



“Mahindra Holidays & Resorts India Limited  
Q2 FY2020 Earnings Conference Call”

November 05, 2019



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**Moderator:** Good morning ladies and gentlemen. Welcome to Mahindra Holidays & Resorts India Limited Q2 FY2020 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on 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 call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh, 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 Q2 FY2020 earnings conference call. Today, I am joined by Mrs. Akhila Balachandar, our Chief Financial Officer and Mr. Nirav Momaya our Deputy Company Secretary. We uploaded our Q2 FY2020 results presentation on the exchanges yesterday and I hope everybody had an opportunity to go through the same. Let me start with a very good news. I am extremely proud to announce that Mahindra Holidays has crossed the quarter million member mark in terms of the total member base and now the member count stands at 251,000+.

This is a big achievement considering that we started our journey about 23 years ago and as you know typically every Indian family would have three to four people who would travel for the holidays, so we have now a million strong member base in terms of member family base, who travel to our resorts, this is a big source of achievement and a matter of immense pride. Before I get on to the results, I would like to take you through some of the aspects related to transition to new accounting standard. If you recall that effective April 1, 2018, we transition to new accounting standard 115 Ind-AS wherein revenue is recognized over 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 commission, incentives and offers, which are directly linked to membership acquisition are deferred. Further the deferred revenue balance, as a result of transiting into this accounting standard, as on September 30, 2019 stands at 5412 Crores, which gives a clear revenue visibility for the forthcoming period and this is something that I have mentioned earlier also that the deferred revenue balance growing is a good sign. It tells us that what kind of revenues we can expect in the foreseeable future.

Let me move on to the new accounting standard, which came in effect from April 1, 2019, this is Ind-AS 116. Ministry of Corporate Affairs by notification dated March 30, 2019 has introduced Ind-AS 116, which is applicable for the leases. As you know that we have both, some of our offices are on lease as well as our resorts. The company has applied the modified retrospective approach to existing leases as on April 1, 2019. The changes which have got affected as a result



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of them are, number one change, in the balance sheet under Ind-AS 116 requires lessees to recognize lease assets as right of use Assets and lease liabilities on the liability side.

Now, earlier as you know that we used to have lease rentals, which would be charged in our P&L. Now, there is lease assets, since we have a right of use and there will be lease liabilities, changes in the P&L account under Ind-AS 116 is amortization of right of use asset and a notional finance cost on the lease liability substitutes the actually lease rental cost to which the standard is applicable. Now, 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 of about Rs. 201 Crores.

However, let me restate this change in accounting standard does not impact the business or our cash flows at all. Business remains the same. We have given the effects of changes on the P&L account due to this change in accounting standard in our uploaded investor presentation.

I would also like to highlight that on September 20, 2019, the Government of India vide the Taxation Law (Amendment) Ordinance 2019 inserted Section 115BAA in the Income Tax Act 1961, which provides domestic companies an option to pay corporate tax at reduced rate effective April 1, 2019 subject to certain conditions. The company is in the process of evaluating this option. Currently, the company has not considered the reduced rate in computing the tax liability and deferred tax balances. We have kept this discussion internally pending. We believe that we need to evaluate this option later.

Now, let me move on to the operational performance. As I have always mentioned that our biggest strength is our cumulative member base i.e. 251,424 members . This time we have crossed the 250,000 member mark by adding 3,905 members during the quarter. Our broad strategy of acquiring quality members with higher down payment and lower EMI tenures has worked and we are also noticing very, high level of upgrades n among our members who are holidaying at our resorts who choose to upgrade their season or their apartment type.

The income for the quarter stands at 249.6 Crores as compared to 222.1 Crores in Q2 FY2019. This is a growth of 12.4% on Y-o-Y basis. Profit before tax for Q2 FY2020 is Rs. 27.7 Crores as compared to 22.6 Crores in Q2 FY2019. This is a growth of 22.6% year-on-year basis. We have been able to improve our profit before tax margins by 93 basis points in current quarter. Our cash position remains comfortable and as on September 30, 2019, we have a cash of 675 Crores, which has grown by about 192 Crores over last year September 2018. Our continued focus on receivables management, quality member acquisition, cost reduction and overall improvement in all areas of operations has resulted in a healthy cash position as I outlined just now.

Let me move on to the resort performance. Speaking about our resort performance, our resort occupancies of Q2 FY2020 they were at 74.4% primarily impacted due to unprecedented rains and floods in Himachal, Uttarakhand, Maharashtra, Kerala.



