"Mahindra Holidays & Resorts India Limited Q3 FY'17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Mahindra Holidays & Resorts India Limited, Q3 FY'17 Earnings Conference Call. We have with us today from the management, Mr. Kavinder Singh – Managing Director and Chief Executive Officer and Mr. Vasant Krishnan – Chief Financial Officer and Executive Director. 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 operator call, please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh. Thank you and over to you, sir.

Kavinder Singh: Good evening, ladies and gentlemen. Welcome to the quarter three financial year '16-'17 investor call of Mahindra Holidays. The quarter was indeed challenging with the demonetization move and its effect on the high-end consumer discretionary spends. We welcome the move as it accelerates the digital wave, leading to the emergence of a new order, where there is increasing propensity for sustained discretionary spending. It is indeed commendable that in such a scenario all our operating and financial metrics have shown healthy signs of growth. This is largely due to our carefully calibrated strategy of going beyond the product with innovative customer acquisition strategies, deeper member engagement both at resorts and in the cities where members reside, and strengthening of our brand Club Mahindra's proposition with a new campaign. I would like to also add that in the times of uncertainty, people look for trust and safety. The Mahindra brands stands for trust and safety, and we have noticed increased member acquisitions, in fact our member acquisition stand at 14.4% higher than the same period last year at 4,436. We have also noticed an increased credit card usage, which is in some manner confirming the fact that in these times, people are moving into the digital forms of payment. This augurs well for our business.

And let me come back now to the numbers. We are happy to report 14.6% increase in our profit after tax for the quarter ended December 2015, and it stood at 35.54 crores, up from 31.01 crores in the same quarter last year. At a YTD level, our growth in member additions are at 12,380 units compared to 11,307 units, which is a 9.5% growth over the same period last year. In the past, I have been outlining several measures that we have been taking in the area of member engagement. These measures are continued, and they are being pursued with full vigor, and we have seen stellar growth in our resort occupancy standing at 85% in quarter three in our resorts. Resort income continues to grow steadily, and for the quarter ended December '16, it stood at 51.9 crores, up 9% from 47.6 crores same quarter, a year ago. In terms of our member acquisition, we have launched several innovations, whether it is in the area of digital marketing or striking alliances with various brands, and our unique Happy Family Referral Program. We have also noticed that, our new communication, which is our new brand communication has garnered 10 million views. And also, through a new technology we have been also able to figure out that at least 1 million people watched our campaign on the TV. There is another area that I would like to highlight in this context. We are seeing also increased interest in seeking memberships, considering the fact that it's not about membership, it's also about various experiences that we are now offering to our members. The experiences are varied and wide not only in our resorts, but also our Heart to Heart program, which is now gaining scale. We have been able to touch 4,800 families through this Heart to Heart program in the cities where the members are residing. This is helping us to gain the member acquisition in the area of digital and referrals.

Our digital and referral contribution to our sales stands at 50% plus. Our increase in member base is also resulting in healthy growth of annual subscription fee, which is up 22% to 51.9 crores from 42.5 crores in the same quarter last year. This has been largely driven by the volume increase. In summary, our total revenue for the quarter came in at 274.8 crores, up 13% from INR243.1 crores same period last year. We have also undertaken significant amount of cost management actions and initiatives. Our EBITDA came in at INR70.7 crores from INR62.8 crores, which is a 12.5% increase on Y-o-Y basis. I would also like to highlight that while we are adding members, we are also taking significant steps in terms of our inventory addition. As you know that we are adding 600 units in about next one to two years, our plan on inventory addition continues to remain on track, and we expect these 600 units to be in by the FY'19. We have also been given the approval by the inventory committee yesterday for fresh inventory arrangements of about 75 rooms across multiple locations. On this inventory, since the definitive documentation is not yet concluded, I would not be in a position to disclose further details regarding location, etc. at this stage. But suffice it is to say that our inventory addition program is now moving at a brisk pace, and we see this as the confidence of our team in these investments. Our total investments on these inventory additions of 600 units is likely to be in the region of 550 crores to 600 crores. And now, with this, I would like to turn the floor to questions. And we are happy to face any questions regarding this quarter or our YTD performance. Thank you very much.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Nihal Jham from Edelweiss. Please proceed.

