



“Mahindra Holidays & Resorts India Limited  
Q1 FY2020 Earnings Conference Call

August 01, 2019



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**Moderator:**

Good morning ladies and gentlemen and welcome to the Q1 FY20 Earnings Conference Call of Mahindra Holidays & Resorts India Limited. 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 the 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, 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, Managing Director & CEO of Mahindra Holidays & Resorts India Limited. Thank you and over to you Sir!

**Kavinder Singh:**

Good morning everyone and a very warm welcome to our Q1 FY20 earnings conference call. Today, I am joined by Mrs. Akhila Balachandar, Chief Financial Officer and Mr. Dhanraj Mulki who is our Company Secretary.

We have uploaded our Q1 FY20 results & investor presentation on the exchanges yesterday and I hope everybody had an opportunity to go through the same.

I would like to start my opening remarks by mentioning that I am very proud to announce that Club Mahindra is in the top 50 companies to work for as per the rankings released by Great Place to Work. We were ranked 41<sup>st</sup> rank as compared to 66<sup>th</sup> rank in 2018 and prior to that our rank in 2017 was 98. We have also been awarded India’s Popular Resort Chain by the Times Travel Awards. These achievements give me the confidence that we are on the right track both in terms of the way our customers or members see us as well as the way our employees are engaged.

Let me now come to the financials and before I do that, let me mention to you that in our press release we had talked about transition to the new accounting standard. As you know, effective April 1, 2018, we transited to Ind-AS 115, wherein the revenue is recognized on a prorata basis over the tenure of the membership. While a significant part of the income is deferred, only a small portion of the cost such as incentives, commissions, and offers directly linked to member acquisition are deferred. In this context, the deferred revenue balance as on June 30, 2019 stands at Rs.5,356 Crores, which gives a clear revenue visibility for the forthcoming periods and will significantly improve profitability in the coming years like we have mentioned earlier, which is now observed even from our Q1 FY20 results.

On April 1, 2019, Ministry of Corporate Affairs via notification dated March 30, 2019 has introduced another accounting standard Ind-AS 116, which is about leases. The company has applied the modified retrospective approach to existing leases as on April 1, 2019, and the changes are of the following types. Changes in the balance sheet under Ind-AS 116 requires lessees to recognize assets as right to use and corresponding lease liabilities for the period of lease. Changes in the P&L account under Ind-AS 116 include amortization of the right of use



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asset and notional finance cost on the lease liability substitutes the actual lease rental cost. Due to this change in accounting standard, we had to create a right to use asset up to the value of Rs.185 Crores and a corresponding liability for lease payments for about 201 Crores. However, this change in accounting standard does not impact our business or cash flows. Business model and dynamics continues to remain the same. We have given the effects of changes in our P&L account due to this change in accounting standard in our uploaded investor presentation.

Let me take you through the operational performance. Member additions; we have added 4,371 members during the quarter and the cumulative member base as on Q1 FY20 stands at 247,710. If you go back in time, you will see that a few years ago we used to add 2,000 members in this quarter, we have moved up in the last year to about 4,500 and if you would compare Y-o-Y, this is a dip of 4.5%. Our broad strategy of acquiring quality members has worked with increase in number of upgrades and resort spends. Our cash position as on June 30, 2019 is at 655 Crores, which has increased from Rs.572 Crores at the end of FY2019.

We believe that our focus on collections, quality acquisition, cost reduction and overall improvement in operations has reflected in these numbers on the cash position. I would also like to add given the macroeconomic situation in our country; our member additions have been robust in this quarter.

Let me now move into the resort performance. Our resort occupancies have been the highest at 91% for Q1 FY20 as compared to 89% in Q1 FY19 and this is on an increased inventory that we have compared to Q1 FY19. Higher resort occupancies coupled with launching of innovative initiatives at the resort level providing unique resort experiences like Goan theme at Varca, ocean theme at Pondicherry, curating home shift concept, e-bike tours in our Goa resort has helped us increase our resort income substantially by about 7.5% on a Y-o-Y basis. This gives us the confidence that our member engagement initiatives, our service excellence at our resorts is working and this is a clear thumbs-up from our members in terms of our occupancies going at the 91% levels.

Let me move onto the financial performance, we have reported our first quarter financials under the new accounting standard Ind-AS 115 and Ind-AS 116. Now this quarter onwards you have the comparative financial numbers for Ind-AS 115 and we have also reported like-to-like numbers in our investor deck without the effect of Ind-AS 116. This will help you compare numbers and get a sense of where we are in terms of our operating performance as well as the numbers as per the relevant accounting standards.

Total income for the quarter stands at Rs.264.8 Crores as compared to Rs.242.3 Crores in Q1 FY19, which is a growth of 9.3% on Y-o-Y basis. Our profit before tax for Q1 FY20 came in at 28.5 Crores as compared to Rs.21.6 Crores in Q1 FY19, which is a growth of 32.1% year-on-year basis and even if you were to look at a sequential level, this is a growth of 25%. Our cost control measures, higher participation in F&B and holiday activities in our resorts by our



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members, a good measure of cost controls on sales and marketing expenditures and all round improvement in operational efficiencies has helped us achieved even higher margins for Q1 FY20.