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We have been taking various sustainability initiatives in our resorts. We have eliminated single use plastics at our resorts and our offices. I would like to share with you some very interesting developments. Six of our resorts are water positive. 275 million liters of rainwater harvesting, has happened across 20 resorts. Our 7 resorts have solar installations and we are using water conservation through water flow restrictors and installation of heat pumps, and this installation of heat pumps and solar power have helped us to reduce our cost.,

So, as we can see that we are living upto our motto of good living happy families. As you know, Mahindra group follows the philosophy of Mahindra Rise. We are committed to the rise philosophy. We believe that these sustainability initiatives are good initiatives and these will help the entire communities around us as well as our business to rise on a sustained basis. We have launched unique resort experiences like village theme at Varca, ocean theme at Pondicherry. We have also seen the resort income grow by about 3.8% and by the way this is despite the fact that we had the rains and floods, which impacted our operations and occupancies, considering that this performance is commendable.

Let me spent few minutes on our member engagement. As I mentioned earlier that we have 251,424 members it is extremely important for us to engage with our members and our constant endeavor to enhance member delight is now playing out through our member privilege program called Club M Select. This is the unique program as you know which is available only to members and we have added two new offerings. There is access to the golf courses as well as to yoga studios. Apart from the fact that this program allows 12,000 plus cruising options, gourmet dining, and domestic and international excursions about 70,000 of them in India and worldwide and stay options at 4 lakhs plus hotels worldwide at discounts, which are discounts to the best available internet rates.

On top of that, as we are a club, we have been now driving the inventory exchange program. As you know that our members have a week of holidays every year for 25 years,. We have tied up with 144 partner hotels in 80 destinations both domestic and international where members can exchange their room nights on payment of exchange fee and actually enjoy holidays in cities like London, Paris, Vienna and you name it we have the location including Orlando and Las Vegas. We have also introduced three new features in our mobile app, which is prepurchase, digital payments as well as online upgrades enhancing the transparency and ease of booking.

Today, our digital booking penetration is 83% of which the mobile app contributes to 54%. Let me spend a few seconds or few minutes on the member acquisition. We have started investing in our brand, and have launched a program on world family day, which we celebrate every year on May 15. As you know we are about family vacations, so we are the rightful owners of world family day. We ran a very big origami contest India wide, which received huge response. We also did a tie up with the Spiderman movie to ensure that our members are able to get the experience as well as most important help for us to generate good quality leads. Our communication is moving towards showing our destinations as you know our Naldehra resort is



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an extremely picturesque, 50th resort that came in our bouquet of resorts was Naldehra and this resort in Himachal Pradesh is now gaining huge amount of attention from media because we have been constantly communicating to our members as well as all the prospects as to visit this resort and we are finding that this communication about new experiences, new resorts working well for us.

I must also mention that our strategy of acquiring members to digital, referral alliances and Bliss is working, and this is continuing to help us grow members despite the tough economic conditions that we see all around, specifically in the consumer discretionary space. We believe that we are investing behind better lead management systems. There is a lot of analytics work that we are doing, there is a resort recommendation engine and we are also using analytics for upgrades and we have seen growth in the onsite sales.

Let me move on to another good news. Holiday club resorts have now begun to turnaround. As I mentioned earlier that we have now a new CEO, Ms. Maisa Romanainen, she joined on July 1, 2019 and you can see that we are beginning to see improvements in performance.

Let me start with the numbers, Q2 which includes the Finland as well as Sweden and the Grand Canaries operations, has earned revenue of € 40.4 million. Average occupancy in Finland Spa hotels was at 82%, this is some improvement, this last year same time in the same quarter their occupancy was of the order of 71%, this is a movement from 71% to 82%, this is a sterling performance, this has helped us in a big way and if you see the revenue per available room was also 10% higher at €65 over the last year. EBITDA performance at €3.8 million, this is a growth of 32% over the Q2 last year. As you know Q2 is a seasonally good quarter in Finland, but even by the good quarter standards this is a great performance.