Nihal Jham: First of all, congratulation on these key set of numbers in this background. And my question pertains to that itself, especially on the member addition, which has seen a 14% year-on-year growth, and plus we have stayed flat Q-on-Q also, considering that there were no demonetization impact in the quarter earlier. So you did mention at the start of your commentary about increased focus on digitalization and some of the other aspects. But, can you give a little more briefing to us about what category exactly did we get these new members from? And also what was the contribution of digital specifically in this quarter? Because growth looks really commendable in the background, and I just want to understand a little more detail in terms of the category and even the segmentation that we have tried following. And we have not even done a cut on our advertising spends in this quarter.

Kavinder Singh: In fact, just to start from where you ended, in fact it's not to talk about the cuts, in fact we have gone aggressive in advertising.

Nihal Jham: Absolutely.

Kavinder Singh: Since we have launched our campaign, a significant part of that campaign's expenditure has also come in Q3. In terms of segmentation, we typically look at various sources of leads as we have probably mentioned earlier. The sources of leads are typically the referrals, the digital, the alliances and the prospect reach out programs that we have around the country. I can say at this time that both the referrals and digital are showing significant momentum, 50% of our sales which is higher than the previous quarter by 14%, has come through the referral and digital, which we call as the pull leads, because that shows the brand pull, where we didn't have to reach out to people, people have reached out to us. And for any club, this is a matter of honor and pride that people are wanting to become our members. Coming back to the strategy of doing segmentation, as you know that we focus on families where a person would be typically 35 years plus, and would have children, and they would be looking to enjoy family holidays, what we are trying to do is, that, instead of just being a holiday provider at our resorts, can we become an experienced provider throughout the year? So we are trying to create through our Heart to Heart program, a very deep engagement. We started this about a year and a half ago. As I mentioned, we have touched about 4,800 families who have enjoyed these program and this has helped us to gain referrals. So there is a momentum in referrals, there is a momentum in digital. And more importantly, the brand campaign has, as I was mentioning to you, has gained significant amount of attention both in Twitter, Facebook, as well as YouTube. Apart from the fact that in TV also we have been able to get very significant amount of attention in terms of the number of people who have watched, which I mentioned as 1 million. Now, what is critical is, I mean, we followed some contra strategies. I mean, we could have not advertised in this quarter thinking that nobody is advertising, it is not a good time to advertise. We took a contra approach and we said that, our ad is extremely emotional. In times of uncertainty, people do look for emotional hooks, and our product is about emotions, family emotions, and we have highlighted that. There is another thing I can possibly highlight. We are noticing that in this entire journey of creating pull for our brand, consistency of messaging is critical. So this time we have focused on this brand messaging of only there are certain things which happen only at Club Mahindra. That message seems to have cut across various target segments extremely well and which is what is showing in terms of the member additions. We have also been increasing our holiday activities, innovation in our holiday activities at resorts. Now, the number of new holiday activities that we have introduced in our resorts are actually probably the highest ever in any quarter, and we are noticing that this has also helped us to get significant revenue at the resort level and more importantly, 85% occupancy does speak volumes about our product proposition. So at an overall level, it is customer centricity, unique innovation strategies to get leads which I was mentioning through the referral program and the alliances and digital. And also constantly reaffirming the brand message that we provide certain unique experiences which are possible only at Club Mahindra. So this is a very overall strategy, we don't want to be seen as room night provider, we want to be seen as experience provider. That is the change which we have started about 1.5, 2 years ago, which is now beginning to show some results as we can see.

