in employee and Rs. 10 crores is in other expense, essentially those would be like employee commission to acquire that contract and 10 crore would be majorly the freebies what you give it to the customer, is my understanding correct?

Akhila Balachandar: That is correct.

Ritesh Poladia: One final request, since this is your big change in the accounting, can we have a cash from operation and free cash every quarter?

Akhila Balachandar: Sure, we can do that.

Ritesh Poladia: Can you share of this quarter?

Akhila Balachandar: We will add that and upload in the next couple of days.

Moderator: Thank you. We take the next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: My question relates to growth. With the new initiative taken in FY18 revenue growth has taken a hit. When are we expecting to get back to our historical level of growth?

Kavinder Singh: The question is that the revenue growth has taken a hit, is that the question?

Vikrant Kashyap: Yes, that's the question and when are we likely to get back to our historical level of growth?

Kavinder Singh: Let me just explain you that what you are seeing is actually an income growth. As you know that since we are comparing Ind AS 18, when we recognize income that is 60% in the Ind AS 18 model, so we are talking about income growth and not revenue growth, first of all. Second, when we talk of income growth as explained earlier that the income growth is impacted for two reasons, number one, we have shown you the income growth which includes ASF, interest, etc., so all these components grow at a differential rate and the membership part as Mrs. Akhila was mentioning earlier the AURs have been intact particularly for the 25 year product and Bliss product which is targeted at (+) 50 is growing and it was very insignificant in the quarter one of last year that is why to some extent the revenue is not keeping pace with the membership growth. So, in my opinion, as far as we are concerned, please understand that our business is about maximizing member lifetime value. We believe that when a member comes in as you noticed that our resort income is growing in double-digits, as you have seen in the investor updates that we have given. Our bigger part of the game is in, once the member is in, they start contributing to ASF which is growing in double digits as you saw the trends, which are historical trends. If you see the resort revenues, they are growing in double digits, so for us it is extremely important to acquire members who have the capacity to enjoy the offering that we have and once they come in and they start enjoying, the annuity income and the lifetime value gets maximized, so I don't think we should worry at all about the revenue growth being lower than the count growth that you are talking about which is 14%. All these members, by the way, are also looking over a period of time to upgrade. In the VO income please note that we also have an upgrade income which is a part of the VO income. So, we do upgrade members from lower season to higher season, so when I talk of lifetime value it is upgrades, it is resorts, it is the interest, it is the annual subscription fee. So, there are multiple streams of income that come to us once members come in. So, we should never worry about the revenue growth in VO income that you are mentioning. As long as we keep acquiring members and we keep getting satisfaction of our members in our resorts which will help us to grow our resort revenues which you are seeing is robust.

Vikrant Kashyap: My second question pertains to our HCR. How is the performance in this?

Akhila Balachandar: HCR, if you recollect, we had turned around the company in the last year and they have done particularly well. Quarter one is generally one of their low seasons for HCR and it is a very seasonal business. The quarter four is generally the best season and in terms of that I think we are progressing the way we have planned to do so.

Vikrant Kashyap: One last question, as we have initiated our new program called Bliss, do we have plans to roll out any more new plans, not for the older ones, maybe for other categories of people?

Kavinder Singh: As a part of our innovation pipeline, we are looking at a product called GoZest, it is a 3-year product. The idea is to tap millennials. We believe that if millennials are able to experience our offerings they will convert into a 25-year product over a period of time. So, this is an experiment that we are planning to do. We are test marketing this product in some markets as we speak but it is very early to make any comments whether the product will hit the sweet spot the way Bliss has hit as we speak.

Moderator: Thank you. We take the next question from the line of Chokalingam Narayanan from BNP Paribas. Please go ahead.

Chokalingam Narayanan: Just the same request, if you can upload or disclose on the exchange, the balance sheet and the cash flow statement given the changes in the Accounting Standard. That's the only request.

Akhila Balachandar: What we will do is we will put up the free cash flow and the cash from operations and I hope that will help in looking at the numbers better.