If you were to look at the H1 results, the company has earned revenue of € 77.4 million, this is a growth of 10% for H1 FY2020. The Finland business turnover increased by 16% to € 64.2 million backed by very high occupancy and growth in Spa hotels. The Finland Sap hotel recorded the occupancy of 74% for H1, this is again 11percentage point increase compared to last year, last year the same occupancy number was 63%. We are also happy to report that the EBITDA for H1 stands at €3.2 million compared to a loss of €0.1 million last year same time. Consolidated numbers are also out now. Our consolidated revenue for Q2 FY2020 stands at 574 Crores as compared to 533 Crores in Q2 FY2019. Consolidated profit after tax for the quarter ending on September 30, 2019 is 24.4 Crores as compared to a loss of 3.3 Crores for the same period last year. Our consolidated revenues for H1 FY2020 stands at 1,200 Crores as compared to 1,031 Crores in H1 FY2019, which is a growth of 16% Y-o-Y. Consolidated profit after tax for the half-year ended September 30, 2019 is at 25.2 Crores as compared to a loss of 21.6 Crores, so this is a movement of about 47 Crores from minus 21.6 Crores to plus 25.2 Crores. I would also request you to have a look at the segment results consolidated, which are there on the investor deck. You will see a movement in the Q2 at the segment results level from 8.33 Crores to 36.32 Crores. If you were to exclude the forex even then the movement is from 28.07 Crores to 35.69



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Crores. If you were to look at H1, the movement is minus 10.14 Crores to 46 Crores. If you were to exclude the forex effect, the movement is from 11.90 Crores to 54.29 Crores.

I would like to highlight towards the end that we have been consistent in maintaining that our robust business model of building a cumulative member base, which is now standing at 251,424 member base building an experience in ecosystem, which I talked about whether it is partner hotels, whether it is Club M Select, whether it is the 61 resorts that we have along with the Finland, Sweden and Spain another 33 resorts, improved resort and booking experience through the app, through the digitization route is helping us create a hugely valuable enterprise in the time to come, driving our mission of good living and happy families. With this I would like to open the floor for question and answers. Thank you for the patient listening.

**Moderator:** Thank you. The first question is from the line of Nihal Jham from Edelweiss Broking Limited. Please go ahead.

**Nihal Jha:** Good morning, first of all congratulations on the good set of numbers. Sir, I had three questions, the first question was, as you mentioned about discretionary spending has been muted in the recent quarter and over the last six months, so I just wanted to understand what incremental efforts have we been taking to keep a traction and member addition going because we have always benchmarked ourselves to the auto growth and if I compared to that our performance is pretty commendable considering that we have managed to keep our member additional flat despite auto volumes going down more than 20% over the last one year.

**Kavinder Singh:** Nihal, I would say that there are only two or three things that we try to focus on irrespective of the macro environment because we believe that our proposition is very, very unique and the appetite for travel is significant in our emerging middle class, my estimate is that there are at least 10 to 12 million households who are our potential customers. We are only 251,424, so there is a huge opportunity, so we never let our sites away from that opportunity. Having said that it is easier said than done, we need to constantly focus on ensuring that we drive our referral program. We believe today that happy member is the best source for business, it is also a very cost effective source of business, so believe that, even going forward the network effect of our business when you have happy members traveling to our resorts, going through the booking experience, the web, the app, which has been continuously getting improved, we are putting huge amount of investments in technology to analyze the behavior of members, their spending behaviors because we have that information and being able to at the right time in the consumer journey as we call it prop up the opportunity to either upgrade or pre-book or also take up the all inclusive packages that we have, which is there at the resort where a member can choose to dine and have breakfast, lunch, dinner, or breakfast, dinner, so we have created a lot of innovation over the last six, seven quarters we have been doing this while we were going through this transition of 115. We knew that these times will return where we will be able to leverage the effects of the technology, the analytics, practice that we have setup, which is very, very smart. We are in a position to predict the possible needs of the members and therefore target them and