Our EBITDA without the impact of Ind-AS 116 grew by about 18%. Our EBITDA margins are also healthy at 15.5% as against 14.3% on a like-to-like basis without the adoption of Ind-AS 116. Of course, under Ind-AS 116, it is 21.4% for Q1 FY20. The key point to observe is that our revenues have grown, our margins have improved, and our profit growth has improved on a Y-o-Y basis, which is evident from the numbers that have been uploaded yesterday.

I would like to move on to what we have been doing to create the pull for our brand Club Mahindra and I would like to also mention that despite the macroeconomic situation, we believe that we have a very, very unique customer value proposition. Club Mahindra is an aspirational brand. We have now 247,710 members and we are continuously trying to build the club in the Club Mahindra. We have a product club M select, which is now used by 22,000 members. This is an additional unique benefits and privileges programme, which we have been test marketing for some time now and this programme allows our members to get access to 400,000 hotels around the world at about 12% to 40% discount on the best available internet rates. We have now added even access to 24 golf resorts, the golf clubs, which includes marquee clubs in various cities of India. So, golf access, 400,000 hotels at 12% to 40% discount along with very attractive rates on 12,000 cruises around the world, , dining options as well as the excursions around the world. This is a very unique benefit and privileges programme, this is helping us aid the pull for our brand.

Moving onto the marketing initiatives that we have done to ensure that our brand remains relevant, as you know, we stand for family vacations. Our motto is Good Living Happy Families. So, we are beginning to now own the World Family Day on May 15, 2019. We introduced eco-friendly ways of making origami products through creative use of fruits, vegetables, towels, etc. This is a contest that we ran to attract new members as well as within our existing members. So, we believe that we are the true owners of the World Family Day and we will continue building this property as we move ahead. Staying true to our credo of making every moment magical, we associated ourselves with the Walt Disney Spiderman movie, which came and we launched various programs, which attracted kids on the ground and we believe that this Spiderman promotion is also helping us create the right pull amongst our prospective members as well as our existing members.

Let me move onto the inventory addition. I am happy to announce that our expansion of Ashtamudi in Kerala is completed and now our total room count in the Ashtamudi resort moves to 100, this was an addition of about 56 units. By the way when we were building this resort in an existing resort, we did not have a single day of loss by shutting down the resort because we had a terrain advantage. So, this resort is now on multiple terrains and multiple types of units including the floating cottages as you know and we are very happy that this project is closed and I had



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committed to you that we will deliver this project in Q1 and we have delivered this in Q1 of this year.

Our Goa project Assonora is on track. We definitely believe that we will be able to complete the first phase of this project of 150 rooms in the Q4 of this year and we remain committed to our target of going up to 5,000 rooms in about next four to five years, which is a 1400-room addition through a combination of our own Greenfield resorts, Brownfield expansions, which is expansion on existing resorts. For that we have set aside 1,000 Crores of capital expenditure programme and we are confident that this capital expenditure program will be met from the internal accruals as you know we have 655 Crores cash on hand and we believe that because we have been able to generate 300 Crores of operating cash every year including the year that went by 2018-2019 because of our strong operating cash flows, because of the way we have rejigged our business, which is focused on higher down payment and lower EMI tenure for our membership additions, we believe that we will continue to generate strong cash flows to help us do our organic growth including our inorganic growth of acquisitions of resorts to achieve this target and we remain reasonably optimistic of achieving these inventory additions and consequently the member additions.

Let me move onto Holiday Club Resorts. As you know Q1 and Q3 historically have been the lean quarters for Finland and Sweden. Having said that this quarter turned out to be a great quarter for Holiday Club Resorts. The turnover went up from 30.9 million to 37 million euros, which is a 20% growth and in the Scandinavian world this is a growth that is unheard of and also we have seen significant improvement in our resort occupancies.. The occupancies moved up from 51% to 62% that is a significant movement upwards and their average room rate also went up by 5%. Having said that HCR has reported a loss of €1.66 million in Q1 FY20, but this is a significant improvement from the €3.47 million loss that was reported in Q1 FY20. All these numbers are as per the Finnish Gaap accounting standard.

Let me now move onto to state the consolidated numbers. As you know, from this quarter, we are releasing the consolidated numbers. Our consolidated revenues for Q1 FY20 stand at Rs.626 Crores as compared to Rs.498 Crores in Q1 FY19. Consolidated profit after tax after NCI for the period ended June 30, 2019 together with the other comprehensive income after tax and NCI is at Rs.5.8 Crores under Ind-AS 115 and 116 as compared to the same period last year of a loss Rs. 19.6 Crores under Ind-AS 115. I would like to mention that as far as the impact of Ind-AS 116 on our profits is concerned in the standalone basis, this is negligible, almost negligible, and you can see that in our investor desk. As far as the impact of Ind-AS 116 on Holiday Club Resorts is concerned, there is an impact of about 4.6 Crores and if there are any questions around that, Akhila Balachandar, our CFO would answer that.