Nihal Jham: Absolutely, sir. Just then, one last question on this point. Was it a possibility, just thinking about this that, there were a lot of potential customers which maybe you were about to covert at the end of last quarter, because maybe last quarter was a little muted and maybe they have come in at this quarter, you wouldn't say anything like that has happened.

Kavinder Singh: See, we can't comment about this quarter, but all I can say is that, the campaign has been well received and the campaign has run in January as well. So, if that is something to go by, we have seen in January, the campaign has still been running in January and the campaign has been fairly well received by the customers or prospects.

Moderator: Thank you. Next question is from Aditya Bagul from Axis Capital. Please proceed.

Aditya Bagul: Sir, just a couple of questions. Firstly, on the revenue. The impact of cancellations which were clouding our revenues in the previous two quarters, is that now behind us? And can you also share the average AUR for the quarter and nine months?

Vasant Krishnan: So, cancellation is not something, you know, I don't like to use the word behind us, because this is an ongoing process. You will get new members and you will have the situation every quarter, okay, where you will have to continuously assess your member base and then take call as to whether these members are likely to stick or not stick, and then take calls on cancellation. All that I can say is that the cancellations this quarter has been no more or no less than the cancellations that we have been doing over the several quarters now. So that's something that we are very comfortable with. So that was your first question. As far as your second question on AUR is concerned, our AUR this quarter were also in the same range of around 3.4 - 3.5 that we have been witnessing for several quarters now. So there has been a consistency as far as these operating metrics are concerned.

Aditya Bagul: Okay, sir. Sir, and what is the impact of price hikes that we took over the last one year? How much of that is in the AUR?

Vasant Krishnan: Yes. So like I said, I think these price hikes have been well received in the market. These price hikes we took in quarter one, right? And like I said, post these price hikes, we have been talking about an AUR of 3.4 to 3.5, and that's paid out in this quarter also.

Aditya Bagul: Okay, that makes sense. Sir, secondly, can you give us some direction on the near-term room inventory addition? Let's say, probably in the next six to eight months? Because, if I remember correctly, Goa and Kandaghat were supposed to be breaking ground?

Vasant Krishnan: Not really, but I will give you the color. Naldehra, which is our 115 units is coming into the next 3 to 4 months. Kavinder has talked about 75 rooms that has just been approved to our inventory arrangement which we will get in this fiscal itself, right. Plus there are other arrangements, leases, etc., that we are close to concluding. All of this we will try to get into the inventory fold before the end of this fiscal. This is just the strategy that this company has been following where we get in the inventory just prior to the commencement of every new holiday season, right. And we have seen that inventory addition over several years now, which happens towards the end of the fiscal, that is the last quarter, that's to answer your question on as far as how the inventory is getting added.

I want to draw attention to Goa and Kandaghat. Goa is a 240-odd room property that we are constructing. Construction is on in full swing. And that's not happening this fiscal, we are targeting more towards early 2019, end of fiscal 2018-19, we should be having that property.

Kandaghat is another 140 150 room property. We are in the last stage of some approvals, and once those approvals are coming in, which we hope it will happen in the next two months to three months, we should start construction there.

Ashtamudi is the third property where construction has commenced. So that is why I think, Kavinder said that, over the next two years you should see all these 600 rooms coming in. Plus, in addition to that, we would also have our own leases and arrangements, etc.. And then you can, you know, draw your own conclusion as to where our number would come in. It would be a very, very healthy addition to our existing 3,000 odd rooms that we have.

Aditya Bagul: Okay, great sir. Sir, just one last question from my end. Sir, can you just elaborate on the contours of your new marketing campaign which Mr. Kavinder spoke about in his opening remarks. Is this beyond the India Travelogue?.