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in the same way if we were to look at the prospect's we have a huge lead management system database. We have to ensure that we target them at the right time in a contextual manner and in that context so referral would remain very, very powerful, technology and analytics we will continue to drive. Coming back to the other sources of lead generation, digital remain still a very huge focus area for us, we spend a significant amount of money doing digital marketing as well as acquiring leads, which we believe will remain in exhaustible source of leads for us and conversions are also superior in that data and we also believe that there is an opportunity, which is emerging now in a big way, which is getting into multiple alliances with brands, which have a very similar target group like us, so I do not want to name the brands, but if you think of any brand, which is a lifestyle brand, we would have been tied up with them in doing some kind of a promotion, which will help their customers to get the experience of Club Mahindra and the nature of our promotions is also changing dramatically, even our offers are now experiential whether it is cruise driven offer or whether it is a holiday fully paid by Club Mahindra as a startup offer, so there are many changes that we are bringing in, which will help us to continue maintain this momentum having said that, the above the line marketing initiatives like what we did with the Spiderman promotion that we did, we were also very visible in the Times of India when we actually on the front mask said the Family Times of India on the world family day, which is on May 15, we ran a large origami contest. I think engaging with the prospects and creating the chance and the romance for a product like us where you have a lifestyle, where you will be able to enjoy quality time with the family will remain our core focus. Having said that the customer acquisition continues to remain on top of our mind and we would like to get the right customers who will generate huge amount of lifetime value for us who will eventually upgrade, who will spend money on the F&B, who will spend money in the holiday experiences and who would also want to enjoy our partner hotels and the Club M Select offering and I must mention that at this point of time our Bliss is also showing some level of momentum, Bliss is a product for greater than 50 years of age for couples who would want to enjoy their holidays the next 10 years of their holidays flexibly by actually burning points and going on a weekend or going on a particular season, so we are trying to experiment multiple things, which will engage the customer because we have a fundamental belief that the leisure part of the hospitality business will continue to grow given the appetite for the holidaying that India is experiencing now.

**Nihal Jham:**

Absolutely, this is in the sales and marketing spend we see that there has been significant increase in traction. If I compared to the last year how you are spending before, so is this related just to the current period we have been seeing a step up or is this an increase, which will continue and related to that is any change in our marketing strategy also or it continues to remain the same?

**Kavinder Singh:**

So, I think it is a very important question and I am happy because I needed to explain to people why our marketing expenses have gone up. There are two, three things we are doing. We believe that the brand is very, very powerful more than what we have probably leverage, so we believe investing behind the brand is critical while we are continuously growing our business and for me the good news is that despite spending money on the brand despite going all out on acquisition



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despite having a slightly muted performance in terms of occupancies in resorts because of the rains and floods, we were able to deliver not only an improvement in margin, PBT margin has moved up by 93 basis points and we were able to deliver a profit after tax growth on a standalone basis at 23.8%, so for me the good part is that the brand definitely needs investment. Having said that, this is not a change in the course of our investments in brand, these are tactical at a certain time you invest the money in the brand and then you reap the benefits through the year, this is not a change in strategy at all, our continued focus on digital remains, our continuous focus on brand building remains, but yes there are quarters where we would probably see that we are doing well in terms of let us say the resort performance or let us say in our cost control measures, let us say we are having great operational efficiencies that is the time to invest a little bit of money behind the brand because we believe that when we invest money behind the brand there will be momentum that we will begin to see in terms of higher member acquisitions or higher quality member acquisitions or lower cost of acquisitions going forward, some of these metrics internally we keep track and we believe sometimes you will need to invest money behind the brand and this is one of those things, so it is not a change in the direction in fact it is very much consistent with what we have been doing.

**Nihal Jham:** Fair enough, so in the coming quarters there could be a possibility that we may just bring down our marketing spends a little as you said that may be this quarter was just additional push?

**Kavinder Singh:** Yes, indeed.

**Nihal Jha:** Sure. Sir, the second question was just on the numbers part, I wanted to understand if I look at a member addition has fallen 5.8% Y-o-Y, but there has been a sharp increase in VO income by 15.8%, so it move from 76 Crores to 88 Crores, so you have mentioned in your opening remarks about upgrade, so does that totally explain this?

**Kavinder Singh:** Nihal, what happens, as you know, as a result of this accounting standard is that whatever performance we deliver in the quarter is reflected in two areas, one of course in the VO income, which is very minor, but the major part of the performance is reflected in the deferred revenue. As you see our deferred revenue has gone up to 5,412 Crores, in this quarter whatever be the movement in the member addition you will not see a major effect of that in this quarter, of course the upgrade income helps because the upgrade income also gets pro rata over the lifetime value, the left lifetime value of the member. Having said that, this is a combination of upgrades, this is a combination of accrual of the income that happens from the deferred revenue and we believe that the upgrades are definitely contributing, but even if there were to be not enough upgrades as an example, if I were to say you would still see an increase in the VO income because of the deferred revenue coming into the VO income.

**Nihal Jha:** Even if I look at the base of deferred income, which you have motioned is 5,412 Crores on a Y-o-Y basis is still increased by 5% to 6%, so when I compare that and the member addition, which





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makeup major parts of the VO income, I was still trying to understand how this 12.4% growth come and that was the only doubt I was having?