Chokalingam Narayanan: Hopefully it is on every quarter basis, so at least we will be able to make a better comparison.

Akhila Balachandar: We will take your inputs.

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

Harshal Gandhi: Are there any fresh initiatives to drive membership addition?

Kavinder Singh: As I mentioned in my opening speech, the fresh initiatives are around geographical expansion. Also targeting through the artificial intelligence-based algorithms for generating leads in digital. As I mentioned that we are using social media also to generate leads and, of course, we are using Heart-to-Heart, which is a physical contact program with our members in the cities that they live in to generate higher degree of referrals. At an overall level this is the strategy. I would not get into too much detail because in some manner this is an important competitive intelligence in this area. I can also mention that we are also working with multiple brands to strike alliances so that we are able to co-promote their products and our product and in the process are able to tap the qualified leads. So, these are at a very high-level initiatives to drive member growth.

Harshal Gandhi: Any internal targets on performance at annualized level that we may have set at a consolidated level?

Kavinder Singh: So, you have two questions, one is standalone, and one is consolidated. The first question let me answer. We definitely have internal targets to drive the business and that is why we take new initiatives. We normally do not give forward guidance but there is one way to look at our business. You know you see our confidence in the way we are adding inventory, you can easily get a sense as to where we are going in terms of our member additions. So that is one way to look at the way we are going forward in terms of business and the other part at a consolidated level, I think the two businesses are very different. When I say consolidation, I mean Holiday Club (HCR). Holiday Club (HCR) business as you know is very different from our business and they operate in a very different economy. And their inflation rates, their economy growth rates are very different. So their targets are built basis their realities and our targets are built basis the markets that we operate in. I hope that answers your question. We do not normally share what we are driving internally but the way we are looking at inventory as I mentioned earlier; you have a fair sense as to where we are going.

Moderator: Thank you. Next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: Is there any change in terms of the tax implications because of the change in the accounting policy? I mean how basically at the end of the year you decide how much tax you have to pay, is it based on the actual money you collect and spend or is it based on the accounting, how does that work?

Akhila Balachandar: So basically, the notification on the standard has come only on March 28, 2018 and we have had a very short time span to be able to migrate from the earlier system to the current system. The taxation aspect is something which we are currently studying, and we will definitely do whatever is required to ensure that we can optimize on our tax expansion.

Nilesh Shah: When you have, collate it, and it would be useful if you can share with us as well, maybe in the next call or so.

Akhila Balachandar: Absolutely.

Moderator: Thank you. The next question is from the line of Sahil Jasyani from ICICI Securities. Please go ahead.

Sahil Jasyani: Sir in the presentation you have mentioned income from VO, ASF and others as a single line item, can you give me a sense of the growth even like on a comparable basis as per Ind AS 18, separately for VO and ASF?

Akhila Balachandar: The investor deck, maybe we have not put it in the format that you are requesting and we will definitely do that, we have put up the income from VO, resort, interest and ASF on Page number 17, what we will do is; we will definitely add one more chart and upload in the couple of days so that you get it comparative.

Sahil Jasyani: And secondly, just to confirm there was no inventory addition in this quarter, right?

Kavinder Singh: Yes, as you know inventory additions are lumpy. We either acquire or lease or we build and therefore we had a very healthy inventory addition in the last year at 320 units and as I mentioned in my speech that our projects at Goa and Kerala are going on schedule and obviously we continue to look at opportunities for acquisition as well as leasing which you will see as we move forward but in this quarter yes, there has not been any inventory addition.

Sahil Jasyani: Right, so Goa and Kerala you are saying will be added in FY19?

Kavinder Singh: Our construction plans are going as per schedule, we have an internal schedule by which we are monitoring. Goa has about 150 units which are getting constructed and physical construction is on in Ashtamudi in Kerala which is our existing resort to increase the inventory there by another 56 units.

Sahil Jasyani: And you expect this by around what time?