Vasant Krishnan: Yes, this is indeed beyond the India Travelogue. India Travelogue was a 40-episodes program that actually showcased the product and the experience through the eyes of the anchor. But this one is a commercial wherein the family bonding in the context of Club Mahindra setting comes alive in one of our resorts, which is Ashtamudi Resorts, and this is about how family experiences true bonding in our resorts which they cannot experience anywhere else, because we are about family leisure experiences, and this is what we have tried to highlight. Since the proposition is very powerful that this happens only at Club Mahindra, it is also extremely possible for us to take this only ad campaign at various touch points in which we have tried to create, whether it is at the member checking in at the resort, whether it is at the sales deck, whether it is the member relations handling queries, everywhere, people who are getting in touch with us at these touch points are able to experience this campaign which is only at Club Mahindra.

And this is something that has come out through a very deep insight that the members who have joined us have joined us buy our membership not for getting the room nights, but for a lifetime of experiences which they can treasure as their memories. So this is something that we want to focus on, this gives us pricing flexibility, and this ensures that the brand is never commoditized. So that's the whole theme behind this campaign. And it's been extremely well received both in the digital media as well as in the TV advertising.

Moderator: Thank you. The next question is from Rahul Veera from Elara Capital.

Rahul Veera: Sir, on the rooms that we are targeting for the year?

Vasant Krishnan: So on the outlook for the next year, we normally do not give, but I think a good surrogate of our business is the number of units that we are planning to add. I think I did mention that we are looking at about 600 crores capital investment, some of which is already underway to build these properties, and this is something that we do in addition to the CAPEX that we spend in renovating our existing properties. So, and by design we are debt-free, and therefore, we do not need to go to market to get capital, and therefore there is no interest cost that is built-in as a result of these expansions.

Rahul Veera: True. Fair enough, sir. And sir, in terms of our international subsidiary, any color on that? How has it been moving on?

Vasant Krishnan: Okay. So I don't want to comment on any specific numbers on Finland, because that has not been put in the public domain. But I just want to take you back to, I think what I have been saying over the last couple of quarters, that the investment in Finland is essentially long-term, right, that's point number one. Point number two is that, when we took over the company, I think, we all were aware of the headwinds that Europe was facing, the Russian situation and the challenges that they were facing within Sweden and Spain The good news is that, as we have taken full control of the company in September, 2015, right, I think we have been able to device strategies to kind of overcome most of these challenges. Finland, incidentally is a profitable company today, right. I just want you to know that.

As far as Spain is concerned, Spain underwent some regulatory issues where the entire time share went into some litigation in terms of people questioning the model, etc., etc.. And I think that is something that we are now overcoming. In fact, quarter three, that particular location in geography has done well. And we are devising newer strategies to be able to overcome that from a long-term perspective. As far as Sweden is concerned, our investment that we had made somewhere in October 2015. That is a ski resort, which underwent some renovation, and post renovation in quarter three and quarter four subject to weather holding, because winter resorts are all about weather and all about ability of tourists to be able to do the ski. So, right, if we're able to get that, I would think that, I don't want to sound clichéd and say green shoots etc. But we are very comfortable with where we are and what we have done there. And I think, you just wait for the full set of consolidated numbers to come in as and when we publish them, but this is how Finland is panning out. We knew it was a strategic investment. We have taken long-term strategic initiatives to be able to do what we think we can to be able to take this company to a different level of profitability. And we're happy with the way these initiatives are panning out as of now. It will still be long-term, but I think directionally we are headed in the right direction.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Emkay Global.

Sumant Kumar: Sir, I just would like know, the A&P and employee cost has increased by 14% to 16%. So what was the key reason for that?