With this I would like to open the floor for question and answers and me and I my colleague Akhila would be ready to answer any questions that you may have on the numbers for this quarter and how we see the business going forward. Thank you.



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**Moderator:** Thank you very much. The first question is from the line of Archana Gude from IDBI Capital. Please go ahead.

**Archana Gude:** Thank you for the opportunity. Congrats on good set of numbers. I have two to three questions. You also touched upon this macroeconomic situation being slightly subdued, so how are we placed and what are the strategies going forward. the things are going to be tougher going ahead and in that sense what kind of member additions we expect for FY2020-2021? One more question to Akhila, Akhila will you please explain more on Ind-AS 116 because we would like to know exactly how things work out in that front?

**Kavinder Singh:** I think as I look ahead, one thing, which I am very positive about is the travel and tourism sector. Domestic tourism in my view will not go down despite the macroeconomic situation. My belief is that Indians will continue to travel at a broader level, both in India as well as at least in South East Asia. The very fact that we have a strong rupee right now that also ensures that the outbound travel will continue to remain robust. Having said that the situation in the airline sector, which I was asked many times that will there be an impact in terms of our occupancies. As you noticed this was the first quarter after the disturbance in the airline sector that happened in early April. We have delivered 91% occupancies, which goes to show that our members are travelling to our resorts and I would like to mention that since we have a club membership model, we do not see the variances in occupancies because we have sufficiently designed our product for the off season, mid season and peak season. Because of the way we sell our memberships because of the fact that at different points of time people would like to holiday in offseason and peak season, we do see fairly good occupancies even going ahead in this year. Last year we closed with 83% occupancies. I am pretty confident of crossing that number despite the increased inventory in the resorts. So as far as we are concerned, since our members are happy to come and engage in the various food and beverage offerings, which we keep reinventing as you know food is critical, particularly when people are vacationing with their family and also the new and refreshed holiday activities that we keep putting and in fact a huge amount of innovation happens to create the holiday activities where members would engage and we believe that this will remain a significant source of revenue for us going forward. When we have 247710 members there is an advantage that we have and we must leverage that advantage of maximizing the member lifetime value whether it is in the form of upgrades, whether it is in the form of food and beverage spends, whether it is in the form of holiday activities. Having said that it is critical for us to keep adding members at a certain pace of the right quality so that our overall base keeps growing. The way to look at our business is because we have a 247710 member base and that is growing member base, it is important to note that every time we add member we are not only adding the membership fee that comes to us, but also significant amount of revenue streams that kick in and you can see that even in this quarter we have an annual fee growth of about 14%. If you see our vacation ownership, income grew by about 9% and that is definitely helped by strong upgrades and of course 4,371 member additions because in our case vacation ownership income there is a cumulative benefit of that income that comes to us because the income accrues over the membership period from all the members that we have. So there is an addition effect that



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happens every time we add members, there is a vacation ownership income that grows, there is an increase in annual fee, there is an increase in resort income because we add inventory, more members go on holiday and if there is an occupancy kicker and if there is a per member improvement in the consumption, so these are the leverage points that we have and you can see that all of them have played out in Q1 and we believe going forward they will continue to play out because as far as our resorts are concerned the occupancy will remain robust, as far as our member additions are concerned, we remain extremely focused on generating very high quality leads from the digital and the referral marketing program that we have. In addition, we do alliance marketing. There are brands who have very similar customer segment as ours and we continue to tap those customer segments through the alliance marketing. So, we have very innovative customer acquisition marketing programmes, which we believe are not affected by the macroeconomic situation because one of the reasons people would want to become our members is because we provide very unique experiences. I was mentioning about the fact that we have a programme called club M select, which is enhancing our value proposition, not only that, in order to enhance our value proposition further we have a tie-up with about 100 odd partner hotels in addition to that members can go to the RCI 4,300 resorts around the world. We have tie-up with about 100 odd partner hotels as I was mentioning, out of which about 55 of them are outside the country, 45 of them are inside the country and these are good branded chain resorts and hotels where our members can go and holiday by banking the room nights that they have with us and paying an exchange fee and this is another innovation that is playing out.

We believe that our customer value proposition remains strong. We will continue to invest in the brand. As I mentioned that we are beginning to own the World Family Day, we are trying to do the Spiderman promotion. So we will ride the wave of multiple consumer activations that we will do over the year, which will help us to maintain and grow our member additions and coupled with the fact that our resort occupancies are likely to remain robust, coupled with the fact that we have these annuity streams of income because if members are happy they will continue to pay their annual fee and they would be continuously wanting to enjoy. So, in our business it is very simple, keep the customer experience at the highest possible level, continuously engage with members, which also feeds into our referral marketing programme and ensure that not only the member additions at cumulative level grows, but also our resort occupancies grow, but also we ensure that our operational efficiencies keep giving us the margin kickers. So we are pressing all the right buttons we believe, which is helping us achieve what we are achieving and we remain confident of pressing the same buttons going forward and we believe that the results would be there for you to see going forward as well. Talking about 116, I would like to hand over to Akhila. Akhila would explain to you how 116 impacted the numbers if at all.