Kavinder Singh: We have not yet got this target date out in the public domain but as we see, the project progress is quite satisfactory.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Just continuing the previous question, can you share what is the amount spent and yet to be spent and if feasible, possible over different financial years? I am just continuing that inventory addition question; 200 units to be added Ashtamudi and Asonara, can you share how much amount is already spent, how much was spent this quarter, how much is targeted to be spent in this year and how much is spill over to next year?

Kavinder Singh: We will get back to you on this information. At this point of time, immediately we do not have it but definitely this part of information can be shared later.

Nitin Gandhi: Fine, coming to the other question, where I feel we are lacking behind little. As a general thumb rule, for 5,000 member addition, you need 100 rooms and you have planned for 200 already, you are operating at 89% so maybe this needs to push sales to at least 6000, 6200??

Kavinder Singh: Let me answer this question. This is a good question; see at 89% we are not worried, why because every year we hit 89%. In fact, in July, August, September our occupancies on an average hover around 80%, 81%, number 1. Number 2; it is extremely important for us to look at properties which will build on the experience that Club Mahindra is known for. So, there are obviously work going on as we speak, on sourcing newer resorts which are already available either for acquisition or for leasing basis. As we speak, we are comfortable and definitely you will see additions this quarter and beyond in terms of specifically the leased properties. As far as I was only giving you the feedback on our own properties. We have multiple ways to increase inventory and that progress is on and you will see movement in this quarter as far as overall member satisfaction is concerned in terms of occupancies that we have as well as the room units that we have.

Nitin Gandhi: Thanks, and just a suggestion, I have travelled majority of the properties but recent upcoming destination that is Leh Ladakh, Andaman and so many other of North east needs to be taken care.

Kavinder Singh: So, let me mention to you, North East is on our radar and you will see some movement there very soon and we are definitely looking at the locations that you mentioned but North East is definitely in our radar and if there will be some movement there we shall let you know.

Moderator: Thank you. Next question is from the line of Pratik Poddar from Narnolia Financial Advisors. Please go ahead.

Pratik Poddar: I would just like to ask about the HCR numbers of Q1?

Kavinder Singh: What we will do is maybe since couple of you have asked this question, we will put up the consolidated numbers in the next couple of days. What we will do is, since there are lot of questions in this quarter with the accounting change, we will consolidate all these questions and put it up together as an additional information in the website, give us a couple of days we will do that.

Moderator: Thank you. Mr. Mehta please go ahead with your question.

Mehta: I had couple of questions. One of the questions was, what is the current cash on the balance sheet as of 30th June 2018?

Kavinder Singh: So as on 30th June the cash on the balance sheet is around Rs. 530 Crores.

Mehta: Rs. 530 crore and there is no debt, right?

Akhila Balachandar: There is no debt in the standalone books.

Mehta: Okay and what would be the approximate debt in the consolidated entity?

Akhila Balachandar: So, this will be roughly in the range of around Rs. 750 crore.

Mehta: Okay another thing was that about this resort one of these locations which has not come up actually is Matheran near Bombay, so any plans, are you looking for something at Matheran which is as popular as Lonavala?

Kavinder Singh: So, as you know that there are restrictions in some of these locations to build resorts, so, definitely we cannot buy and build but if there is a good opportunity that we get of acquisition or a leased property, a good property we would definitely look at places like Matheran. But I just wanted to mention to you that we added one more resort in Mahabaleshwar in the last quarter. So, in Mahabaleshwar now we have two resorts, so just for the Mumbai members, we have now options and we have of course resort in Hatgad as you know. So, we have Hatgad and Mahabaleshwar those was added and people who travel to Gujarat then we have new resort in Dwarka as well but definitely Matheran is on our radar, if we get an opportunity we would like to take property there.

Mehta: Mr. Singh another couple of questions, since I got the opportunity which I did not get last time, is that out of the total members, 4,577 which we acquired in the first quarter, most of this would be 25-year memberships, right?

Kavinder Singh: Yes.

Moderator: Thank you. We take the next question from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Sir it is possible to share sales mix by source of leads which you were sharing earlier quarter on quarter?