Vasant Krishnan See, employee cost, which came in at 57 crores, and if you look at Y-o-Y, it's 49 crores, it's 15.9%, right. Now, understand two things about employee cost, right? There would be little bit of fluctuations up and down because a large portion of our commissions and incentives to the extent of our employees also sit there. That's the first point I want to make. So the simpler answer would be that, if you look at 31st December, 2015 and 31st December, 2016, you look at there, units that we added there 3,879 versus 4,436, that partially explains the increase in the cost, right, in terms of our incentives and commissions, which are always flexed on the member additions, in addition to the increments, etc., that we are always having. On a YTD basis, an interesting metric is around 10%. Two reasons for this, of course, apart from the normal increments, you must know this that we are strengthening our capabilities in two or three areas. First of all digital, right. Digital is an area where we are consistently and constantly innovating, and that requires not only spend in the digital area, but also getting the correct expertise and skill sets to be able to manage the entire digital program. So that is one area where we are investing.

The second area where we're investing is, we are investing in direct sales staff in Tier-2 towns. We see a huge potential in Tier-2 towns, and I think as we go forward there, I think as we have to make that investment in manpower and some part of that cost is what is coming in 31st December, 2016. That explains why the manpower cost, which is looking from 50 to 57, but these are all long-term investment bets that we are taking, which will all start paying off in the periods to come.

Sumant Kumar: So you're saying that there are two key reasons for this - direct sales recruitment and then your commission to employees.

Vasant Krishnan: That's right, and digital.

Sumant Kumar: And digital? Okay, and the growth in ASF and other operating income is higher, so what was the key reason for that?

Vasant Krishnan: I think Kavinder alluded to that in his opening statement. ASF income is a function. As the member base increases, there are more number of members who would who are active, who all have to pay ASF.

Sumant Kumar: So you have taken any price increase?

Vasant Krishnan: No, there was a price increase that we took in quarter one, 3 odd percent, right.

Sumant Kumar: Yes.

Vasant Krishnan: Second and the more important reason, and I want to spend a moment on that, right, like we do for timeshare, for ASF also we do an assessment. And I think the operating efficiency in terms of our collections and our engagement, which again, Kavinder spoke about in his Heart to Heart program, all result in better engagement. Better engagement means that there is more engagement to the company which results in payment of ASF. And therefore, to that extent, my ASF revenue recognition also goes up. That also results in my cash balance going up. It's now sitting at an all-time high of around 190 crores. So all these are the metrics that I would like you to look at, which results in income lines going up, cash lines going up, right, which also explains why our ASF has expanded by 22%.

Sumant Kumar: And other operating income?

Vasant Krishnan: Other operating income is your interest income, right? So interest income is a function of your securitization loan. The securitization loan on a Y-o-Y basis has come down drastically. Today my securitization is an outstanding, it's sitting at around 20 crores, right. A year ago it was somewhere in the region of around more than 50 crores. So as that comes down I'm able to recognize more interest income into my financials.

Moderator: Thank you. Next question is from Kapil Joshi from Stewart & Mackertich.

Kapil Joshi: Sir, I just have one question. There is an increasing trend of short weekend holidays, especially after BFSI and IT firms giving a five-day week. So and other industries are also likely to follow this. So do you see this as an opportunity or do you target this as a strategy?

Vasant Krishnan: So we are noticing this trend of people taking weekend short holidays. We do see people breaking their 7 nights, 8 days into two holidays in their year in the Club Mahindra locations. As far as we are concerned, it can be a risk if we had not planned to offer four types of seasonal memberships. Our Blue, White, red, purple memberships actually are about seasons. Coming back to the opportunity that we see as a result of that, I think the opportunity of weekend being used for leisure, there is a huge opportunity to connect with members, so most of our Heart to Heart programs are happening on weekends in the cities where members live. So there is a leisure activity that we are able to create. For example, we have also done activities where people have gone on a micro light plane, plane flying activity or on a trek in Karnala. So the idea is that, this is giving us an opportunity to engage in leisure activities with the members in their cities, which allows us to therefore connect with them and help us to get more referrals. At an overall level this is the way we look at this weekend leisure culture that is coming in which you alluded to.

Kapil Joshi: Okay. So what are your revenue expectation for this type of activities?