**Akhila Balachandar:** Archana, basically a new accounting standard has been implemented starting this year. This is on the leases. What needs to be done under this accounting standard is we need to recognize the lease assets which is the right to use as per the contractual terms that I have and on the other hand also recognize the liability that is my commitment towards the lease payments.



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So basically, we are creating two sets of assets and liabilities. Asset on the one side, which is the right to use asset and the liability, which is my commitment to the lease liability. Just for your information, earlier in the annual report, these numbers used to get published, but these were published as a lease commitment detail. Commitment within one year, commitment within one to five years and commitments beyond that, but these were the simple numbers, but now under this accounting standard we need to discount the liability using the borrowing rates and come to a present value and capture. This is a little different way of accounting, but basically what we used to show in the annual report earlier now comes as part of the balance sheet itself both in the right to use asset and a lease payment liability.

In the P&L, what this does is, we used to have something called lease rent earlier, which is what I am actually paying out for the lease rent in the quarter. What this does is instead of the lease rent it gets replaced by two components, the right to use asset gets depreciated over the life of the asset and the interest component, the notional interest on the lease liability also gets charged out into the P&L. So, this kind of compensate to some extent the lease rental, there will be minor impact or variations vis-à-vis the lease rental for the simple reason it is a timing issue. This will depend on the tenure of my lease, this will depend on whether I am in the early part of the lease or the later part of the lease, this will depend on what is the discounting rates I have used, vis-à-vis some of the terms, but if you really see if I were to take a simple lease and work out, the cash flow and the lease charge for the full term of the lease it will be a zero sum gain. So, to that extend it is a timing matter as far as the lease accounting goes.

Now coming to the specifics for us in this quarter, the impact for us in this quarter has been something to the tune of 17.5 lakhs in the Q1 and we have also added 185 Crores as a right to use asset and 201 Crores as a lease liability. The charge in the P&L is 17.5 Crores before taxes. At the consolidated level, which includes our asset-based out of Finland, we do have some lease assets there. So, we have a 4.6 Crores impact at the consolidated level for the Q1.

It is not a very large impact and I think this accounting is kind of neutral as far as we are concerned. We may see minor variations over a period of next quarters or over a period of two to three years I think the impact will even out. I hope that answers your question.

**Archana Gude:** Akhila just two, correct me if I am wrong, if you have 10 resorts under lease, so the percentage of amortization and the notional interest, would that be same for all the properties or that will vary depending upon where the property is located?

**Akhila Balachandar:** I am sorry I did not get your question.

**Archana Gude:** My question was, we have 10 resorts under lease, so the amortization on those resorts and the notional interest part, will that be same across all the resorts or will that vary upon where the resort is located?





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**Akhila Balachandar:** It will be the same. It will not vary depending on the location of the resort, there may be changes depending on say the tenure and may be when we started, but those would be minor because even interest rates today are fairly stable, but there is nothing to do with the location of the resort at all.

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

**Nihal Jha:** My first question was on the member addition growth, so just wanted to check the growth we saw this quarter was that as per expectations you believe or is it that there is some impact of the slowdown that you mentioned at the start of the commentary and overall for the full year how do you see this going forward?

**Kavinder Singh:** As far as our member additions go, we are quite clear that 4,371 has turned out to be a good number given the situation that we see around. We have not seen the effect of the slowdown in our member additions and as evident from the number and if you go back three to four years, we used to do 2,000 then we move to 3,000 then we move to 4,000, 4500 and now we are at 4,371 it is a very steady addition to our member additions, which has happened in this quarter. We are also quite careful in choosing the members that we want us to become a member of our club. We are using innovative marketing to find out what would be the member lifetime value if we were to get a member. There are a lot of analytics that is being used, we are trying to get members who are paying higher DP and also lower EMI tenures. We are driving digital marketing; we are doing referral marketing. We believe we are getting the members who will eventually pay ASF regularly, who will holiday and who will generate returns in our resort as you can see over the last four to five years, our resort revenues and if you can go through the investor desk, you can see that we have more than doubled our resort revenues and this is not only due to resort additions, it is also due to the per member spend, which we track and so it is important for us to get members who would go to our resorts, appreciate our customer value proposition, spend money on the food and beverage and holiday activity offerings, of course, we need to remain very, very innovative and we need to keep refreshing, which we are doing in our experiences. So, it is a business in which we will have to remain extremely member focused, drive the levels of service excellence, ensure that the member additions continue to remain robust at a cumulative level and more importantly see whether our all income lines can grow. As you know our business today is far more intricately linked to the existing members' incomes as well because we only accrue only 4% of the income for the members that we acquired this quarter. Of course there is a benefit of the 18,377 members, which we acquired last year, which is also accruing into this and all we are interested in ensuring that the addition keeps on happening at a reasonable rate, which is ensuring that we are able to give great experience to our members, which will in turn lead to a very low cost referral acquisition, which will lead to improvements in the margins as we move forward and higher lifetime value means that the members would spend money on the food, beverage and holiday activities and some of them are high margin businesses or rather the high margin segments. Our aim would be to not only improve margins, but grow the cumulative base and ensure that whatever we have been saying consistently that our business model is built with multiple streams of revenue and therefore our improvements in occupancies or improvements in