Kavinder Singh: So, on the Digital and Referrals which we were sharing, we were hovering at the same level 48-50%, therefore we stopped sharing because the number was more or less there, I mean if there is a significant movement we will definitely share but you can take it that we are hovering in the same level 48-50% including digital and referral put together.

Bhavesh Jain: And sir last 2 quarters lease rent expense run rate was around Rs. 28 crore, this quarter it is Rs. 31-32 crore, so going forward it will be in the same run rate?

Kavinder Singh: So lease rentals as you know are largely based on the new resorts that we may have acquired in the previous quarter, the effect of which you probably see because you are seeing it compared to the same quarter last year, so during the year when we have been acquiring properties, those lease rentals will obviously suddenly appear to you larger, when you compare it with the quarter same period last year. So, one side we have to build resorts which we keep doing, one side we have to take resorts on lease and as you know that our value proposition continues to improve, so member additions are brisk, so we will have to see the mix of and the depreciation that will happen as a result of building new resorts.

Bhavesh Jain: And sir whether we have taken any price hike in ASF because the year on year growth seems to be more than 9% for this quarter?

Kavinder Singh: So, price hike in ASF is a function of the indices that we have which are the WPI and CPI, there is a formula, it is well known to our members and I think for the year which started this year, the price hike was about 4%. So, 4% price hike was taken in ASF but you must also realize that in the ASF income, there is a combination of both the member additions and the price hike, which is what gives you higher level of ASF growth than simply the process hike because constantly we are adding members and they have to then pay their ASF once they are due to take their holiday, so this is a constant kicker that we get in terms of member additions and cumulative effect of the price hike. That is why you see higher growth in ASF than typically the inflation that we put.

Bhavesh Jain: And sir CAPEX guidance for this year?

Kavinder Singh: So typically, we are running right now as we speak, we have gone on public record of saying that we are running a program of Rs. 500 crore of CAPEX which includes three properties, Goa as I mentioned earlier to you in two phases which is to add 240 rooms. In Ashtamudi in two phases of about 100 rooms, so that takes it to 340. We have a plan to increase Kandaghat by another 140 rooms which is waiting for some approvals, so that 480 rooms is a plan that we have gone on record and we are looking at a plan of approximately Rs. 480-500 crore of CAPEX which is currently underway, of course that 140 is subject to approvals.

Moderator: Thank you. We take the next question from the line of Sandeep Hemraj from PCS Securities. Please go ahead.

Sandeep Hemraj: With respect to the balance sheet, you mentioned that you have about Rs. 530 crore in cash, so the un-build amount, that is the membership fees which is deferred, how would that change post the new accounting norms?

Akhila Balachandar: So if you are aware as per our March '18 published accounts, we had something to the tune of Rs. 2000 crore on the deferred revenue side, this would now increase by approximately another Rs. 2000 crore, I hope that answers your question.

Sandeep Hemraj: Yes, so how would we be factoring this in P&L?

Akhila Balachandar: Okay, so again let me reexplain what I had said earlier. Given the change in the accounting standards, we would now be recognizing for all the members irrespective of whichever year they belong to and of all the past members, the membership fee spread over the life of the membership. So, the deferred revenue, what is now sitting in the deferred revenue would come back and be recognized quarter on quarter as the income for those members. So, 40% used to be getting deferred over 25 years, now the entire 100% will get proportionally spread over say the 25 years.

Sandeep Hemraj: See that is for the new members, would you be doing this retrospective?

Akhila Balachandar: Yes, that is what I explained earlier also. What is standard mandates; is that for all live contracts as on 1st April 2018 which is when the standard has become effective, we need to re-compute the way we have been booking their revenue and therefore the difference would get built into the deferred revenue and going forward even for those past members, I will be recognizing higher income over the balance tenure of their membership contract. Maybe give you an example; suppose someone joined us in say 2000 and in year 2000 we would have booked 60% in our income and the balance 40% would have been taken to revenue and then got deferred over the 25 years which mean in the current quarter I would have got say 1.6% of the revenue of that particular member who joined us in the year 2000, right? Now, and the remaining would be carried in the deferred revenue in the balance sheet. Now what I am being mandated by the standard to do is recognize say 4% over the 25 years since 2000 and therefore in this quarter I will be recognizing the proportionate income, the balance which would be carried in my balance sheet as a deferred revenue.