Vasant Krishnan: So at this point of time, our aim is to engage with members and generate a source of referral leads. For us, referral leads come out at a much lower cost than any other form of lead. So in our case, we are using this as an investment and not trying to make money out of these activities, but we do have plans over a period of time to create a full-fledged experiential offerings which will also help us in gaining revenue. But it is too early to talk about that.

Moderator: Thank you. The next question is from Arjun Khanna from Kotak Mutual Fund.

Arjun Khanna: My first question is, while you have talked about till FY'19 you would be adding 600, 700 keys. But if you look at your member addition, by FY'19 you would actually have the next road map in terms of room additions. So do we have a next five or seven year plan how many keys we actually intend to make to the table?

Vasant Krishnan: You know, room addition, when we said 600 rooms, and I talked about rooms that are on the table. The business model is such that we will always do our rooms which will be consistent and consonance with the member addition that we will do, right. Neither too early nor too late. So when you ask me for an outlook over the next four, five years, I mean, all I can tell you is, that will be in line with the member additions that will actually happen over that period. Now whether that happens, because we will also invest in land bank, so there will be further rooms that we will have, which will be our own, which we will construct like the ones that we are doing in Goa and Kandaghat and Ashtamudi, and then so many other places that we have done. And it will also be a mix of leases and other arrangements that we will keep doing from time-to-time. But what we would do is to make sure that over this period, the inventory to member ratio would be the way it is now, so that there is no question of anybody fearing that our inventory would either lag behind or outpace the member addition that we will have over this period.

Arjun Khanna: Sure. And in terms of our strategy regarding long-term leases, has that changed because we seem to be creating a lot of rooms on our own?

Vasant Krishnan: No, not really. Because, whenever we were to construct, our construction would be on large format resorts in proven and tested destinations, but there would also be the niche to give members experiences in various resorts, which will be kind of marquee destination, which may not hold or absorb 100 or 150 kind of keys. Now here the best way to do it is to be to go and do leases right, that there are number of destinations I don't want to get into on a call which will, for example, if you want to get into a forest or example when you want to get into a hill station where sometimes construction is banned, right. You may want to do 25 rooms, 30 rooms, 40 rooms, right, so you we want to go in for a lease there. Or if you want to test our destination before you finally take the plunge and invest so much money. So we might do leases there. So that the whole question of lease strategy is just not a financial strategy. It has also a lot to do with the way we want to do a mix between where we want to invest and where we would rather do a lease, right? And then, yes, if you get a very attractive term, we will rather lock them in over long periods of time, which is what we normally do.

Arjun Khanna: Sure. Sir, and my final question is, in terms of mix for this quarter, did we sell more Blues and Whites or what's the mix --

Vasant Krishnan: It has been very consistent over several quarters now, and there has been no change from what we have been seeing over several quarters.

Arjun Khanna: Because a couple of quarters back you mentioned we had incrementally sold more Whites and Blues. And if you see the realization haven't really moved much, so that trend continues?

Vasant Krishnan: Up front yes, that trend continues.

Moderator: Thank you. Next question is from Nimit Shah from ICICI Securities.

Nimit Shah: Sir, what will be the likely additions in room inventory by the end of this year out of the 600 rooms?

Vasant Krishnan: End of this fiscal, we should be adding another 115 odd rooms.

Nimit Shah: Okay. And balance 450 will be in FY'18-'19?

Vasant Krishnan: Yes, over the next couple of years. That's right.

Nimit Shah: Correct. And this 600 rooms includes only the property where we are starting construction or also it includes the leased property as well?

Vasant Krishnan: No, only where we are starting construction. I am talking about only own properties leases if any will be in addition to that.

Nimit Shah: In addition to the 600?

Vasant Krishnan: That's right.

Nimit Shah: And we are open to add more leases as well?

Vasant Krishnan: Of course.