**Kavinder Singh:** The 12.4% growth has various other components like annual fee income because what you are talking is the total 12.4% income, there is a 15.8% growth in fact in VO income on this quarter and the total is 12.4% because there is an annual fee income of 11% growth, there is an interest income of about 13.1%, EMI interest if I were to say and there is of course the resort piece, which is contributing and the F&B income has grown by about 7.5%, so there are multiple income streams and that is the beauty of our business model that we have multiple streams of revenue, which come and VO income is largely the accrual income and of course the upgrades, again upgrades will have only the pro rata basis only the revenue gets recognized and balance gets put into the deferred revenue, but your specific question of the deferred revenue growing by 15.8 percentage, I think that we can probably take offline with our CFO.

**Nihal Jha:** I will do that. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Sanjeev Patkar from SBI Fund Management. Please go ahead.

**Sanjeev Patkar:** Good afternoon Sir. My question has two parts, the first part has to do with what you mentioned as the concept of happy member, so value of business is how the consumer perceives it. Very clearly over the years I am sure many of your members must be witnessing the lapse of number of days, so what do you do to see to it that they remain happily engaged number one and number two can we have some idea about the regional spread of consumer vis-à-vis resorts because I am sure people from Mumbai, Gujarat area have only one or two options of Lonavala or Nashik, what are we doing to see to it, that the percentage of consumer spread remains happy and because referral is a very vital cog in your membership addition?

**Kavinder Singh:** So, I think your questions are more in the area of what a member sees us, let me give you some perspective at a higher order level. The very fact that we have a very high percentage of our sales coming from the referral shows that there is a significant amount of satisfaction if I were to share with you our net promoter scores and our post holiday feedback scores, which we put up in our annual reports, which we normally do not share in the quarterly numbers, we are seeing a significant improvement in the satisfaction rates both in the holiday feedback as well as in the net promoter scores and that is the way to manage and understand the customer satisfaction because you would always have in any large customer base one odd member not getting our resort of their own choice and if you are talking about lapsing as far as we are concerned there is a possibility to carry over three years of your membership entitlement, which is 21 days, you could understand that it is important to have rules like this because if people do not regularly holiday they can accumulate a very large number of holidays and they may all wanted at once, so it is not possible to design supply to manage an uneven demand, so this is the logic and we do not see many members lapsing in fact the whole idea of our membership is that regular holidaying is



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something that we encourage, you know Indians do keep postponing holidays that we are a vacation deprived country and one of the things that we have been able to do with our members is to make them think of regular holidaying and therefore to my mind lapsation is more an individual issue and it is not an issue at a company level and it is not an issue that really worries me, but when the holidays are lapsing we do send reminders, we would ideally like people to use all their entitlements. Coming back to your question on the regional dispersion, what is very critical is not whether we have resorts in Maharashtra or Gujarat, but it is very critical is to create resorts, which create great experience and if you see in a place like Rajasthan where our member base is much, much smaller, but we have many resorts same as the case in Kerala and same as the case in Goa, so I think what is important is to have resorts where people would want to go, where people would want to get experiences and therefore we are not designed to think in terms of only regional members and regional holidaying, in fact we encourage people to go beyond their own state, for example we have a very beautiful resort in Kanha and even if you are not a wildlife enthusiast people have gone to Kanha and they have loved it and it is a resort where I would recommend people to go because this is something that we need to get out of Goa, Kerala, and Rajasthan sometimes and go to places like Kumbhalgarh, we go to places like Binsar, or go to places like Baiguny and in Gangtok. So, our idea is to create a lifelong journey of members exploring our country and beyond and hence to my mind I am not looking at the regional dispersion of members versus the resorts.

**Sanjeev Patkar:** Just one last question, are we looking at any options of either a product or may be an acquisition, which can service the requirement for short stays from some of these visit cities?

**Kavinder Singh:** I guess it is a very strategic question whether we should have a separate product for short stays.

**Sanjeev Patkar:** Even within the current realm of things, would we be open to or are we looking at anything on that side?

**Kavinder Singh:** It is a business model question. I think what is very, very important is that as I mentioned again we are obsessed about creating great and magical experiences for our members. It is sometimes not possible to go three hours from a city and get a destination, which will have a natural beauty or which will have the environment where we will be able to create a great experience. So, I guess for us nothing is out of bounds, we continuously look at traveling convenience, we continuously look at airport connectivity, road connectivity that certainly we do look at, but for us what is very important is when you arrive at the resort, what is your experience and would you want to come again and again and to my mind that is the driver for us, which drives us, which is critical for us to survive and thrive in other words.