Sandeep Hemraj: Fair enough, yet I am not able to sum up the numbers, why will your deferred revenues double up because of this; because large portion of the members you would have built quite a bit, get reversed a little bit, there should be a negating effect, right?

Akhila Balachandar: I am sorry; the negative effect would come on account of what?

Sandeep Hemraj: No, negating effect. I meant basically say like you explained, member has joined in 2000 and right now on the balance 40% you would be charging but now you will be doing 4%. So, this money moves out of your balance sheet into P&L but on your members you would be billing lesser just 4%. So for the new members I agree would go and add up to your deferred revenues but for the older members it would reduce.

Akhila Balachandar: So like the case, the example I took of a member in 2010, we had already recognized 60%, the 40% is what was sitting in my balance sheet as a deferred revenue. Now when I re-compute, what I will end up doing is; I will reinstate only for 8 years, so I will be carrying in my books as deferred revenue 25 minus 8; 17 years of the Rs. 100. I will be carrying forward deferred revenue for 17 years.

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

Arjun Khanna: Just to carry forward the earlier question, so the setting of transaction would be, you would be reducing your retained earnings?

Akhila Balachandar: That is correct.

Arjun Khanna: Right, so our book value should ideally come down, so what was the book value at the end of FY18?

Akhila Balachandar: What you mean by book value?

Arjun Khanna: Or the net worth of the company because that would be reversed, right if we are increasing our receivables?

Akhila Balachandar: We are not increasing the receivables we will be increasing the deferred revenue. The net worth would be coming down, this would be coming down by roughly Rs. 1200 crore.

Arjun Khanna: Madam, since you already have an annual report out and that is as for the old accounting standards, is it possible to give the balance sheet as of 31st March FY18 as per the new accounting standard just so that we know the final starting point with which we will be going forward with?

Akhila Balachandar: Arjun as per the regulations, In September we will be definitely publishing the balance sheet.

Arjun Khanna: Sure, would we have a like to like of previous years also as per Accounting Standard 115?

Akhila Balachandar: We will not be giving a like to like for the 115, what we will do and what is mandated also by the standard is to give a comparison with the Accounting Standard 18. So, it will definitely help serve your purpose and ensure comparability.

Arjun Khanna: Is it just that projecting forward with incomplete information is extremely difficult but I understand where you are coming from, it is a change in Accounting Standard, fair enough. It would be helpful for our end if it is possible but as you may, in that sense. The second question is in terms of this quarter, what was the exact VO and ASF while you have given the comparison on a year-on-year level, what was the absolute amount for this quarter?

Akhila Balachandar: The VO for the quarter on a comparable basis,

Arjun Khanna: No, I am not asking for comparable Madam, I am asking for an absolute for this quarter as per the latest Accounting Standard 115.

Akhila Balachandar : So that is the split, we have currently not put, and we will take some time in doing that split.

Arjun Khanna: Sure, so we have this Rs. 170 crore coming from both these line items as we have given in the presentation. So, you mentioned that you do not have the split ready, just curious; is it that ASF has come down considerably or what is the change in Accounting Standard for ASF now under 115?

Akhila Balachandar: ASF does not change for the simple reason that ASF is anyway accrued on an annual basis, there will not be any significant change in the ASF income.

Arjun Khanna: So if I understand correctly then if we just minus this number from Rs. 170 crore or we come to around Rs. 120 crore, is that the fair reading of VO income for this quarter?

Akhila Balachandar: There is a reduction of Rs. 53 crore, if you see the disclosure; there is a Rs. 53 crore reduction in my income as compared to what it would have been in the earlier standard. A majority of this would pertain to the VO income.