Nimit Shah: Correct. And in terms of land bank, which we currently have on our books, how much that would be? Like, how much rooms can we add from our current own land bank excluding this 600 rooms?

Vasant Krishnan: Each of these land banks have the potential to add another 150 to 200 rooms, right. And that's our whole strategy of land banking. We will not invest so much into land. No, I am not talking in terms of money, just in terms of the effort, the approvals and turnaround time and the kind of management bandwidth that we have to spend on this, unless those land banks are in destinations that can take 150 to 200 rooms, we will not even land bank them, that's point number one. So whatever land bank that we are now currently pursuing, and we have concluded, right, we will not put them now, we do not want to talk about it now, and we will talk to you at the appropriate time. As and when we are in the stage where we will start the construction or start the development, because construction comes post development and post-approvals, we will let you know. But we are also having that in the pipeline, and that will be in addition to the 600 rooms that we have been talking about.

Nimit Shah: Sure, sir. And then sir, any color like, our sales member additions through referrals and digital mode is increasing, though digital has been expensive which you had pointed out in the earlier quarter as well. But any color on how the sales, incentives and commission expenses for us is moving?

Vasant Krishnan: See the incentive issue is different from digital or referral sales. Incentive is paid for closing the sale to the sales front liners and the managers, whether the lead has come through the digital route or whether it has come from the referral route, the incentive is paid out on closure. So they are two different issues altogether. Coming back to your question on how is digital helping us or how is referral helping us. As I mentioned to you, these are pull leads, they show that the member is interested in joining us. Therefore, they tend to holiday more often, they tend to contribute to our F&B offerings, and F&B revenue more often, and they also become source of further business. So they are very rich source for us, and our aim is to grow this, it's not that we don't want to have people coming to us through our reaching them out, but certainly qualification of members through the digital and referral is superior than what we do when we reach out to the members prospects.

Nimit Shah: Correct. Sir, I got that. I was touching more upon the sales promotion expenses. How do you see that moving ahead since our majority of the acquisitions are from digitals and referrals?

Vasant Krishnan: Yes. So let me say that at an overall level, if you look at our costs of acquisition, they have been held fairly well, despite the growth that we have been experiencing in the last year, in this year. We have not increased our cost of acquisition. So we keep a very tight watch on two things. One, what is the way we set the targets, because the incentive payouts are a function of achieving targets, so the whole aim is to set the targets in such a manner that the incentive payout doesn't become a runaway situation. Parallelly, we are also trying to ensure that we form cost effective means of lead generation. So there the whole innovation comes in, how many leads we have got through alliances, how many leads we have got through cheaper sources. So within the lead generation, there are variety of sources. Some sources are cheap, but not good quality; some sources are expensive, but very good quality. At the end of the day, for us, cost per sales matters, and cost per sales includes not only the lead cost, but also the effort in closing the sale. So it's a fairly complex area, but good news is that our cost of acquisition is in control and we do not see cost of acquisition rising in line with our ambition of increasing member additions.

Moderator: Thank you. The next question is from Aditya Bagul from Axis Capital. Please proceed.

Aditya Bagul: Sir, thank you so much for taking my question. And sir, just two small clarifications. If I heard correctly, you said that there would be 150 rooms coming live by the end of this year, by March?

Vasant Krishnan: I said, 115.

Aditya Bagul: 115? Okay, great sir. And the second clarification, I wanted to know was that, you said that there was 190 crores of cash sitting on balance sheet as on 31st, December?

Vasant Krishnan: Thereabouts, that's right.

Moderator: Thank you. Next question is from Parag Jariwala from Sunidhi Securities.

Parag Jariwala: Three quick questions. So when we sell the membership, what is the average down payment that we get? Second, is the average EMI for our portfolio? And third is, what is the expected credit loss that we assume in our internal model?