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consumption per member, improvements in the type of members that we acquire, quality of members, all these cumulative effects are playing out as you can see in the growth both in income as well as in margins as well as in the profit after tax numbers. So, we believe that this is the first time we have today 115 numbers to compare our performance against the same numbers that we had delivered last year. Coming back to your question on how confident are we in terms of our member addition going forward given the current economic situation, I think I mentioned earlier also, we believe in our business, it is extremely important to attract new members, serve existing members extremely well through a very high degree of service excellence and ensure that all our revenue streams are kicking in every year, every day and every month. So as we speak, a very high occupancy, a very high spend per member, a continuous addition to our total base, which is now at 247,710 members is sufficient for us, of course huge amount of customer centricity to keep on adding members, which will lead to the cumulative growth that you have seen in the past and may be more, but our confidence is also reflected in the fact that we are investing 1,000 Crores capital expenditure, which we presented on June 11, 2019 when we did an investor conference and we continue to remain committed to building more resorts, we have sufficient land bank, we will continue to take leases, we will continue to acquire resorts and we believe that the Indian domestic tourism and coupled with Indians desire to go to South East Asian countries and of course some of them do go to European holidays as well, we are extremely well positioned to get our members to sign up for us. We would like to ensure that our inventory additions remain in line with our member additions. So, in some manner our confidence in member additions is reflected through our inventory addition programme. I am happy to share with you that we now have a 100-unit resort at Ashtamudi. We completed that brownfield expansion. We have opportunities in our existing resorts to expand, we have land banks. By the way, the Goa project is also on track and we should have the Goa project coming up in Q4 with about 150 rooms. So I believe that, like I mentioned earlier, we are pressing the right buttons for both inventory expansion, member expansion and creating a great experience for our members so that we get huge amount of our sales through referrals as well as the digital marketing, which we do on a regular basis.

**Nihal Jha:**

Absolutely Sir, that answers my question. Just moving to HCR, it has obviously been a great performance and turnaround seen in Q1, but just reading reports with the weather in Europe it seems similar like last year where there was heat wave happening and obviously the only reason of keeping a track now is last year we did see an impact on our performance because of the weather being warmer than normal, so just wanted to check is that a risk that can play out again in this year or not something you are worried about at this point in time?

**Kavinder Singh:**

This is a good question, I would appreciate that you understand. Unfortunately, for us in April, May, June, there was more warm weather like we saw last year and therefore the Q1 performance was depressed and you would appreciate that the numbers are telling a story that in April, May, June we have sailed through. My information from my team in Holiday Club, by the way I wanted to give you also a good news that on July 1, 2019 Ms. Maisa Romanainen, she is a very respected corporate woman leader in Helsinki, she has joined as the managing director, we call



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them managing director, CEO both those designations are used interchangeably, she is also joined in the Holiday Club Resorts Board, and she is already got going and my conversations with her tell me that so far the heat wave impact that you are seeing in the Mediterranean Europe has not affected the Scandinavian Europe and to that extent we will know in the coming weeks whether there is any extended summer because the holidaying season in Finland is in July and August. My information is that as of now it has not affected, but we will know as we move into August because August is also their holiday season and really this is one thing, which was difficult to predict, but one thing which we are doing is ensuring that there is huge amount of cost focus in such a manner that the fixed cost for control particularly in eventuality where your revenues take a beating if any caused by these weather changes, and if that were to happen, I think this year we are far more prepared than what we were last year because that was one of the first that we saw. My personal view is that we should not see the situation till now, since it has not happen, I think the worst might be over already in terms of the weather, the extended summer, but we will have to keep our fingers crossed for the month of August, we will see that, but July it has not affected our Scandinavian operations yet and we would keep a close watch on it and as I mentioned keeping a good control on cost is one way to mitigate this and also creating activities, which will get people back into the resorts, so there is a lot of work happening there also how to get people back in the resorts and that is where the incomes increase, and with the new CEO in place, I am very, very confident that we will have sufficient measures taken to ensure that even if the situation came to what you said, you know, we do not have any surprises and I think I am very confident with the new CEO in Holiday Club Resorts and the enhanced focus that we have on Holiday Club Resorts even from Mahindra Holidays will ensure that we will have continuous improving performance in Holiday Club Resorts, but you know, Q1 and Q3 are generally the weak quarters for HCR given that the Q1 turnaround and performance is very, very heartwarming for all of us here.

**Nihal Jha:**

Just last question on Ind-AS 116 to Akhila. So looking at the breakup that you have mentioned, obviously 17 Crores of expense is still reported as rent whereas the other 16 Crores has been reclassified, so just wanted to understand that what is the existing 17 Crores, which is still classified as rent, are these shorter term contracts, which do not come under the ambit of Ind-AS 116?