**Sanjeev Patkar:** Sure Sir. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Sachin Shah from Emkay Investment. Please go ahead.



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- Sachin Shah:** Hello, Kavinder and Akhila madam, first of all wishing both of you a very, very happy and prosperous New Year and also congratulations on a decent set of numbers in a tough environment of course. Kavinder, I had two questions, first is on in terms of a new member addition we have had about ballpark about 8276 odd members in the first half and what I wanted to get a sense is that as compared to last year it is almost flat or marginally down, but in terms of the breakup between the 25-year membership versus the smaller tenure memberships like Bliss or GoZest, has there been a significant change, I mean has the smaller tenure percentage been higher as compared to the last year?
- Kavinder Singh:** No, there is no significant change.
- Sachin Shah:** Right and will it be right to assume that even today our 25-year membership forms a large portion of this new member addition?
- Kavinder Singh:** Exactly, it forms a very large portion of our membership.
- Sachin Shah:** Second point was on the cash flows from what I could see is that our cash flow from operations was 150 Crores in standalone, 225 Crores on the consolidated side, and if I see the capex is about 45 Crores on the standalone and about 70 Crores on the consolidated side, so effectively we have had a 105 Crores of free cash flow kind of thing from the standalone side and another 50 Crores ballpark from Holiday Club. Now this Holiday Club 50 Crores in the first half the free cash flow that you have generated 75 Crores of operating and may be 25 Crores of capex ballpark, how sustainable this 50 Crores and how do we look at it as an analyst or how do we assume this numbers on a sustainable or a full year basis?
- Kavinder Singh:** I will ask Akhila to answer, but let me give you an overview of how I look at things. The good news for us is that our operating cash as you rightly pointed out at a standalone level has gone up by 150 Crores and this is very much in line with our annual number of about 300 Crores that we have been delivering over the last three years, so it is generally in line and we believe that these trends are sustainable as we go ahead as far as we are concerned at Mahindra Holidays on a standalone basis. Our capital expenditure program is well coordinated and spread out and you also talked about the free cash flow so that also I do not see as an issue. Coming back to the Holiday Club Resorts let me also highlight to you that is a very different business model and we may want to sit with you offline to explain it in detail because what happens in Holiday Club Resorts is that the construction of the Villas or the timeshare units it happens on a continuous basis and also the moment the sale happens obviously it is an asset sale, so there is a continuous need for capital injection in that business to keep on creating newer and newer properties as they say, so that model is a very different model and we are doing modeling on the cash flows over there also, which we will explain you a little better, but as far as the larger part of the cash flow is concerned, which is coming from Mahindra Holidays I think you are absolutely right in your assessment that is this sustainable answer is yes. Coming back to the Holiday Club since there is a different business model we would like to take you through what are the levers of the business



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and how you should look at the cash flows. It may not be possible to explain in detail on this call, but Akhila if you want to add you are most welcome.

**Akhila Balachandar:** So, Sachin, I would link the cash flows back to the performance of the Holiday Club business in this half year, which has been extremely good. If you see at an EBITDA level, we have done almost € 3.13 million, which was neutral last year, so this has flown back into the cash flows and therefore whatever capex we do or like Kavinder explained a part of it is also part of the business model where we need to keep on constructing new properties to be able to sell them, so that is the investment for the future, which will definitely yield us results going forward, but the fourth point, which is reflected in the cash flows is the good performance coming from HCR.

**Sachin Shah:** Understood, we have had a reported profit of close to about 35 to 37 Crores, 36 Crores odd I believe in the first half and since our reported numbers are now going to be fairly predictable as you had explained in the analyst meet, I believe you will do a survey anywhere in the range of 70 Crores to 80 Crores odd of reported profit, we will be as per the current company law will we be in a position to declare at least that much amount of dividend if we would like to, at least the profit that we report in this year, so suppose 70 Crores can you declare at least a dividend of 70 Crores odd or there will be some restrictions for us to even do that?

**Akhila Balachandar:** So, what the Companies Act says is that even if I have a profit in the current year and you will appreciate that we did have a profit before tax of 100 Crores even last year and profit after tax of 65 Crores even last year under the 115 setup and we have PBT of 240 Crores in the 60/40 setup, so even in the last financial year we did have profits whatever be the accounting standards, now what the Companies Act specifically says is that even the carry forward losses need to be setoff before we can declare the dividend and this is the point of representation that we have made and hopefully we get answer before the next year results.