Arjun Khanna: So Rs. 170.5 crore minus say a Rs. 55 crore, we come to Rs. 115 crore, so that would be where our VO income stands for this quarter, roughly?

Akhila Balachandar: I am sorry, can you repeat?

Arjun Khanna: So our ASF income which we assume, it is at Rs. 55 crore what we have given in slide number 17 and our VO and ASF income as given in this slide, just Rs, 170.5 crore so if we minus Rs. 55 crore from Rs. 170 crore, we come to roughly Rs. 115 crore, is that the VO income for this quarter?

Akhila Balachandar: That would be the VO and the interest income actually recognized.

Arjun Khanna: And in the slide we have also mentioned that it has an impact on cost. If you could just spend a minute explaining that to us again, I am sorry you had mentioned it but I did not quite understand that?

Akhila Balachandar: Sure, so what the standard says; is that only the costs which are directly attributable to incremental sales can be deferred. The rest of the cost of the acquisition that we incur would need to be charged off in the year in which it is incurred.

Arjun Khanna: So, an upgrade. How would an upgrade be treated?

Akhila Balachandar: So, items like say; my commission, incentives which are directly linked to the acquisition would be deferred. Similarly, the offers that I give; any schemes that are given to the members would be deferred. Other cost which we incur on the customer acquisition would be charged off to the P&L.

Arjun Khanna: What would these other costs be apart from these then, could you give us some examples?

Akhila Balachandar: Yes, so if you realize, we do have I mean the earlier question asked on my sales mix, it will be digital, referral and routine lead generation. So, there is a fair amount of spend that we do on these costs through digital media, through the PRO acquisition, the salaries of, the general infrastructure spend, the advertising cost, the marketing cost, these would get charged into my P&L.

Arjun Khanna: Sure, so you would have employees say at the resorts who are like some mentioned earlier work on selling upgrades to our current customer base. So that expense, how would you apportion between writing off current because I assume employee cost would largely be written off as current v/s opportuning over the life cycle.

Akhila Balachandar: As far as the resort employees do upgrade, we do not treat them as resort employees in the first place. What we have start off my sales mechanism and therefore though they are placed out of my resorts, they come under the sales organization and therefore their spends will be treated appropriately.

Arjun Khanna: Which would be the deferred?

Akhila Balachandar: So the fixed components of their salaries would be charged off, things like incentive, commission or anything; variables would be deferred over the life of the membership.

Moderator: Thank you very much. Well Ladies and Gentlemen; due to time constraint we will take that as the last question. I would now like to hand the conference over to Mr. Kavinder Singh for his closing comments.

Kavinder Singh: I think what we have heard from everybody is that there are questions around the new Accounting Standard, I would just like to make one or two concluding remarks which are around the fact that the fundamentals of the business remain the same. We continue to drive member engagement and more importantly our profitability will remain the same over the tenure of membership, unit economics does not change, operating cash flow remains the same and some of you have talked about that figure to be shared and we will come back and there was a question around deferred revenue; yes there will be a significant increase in the deferred revenue in the balance sheet but in my opinion this will mean that we will have far more visibility of the revenue over a period of time because this is definitely confirmed revenue, balance sheet remains strong in terms of asset base, we remain zero debt company and we are extremely clear that this Accounting Standard while it definitely gives you a picture that the profit and the income have gone lower but from an operating performance point of view, that is why we have shared with you the AS 18 numbers for you to get a sense on as to how we are doing at an operating level, so as I see it at an operating level nothing changes and our balance and our ability to generate surplus remains intact and more importantly the overall profitability over the tenure of memberships remains intact. So, with these comments I would like to thank all of you for joining us and asking the relevant questions and we will remain connected with you as and when required of this issue or any other issue that you have related to quarterly earnings. Thank you very much for coming for the call.

Moderator: Thank you very much. On behalf of Mahindra Holidays and Resorts India Ltd. we conclude today's conference. Thank you all for joining us you may disconnect your lines now. Thank you.