**Akhila Balachandar:**

That is correct. Under 116, there are a lot of evaluations that needs to be done for the contract. What can be classified as leases under 116 and what cannot be classified as contracts. For example, there are lot short term contracts that one enters into. For example take our case, we have got leases of resorts, we have got leases of office premises, we may take some short term lease of holiday world in some places, sometimes we could lease some locations for running some events, the mobile holiday world and so on and so forth. Not everything necessarily will come under the ambit of leases, it depends on the multiple evaluation factors and post that one really comes to conclusion whether this is a lease under 116 and therefore needs to be accordingly treated. What is not continues to be treated as lease rent as earlier, so to that extent



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there will always be two components, one which is the lease rent and one which has got classified as depreciation and notional interest under 116.

**Moderator:** Thank you. The next question is from the line of Ekta Bhalja from Karma Capital. Please go ahead.

**Ekta Bhalja:** Have we taken any hike in the average realization per member?

**Akhila Balachandar:** Ekta we have taken annual hikes in the fourth quarter last year and I think that is playing out for us completely in this quarter. In this quarter, we have not taken any price hike, but if you know, as far as the ASF goes, there is an annual price hike, which kicks in from April annually and this year we have increased the ASF by 2.6%, which is a combination of the CPI and WPI model that we have been using consistently.

**Ekta Bhalja:** Have we seen a large number of upgrades in the quarter?

**Akhila Balachandar:** A large number of?

**Ekta Bhalja:** Upgrades by members?

**Akhila Balachandar:** Yes, we have been as Kavinder has mentioned, over the last few quarters, we have been focusing on quality member acquisition, we have been focusing on good resort experiences. The best time people do upgrades is when they are in the resorts and they see that what is the value proposition that we are giving to them, so this has definitely been picking up over the past years and this quarter we have had a good increase in our upgrade numbers.

**Kavinder Singh:** I would like to add that we are quite happy with the fact that our members are choosing to upgrade because it shows two things, one the ability to pay and second the experience that they are getting and most importantly this is what we mean by member lifetime value. Our customer proposition if we keep improving then upgrades is a great signal to us that we are on the right track.

**Ekta Bhalja:** Can you share the new member AUR that you record in your books?

**Akhila Balachandar:** The new member is around 3.5 to 3.6 this quarter.

**Ekta Bhalja:** Because you know if I take the differential of it, deferred revenue versus what you have recognized this quarter and the member addition during the quarter it comes to more than 4 lakhs, so just wanted to check?

**Akhila Balachandar:** That is because that is the gross AUR after factoring in the upgrades also.

**Ekta Bhalja:** So, the balance is largely on account of upgrades?



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- Akhila Balachandar:** That is it. So, they are in the range of 3.5 to 3.6 and we have seen a good improvement in the AUR, there has been a good improvement in the upgrades and the weighted average that you see coming to around 4.1 roughly if I am not wrong.
- Ekta Bhalja:** Right. Are we sharing the cash flow from operations for the quarter?
- Akhila Balachandar:** So, what we will do Ekta is we will share it in Q2 because that is when we will also be publishing the balance sheet and cash flow.
- Ekta Bhalja:** Any capex that we have done during the quarter?
- Akhila Balachandar:** As Kavinder mentioned, our Ashtamudi project has been commissioned, it is fully operational, so that has definitely come on books.
- Ekta Bhalja:** What would be the amount that we spend during the quarter towards it?
- Akhila Balachandar:** To put that kind of a number, basically it is a work in progress, which has been going on for some time. The last quarter may not be an indicative number because it is not that you spend the money on the last date or during capitalization, so it has been a project, we have spent the money. I would not like to be saying what we spent during the quarter.
- Ekta Bhalja:** The capex for FY20?
- Akhila Balachandar:** The full year?
- Ekta Bhalja:** Yes, you are planning.
- Akhila Balachandar:** As mentioned, we have finished Ashtamudi. Assonora is very much in the pipeline, we have Kandaghat, where some approvals are pending and depends when we kick start. Depending on all these, we will be able to see what the capex number turns out. We are also actively looking out for a couple of acquisitions, anything good which comes our way, definitely will add to the capex. This will be in line with what we have committed of 5,000 rooms in the next four to five years.
- Kavinder Singh:** One more thing I would like to add here is that since we have sufficient land banks, we continuously are evaluating which places we need to break the ground and start more resorts. So, the good news for us is because of a strong cash position, there is really no constraint on our capital expenditure. We remain very cautious on spending money for the resorts, that we will remain cautious, but when it comes to opportunities, we are not going to constrain the capex for building resorts. So, for us, right now, the only constraint if at all is the planning, regulatory approvals, and on the ground execution. So, at this point of time, we have 200 Crores project of Goa going on, phase one will get completed in Q4 of this year and Ashtamudi got completed, so these two projects, which were running for some time, they are closing. More new projects we



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will be announcing and Kandaghat we have already got everything ready, we are waiting for some minor approvals, once they come then we will break the ground in Kandaghat for the expansion. Likewise, we have many resorts where expansion opportunities exist, and which will of course help us in improving the economies of scale when we increase the units in a particular resort and then we will be also breaking ground on some Greenfield projects. So, we will keep sharing with you as things move.