**Kavinder Singh:** But I would hasten to add that as you know that this problem is created by the accounting standard where there is a transition reserve, which is there the balance sheet and why we are a dividend paying company, we have a strong cash flows, but because of the literal interpretation of the accounting standard our networth despite revaluation of our land remains negative and as a result of which when you have that situation even from the current year profits you are not allowed to pay dividend and that is why we have gone to Ministry of Corporate Affairs, we have made a representation, we have explained them that ours is a unique case and everything is as a matter of accounting standard the business model is same nothing has changed and we are following up as of now the status is that it is an application pending for decision.

**Sachin Shah:** Fair enough, so dividend is one thing, but even if we get an approval dividend we will may be give 80 Crores to 100 Crores whatever in that range, I do not know, but ballpark, I am just saying, but today we have nearly 700 Crores of cash, we have 1,700 Crores of debtors that we expect to collect in the next two to three years, your capex plan is not more than 500 Crores to



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600 Crores for the next three years, it does not like at this point in time, what is the thought process on this accumulation of cash?

**Kavinder Singh:** To be honest, our objective would be to grow our core business, which is the vacation ownership business and we believe that in our business there is huge potential, huge opportunity, we are looking at various ideas whether new products, whether new ways of looking at the business and I think the situation is a good situation to be in that we have more than we can probably at this point of time handle, which means we have to come with a new strategy and a new way forward as to how we will deploy this cash to generate even higher returns.

**Sachin Shah:** Fair enough. Great. All the best. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Ayaz Motivala from Nivalis Partners Limited. Please go ahead.

**Ayaz Motivala:** Thank you for the opportunity. Good afternoon to the management team. I have two questions, one you mentioned about in end of March 2019 you had eliminated 9,556 members, which has been done, can you sort of explain the accounting of it in the sense some of these members would have paid money, etc., so do you refund money and this is more from a perspective point of view that at any point in time there would be some members who are not paying fees now as well beyond this 9,556, which help us understand in the future if there is a step taken by the company of this nature and link to that is the company as you said has been in the business for 23 years and we are reaching possibly the early stages of expiry of the first few group of members who would have come in, could you give us a sense over the next three to four years the number of memberships, which are expiring?

**Kavinder Singh:** On the 9,556 odd members I would like to just correct you we did not eliminate them, we had cancelled their memberships because these memberships were overdue beyond a significant period. We have a certain policy of provisioning, so these members were fully provided for and therefore there was not a single rupee impact on our P&L and therefore the correct position is that if there is an overdue beyond a certain period we are well within our rights to cancel the membership and as far as your question on refund is there as per the specific contracts that we have the member the rules of refund are very, very clear and whatever refund is due to the member is given or otherwise, so in my mind that answers your first question. Your second question if you may repeat because I was just thinking about the question I had two, three thoughts, but I would rather understand much more clearly the second question before I answer.

**Ayaz Motivala:** The second question is about the 251,424 current members of this membership days over the next 5 years, how many memberships will expire?

**Kavinder Singh:** I think there was a break in your voice, which I am again seeing, but anyway I think I have got the question, you are saying that we started 23 years ago a couple of members should we retiring,



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I would say that early memberships that were sold were 33 years, so really we began to sell 25-year memberships after year 2000, so we still have 5 odd years for the early 25-year members, who would retire and for us you really think about it, it is also an opportunity from them to buy their second membership and since they have been members with us we obviously offer attractive discounts for them too once again become members, so it might become a zero cost of acquisition for us if we are able to acquire them again, the numbers in the early stages when we acquired members are less, I mean I would say very small, so some level of membership retirements would happen and I think in the last year also about 1,000 members retired these were 10-year less memberships some of them retired, so I would say that the real big numbers on retirement, big means relatively big because we never acquired in the early years very large number members, we had very lesser number of members compared to the current member acquisitions that we do, so it will not be significant at least for many years.

**Ayaz Motivala:** Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon India AIF. Please go ahead.

**Manish Poddar:** Can you probably talk about the pattern, which you have in new inventory addition, which can happen and do you intend to pace this up during this downturn probably you will get some building of properties, but let us say acquisition of land for certain leases?

**Kavinder Singh:** So, as far as the inventory growth strategy is concerned we have gone on record that we would add 1,400 odd rooms with the investment of about 1,000 odd Crores and 1,200 Crores over the next 4 to 5 years, so that is the Greenfield strategy, we are continuously looking at acquisitions of resorts, we are continuously also signing leases, so our strategy is build or buy or lease and that will continue to happen to grow the base of inventory that we would like to have in line with the growing member base that we would have. This I think answers one part of your question. Would you want to repeat because again I missed the second part because there was a problem in the audio?