Vasant Krishnan: Okay. So down payments vary, we can take them, but we have a minimum of 10%, right. We do offer schemes wherein, you know members are incentivized, our prospects are incentivized to go in for higher DPs, and that's part of the whole sales process. But a minimum of 10% DP is a must. I mean, we do not take a member in, unless he pays 10% DP. That's the first answer to your first question. Your second question was on the payment plans, right? Payment plans are two years, three years and four years. Members are given options to opt for those payment plans in that framework, and a large proportion of the members are in the three and the four year payment plan. Your third question, I think was on ECL. Did I get that right?

Parag Jariwala: Yes.

Vasant Krishnan: Okay, so on ECL, in quarter two, we had made a provision when the company transitioned from I-GAAP to IndAS, we had to estimate and forecast credit loss, and then we had made an expected credit-loss provision in the books as at 30th September. There has been a testing for adequacy as it is a norm in IndAS every quarter, and there are no fresh provisions that we have made on account of ECL this quarter.

Parag Jariwala: When we provide for the ECL, what is the delinquency rate that you would be assuming?

Vasant Krishnan: So, there is a model that has been arrived at based on our past trends and that drives the ECL provisions. And that is how we set it up. So there has been no deterioration in the quality of the receivables, because if there were to be or if there was assessment had decided or does the assessment showed up needs to make incremental provisions, and that would have been done, but that assessment did not indicate any need to make any additional provisions.

Parag Jariwala: Are there any write-backs on account of this?

Vasant Krishnan: No, there is no write-backs this quarter.

Parag Jariwala: Okay. Sir, now on the average, sorry, the EMI installment plan, you said large proportion is on third year, three year and four-year plan. If you could share what percentage of portfolio would be on four and three year?

Vasant Krishnan: No, we don't get into that level of granularity, but a large proportion of them would be in the third and the fourth entry in four year plans.

Parag Jariwala: Okay. Likewise, would you be able to share the average down payment that you're getting on the membership sales?

Vasant Krishnan: Like I told you, 10% is the minimum, but then members do pay 15%, they go as high as even 50%. But as I said, is either members opt for higher payments, because there is a discount that automatically kicks in if you pay a higher DP, so all of that they would be wanting to avail off. But a large proportion of the members would get into between the 10% to 15% ranges.

Parag Jariwala: Sure. And our member acquisition cost would be what percentage?

Vasant Krishnan: Around 25% of sales will be the member acquisition cost, and that's the number that we have been holding constant for several quarters now.

Parag Jariwala: Okay. Sir, the last question is on the member to room ratio, which is roughly about 70.

Vasant Krishnan: It's on 64 now. But like I said, you know member addition happens uniformly month-on-month, quarter-on-quarter, room additions will happen more in a lumpy fashion. I think at the beginning of the call, we spoke about room additions that are going to come in this fiscal. And I think when we compare it as a year-to-year basis, would be more appropriate base to compare inventory to member, rather than trying to do it on a month-on-month or a quarter-on-quarter basis. We are comfortable with the way the inventory is panning out and our pace of inventory addition, when you compare that with the member additions that we have achieved.

Parag Jariwala: Right. I understand that inventory addition is quite bit lumpy while membership addition is uniform. So, my question was, where do you see this, what is an optimal ratio for you?

Vasant Krishnan: I mean, the optimal ratio is where it is currently standing. I mean that we are not experiencing any needs to increase that inventory beyond 62, 63, whatever give or take. So that is where our aim is to be within that sweet spot.

Moderator: Thank you. I now hand the conference over to Mr. Kavinder Singh for closing comments. Over to you, sir.

Kavinder Singh: I would like to thank on behalf of Mahindra Holidays for you to have come for this call. And we really appreciate your support and we must acknowledge the fact that your questions make us think on various issues that you raise. And we promise that we would like to become better over a period of time on a continuous basis, in terms of answering your questions as well as delivering the performance for the company. Thank you very much.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of Mahindra Holidays & Resorts Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.

(this document has been edited for readability purposes)