**Ekta Bhalja:** Out of the 200 Crores for the Goa project, how much have we already spent?

**Kavinder Singh:** Again, these are details that are available in our CWIP as well as I think when the final numbers are declared in the H1 we would be giving more details. I think in the H1 you should see more details coming.

**Ekta Bhalja:** Kavinder, despite 91% occupancy, the member spend in the resort income growth was 7.5%, so are we happy with the growth or we would be targeting a better number?

**Kavinder Singh:** We are very, very happy with the growth for two reasons. One, please note that this 91% of occupancy is on higher inventory because they are not comparable and when we do Q1 to Q1 comparison we have more room nights available. The number two is that an 8% income growth on our existing base, which is reasonably high, comes only through two things, one the extra room nights that we have and therefore we have brought more members in and therefore we get more income and second is what is the per member spend. We are seeing improvement in both. Having said that your question is valid, could we have done better why not and why we should not do better, so we will keep striving, but the good news is that there is a significant improvement in margins coming in through the resort operations., so we are obviously able to sell the higher margin offerings to our members both in the areas of holiday activities as well as with F&B and for us everything we are not counting in terms of numbers. We are seeing the member satisfaction. Our net promoter scores are going up. Our referrals are going up, so for us there are a lot of intangible benefits that come through, which will get reflected in the coming quarters, but yes 8% is a very, very healthy growth in the income at the resort level.

**Ekta Bhalja:** Sure, any update on the dividend side?

**Kavinder Singh:** As we have mentioned in the last call and even later, we have asked a clarification from Ministry of Corporate Affairs and we do not have any update yet. As you know the new government took over in this quarter that went by, the ministries and everybody else has settled in and now we will be taking it up further once again with Ministry of Corporate Affairs, but we are definitely asked for clarifications by sending a letter to them and we are making representations in this regard.

**Moderator:** Thank you very much. The next question is from the line of Nemish Shah from Emkay Investments. Please go ahead.



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**Nemish Shah:** Thanks for the opportunity and congratulations on a great set of numbers. Just one clarification so our cash position has increased by around Rs. 84 Crores right and if we do not have any major capex so ideally that should be our cash flow from operations in this quarter, is that understanding correct?

**Akhila Balachandar:** So, what happens is we are also spending on the existing projects, so it will not be a direct correlation, but yes of course majority of the cash flow is from cash from operations only.

**Nemish Shah:** Right so any ballpark amount of how much did you spend this quarter on the existing projects?

**Akhila Balachandar:** I would prefer to give it in H1 when the balance sheet and the cash flows anyway have been declared.

**Nemish Shah:** That is it from mine. Thank you.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from Carnelion Capital. Please go ahead.

**Manoj:** Good morning. This is Manoj here. My first question is like this one thing, which you mentioned that you are targeting to bring down the cost of acquisition of new members and if you can give some update on that as well as if you can give us some ballpark numbers that out of Rs.350,000, which we collect from the members what is our acquisition cost per member after loading like some proportionate cost of your inhouse sales team.

**Kavinder Singh:** So as far as cost of acquisition is concerned and as far as the numbers are concerned I would request Akhila to give, but let me tell you the strategy that we are adopting. The way we are thinking about customer acquisition is that with the penetration of the internet in various people's hands and you know the numbers the rate at which the internet penetration is growing, so we believe there is a huge opportunity to create very engaging content leading to lead generation and if we get that right in certain campaigns we can certainly reduce our cost of acquisition that is one on the digital side. The second one is that we can do alliances with brands, which have similar customer segments. If we are able to get those alliances growing alright then that can also reduce our cost of acquisition. There are opportunities for us using the power of analytics in choosing customers who are likely to convert over customers who are not likely to convert, so there is analytics, there is sharper targeting, there is a more innovation in generating the right quality of leads who will generate significant member lifetime value. In our business it is not so important to save every penny that we are spending in acquiring the customer. If we were to spend even slightly more, but get the right kind of customer in, the customer lifetime value is huge. Now I agree it would not reflect in quarter-on-quarter, but I just want you to see our performance over the last five years. If you were to look at our PBT margins from 16%, we moved up to 21%. Of course, as a result of Ind-AS the margins went back down because of the revenue recognition and cost deferral is not in line with revenue recognition, but again if you see in this quarter, we have