**Manish Poddar:** This is fine, and this split would largely be two-third owned and one-third leased that is the split you still want to maintain?

**Kavinder Singh:** It is not two-third, one-third, it is currently 60:40, 60% is owned and 40% is managed. To be honest for us if and if there is a great quality resorts, which is on lease we manage it. I do not see any difference between owned versus lease in terms of giving the experience. Having said that when we create resorts we definitely design it for the evolving needs of our members, so therefore we will continue to design and built. We will continue to lease because our growths aspirations are high than probably our ability to built, we will also acquire both in India and outside, but right now the focus is in India to acquire resorts and outside India we do inventory



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arrangements where our members can go and enjoy the facilities over there without actually having to buy a resort there or run a resort there.

**Manish Poddar:** Just one more question if may, what would now let us say be the cost of acquisition compared to earlier somewhere in the 23% to 25% ballpark has that increased now given the state of the economy?

**Kavinder Singh:** No, to be honest the cost of acquisition the only area in cost of acquisition where we see sometimes an increase in the digital side because the digital is fast evolving, but when it comes to our traditional methods of cost of acquisition as I always mention that the member referral is the lowers cost of acquisition and this is something that we are driving so what we do is sometimes we go for high cost acquisition strategies like digital and we mix it up with a low cost acquisition strategy like referral, so on an average I think we have achieved numbers as low as 23%, couple of months we go to 22%, but I would say 23% to 25% is a fairly ballpark number that you suggested or rather you mentioned, which is where we are hovering at this time. I would ideally like it to go much lower, but having said that we would not like to compromise on our brand building initiatives because in this cost of acquisition there is a lot of brand building happening as well. We would not like to compromise on the brand building initiatives and we would also not like to compromise our aspirations of adding to our member base.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint, we will be taking the last question that is from the line of Mr. Bharat Sheth from Quest Investment. Please go ahead.

**Bharat Sheth:** Thanks for the opportunity, Sir. Just two questions, one is can you give some granularity on this new member trajectory among the purple, blue, and red and white how well that is moving?

**Kavinder Singh:** As far as the member addition trajectory is concerned we do not put out this figure in the public domain, but let me tell you why also, we believe that constantly our member base is changing because of upgrades, you know a person may join as a blue, you may say that, they have acquired a low fees and member and the truth is that a blue is tomorrow is red, for me even if you are a blue member you have access to all the resorts technically speaking it is just a season, which differentiates and that is the uniqueness of the business model, which keeps us year-round occupancies at the rate of about 80% to 85% and to us that is why it is not such a critical measure, what is very critical for us is, are people upgrading, are they moving and enjoying the facilities in the peak season because that is where when they do an upgrade we obviously get income and more importantly when they are moving to the red and purple season they obviously tend to spend more because they have the propensity to spend so for us propensity is more important than the mix of the members that we get, therefore we do not put out this number.

**Bharat Sheth:** Last question on this new income tax 115B, we have around 900 plus Crores kind of a deferred tax asset sitting on this 5,412 deferred revenue, so what could be impact on that or will there be a cash flow impact or it will be only a book entry we move to this new income tax regime?



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**Kavinder Singh:** So, at this point of time, we have not taken a call that whether we should continue with the current tax regime or we move into a new tax regime, as you yourself pointed out it has multiple implications we need to study that with the various experts within the group when the group as well as the consultants so we are looking at this and seeing it what is good for the company and obviously fortunately we have time to take a decision on it, so at this point of time we would not like to comment what would be the course of action if we were to go and follow I mean those are the scenarios, which have been today worked out as we speak.

**Bharat Sheth:** Thanks.

**Moderator:** Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for their closing comments.

**Kavinder Singh:** I would like to thank all the listeners who patiently listen to a slightly long opening that I had, which may have affected the opportunity for people to question, so I would request that if there are questions please setup appointments with us, we would be more than happy to answer any question that you may have with the respect to our business model, with respect to our strategy, with respect to our numbers, with respect to the holiday club performance, so we would encourage and we would welcome if there was an opportunity to learn from your questions and insights, we use this as a great learning opportunity as to how you are looking at us and we would continue to strive for even better performance. With this thank you very much for the patient listening and some very insightful questions.

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