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moved up our PBT margin by 190 BPS. Now there are significant actions being taken to reduce the cost of acquisition. Of course, over the years if you were to see we used to be operating at 25% to 26%, we came down last year to 23% it is doing quite well. Already we have made a significant dent. We believe that it is an area of continuous improvement because while you will focus on cost of acquisition you will need to pump up the spend sometimes in the digital marketing because you want more and more people to see your brand so that they would like to come, so constantly we are dropping spends in one area and pumping in money to get new innovative campaigns working so that our member acquisition momentum does not slow down, so one thing that we are not going to do is to save cost, but will generate value. My personal belief is that the cost whatever spends that we do must generate value. If we generate proportionate value anyway costs will appear to be relatively lower, so it is a constant balancing act, which we will continue to do. Parallely there is an opportunity that we have been looking at in the resort operations and we saw opportunities in energy cost particularly and we have been able to save significant amount of energy through investment in solar and in these cases you have these agreements with the third party operators where they invest everything and you share the benefits on the recurring cost. We are now looking at solar investments with our own plants. Now there are these kickers also, which are coming in our margins, which we do not talk about much, so we do a lot of work on sustainability, because we are trying to save energy, we are trying to save any waste that gets generated, either way our Virajpet resort is now certified as the first resort with zero waste to landfill. We do not send any waste for the landfill. Now this also leads to a culture of avoiding waste and this waste saving culture goes into energy savings also because people do not waste energy. We request our members also to turn off air conditioning when not required, so there is a constant focus on waste reduction and this waste reduction thinking goes even in our cost of acquisition, so we are running a very lean thinking kind of a model where we generate disproportionate value rather than just saving couple of pennies, so we do definitely save pennies, but we definitely want to generate more value and my confidence and my belief is that if we are able to sustainably grow margins at the business level without impacting our growth then we are on the right track. I know it is a slightly long answer to a very short question and I do not know whether I answered your question promptly.

**Manoj:** It is certainly helpful.

**Kavinder Singh:** Akhila would you like to give any numbers just to state, of course I gave some numbers, but if there is any additional?

**Akhila Balachandar:** Manoj to be specific as Kavinder rightly mentioned we used to bid around 25% to 26% on the cost of acquisition and over the period of time and it is not just about one quarter or two quarters. We are currently trending in the region of around 23% to 24%, it could go up and down in a quarter, but on an average we are in that range and that is what we have been working and again as he rightly said, the endeavor is to keep on improving it not just as a reduction percentage, but to get more bang for the buck.





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**Manoj:** Thanks and my second question is in fact I did ask this question earlier also and like this quarter despite of having room addition, your occupancy rate is almost 91% and if I look at your like next five years kind of target, which is 5,000 rooms from 3,600 rooms currently, so it means around 280 rooms per annum, it means are we targeting only 17,000 kind of members addition every year with this kind of room additions I have taken like number two ratio of around 60, so just wanted to check whether we are not targeting any growth in our membership addition if we are having this kind of conservative target of room addition and given the fact we have got cash in the balance sheet, we have got the opportunity in place, we have got the surplus land bank, so I do not understand the reason for going that conservative while doing the room addition?

**Kavinder Singh:** No, I think there is a misunderstanding that I would like to clarify. When I say 1,400 rooms in three to four years if you do simple maths yes, it appears that it is conservative, but I just wanted to mention to you that for us the opportunities are even beyond 1,400 rooms particularly if we were to take the opportunities around leasing and acquisitions and the good news for us is that we do not have shortage of cash, but equally we would like to and you have probably seen us we are quite prudent in the way we spend cash because we believe that one bad decision can take us back particularly in the area of resort acquisition. It is very critical that we do the right resort acquisition, so I have not added here what will come through the acquisition or even leasing. 1,400 rooms we are trying to add through our own means. Of course within that 200 to 300 may come through lease, but this is a very, very ballpark number. We would like to do more than that, but we would like to do more in line with the way we see things happening around us. We could look at resort acquisition internationally. As we speak we are scouting resorts internationally particularly in South East Asia with the improved connectivity that we are seeing in the South East Asian destinations, which you are familiar. We are looking at resort acquisition and I am not going to add those numbers to this 1,400, so this 1400 is focused on doing Greenfield and Brownfield expansions. A little bit of leasing may come through because in the leased resorts also please note that we invest, so from an investment point of view we have talked about Rs.1000 Crores. It could very well be Rs.1200 Crores. It could be even more, but having said that this is not the limit to which we will go, so when we say 3,600 to 5,000 we mean through our own Greenfield resorts and Brownfield very little quantity of lease, but leasing on top and acquisition on top of that we remain committed to doing that and we are not setting up sights at 17,000 member additions I can confirm you that.

**Moderator:** Thank you very much. Due to time constraints we will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

**Kavinder Singh:** I would like to say that from the bottom of my heart thanks to all of you who were patiently listening. Some of you obviously did not ask questions and some of you were patiently making the notes. We are very happy with the quarter performance, we are very happy with the fact that the questions that were asked will make us think even harder on how do we take the business to the next level and we value these investor calls because it makes us think as to what we could do more and I want to assure you on behalf of the management of Mahindra Holidays that we



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remain committed to making this company as a world class company. As you know that we are already the number one vacation ownership company in the world outside of North America. My belief is with the opportunities that we see in the next few years why should we not aim to be in the top three vacation ownership companies in the world, which will really make us proud, which will make our investors proud and with that confidence we would like to march into this year and beyond. Thank you very much for patient listening.

**Moderator:**

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