"Mahindra Holidays & Resorts India Limited Q1 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Mahindra Holidays & Resorts India Limited Q1FY22 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh, Managing Director and CEO. Thank you and over to you, sir.

Kavinder Singh: Good evening, everyone and a very warm welcome to our Q1 FY22 Earnings Call. I hope all of you and your families are safe and healthy during these challenging times. On the call with me today we have Mr. Sujit Vaidya – our new CFO, who joined us from the 1st of June. He is a Chartered Accountant with over three decades of varied industry experience and has spent the last 10 years in various CFO roles within Disney and Castrol. We also have on our call Mr. Dhanraj Mulki, our General Counsel and Company Secretary. I am sure you would have had a chance to look at our Q1 results and Investor Presentation that we have uploaded on our website as well as on the stock exchanges.

Let me begin by mentioning that the second wave of COVID-19 was probably the most devastating wave that we have seen in the pandemic; the travel and tourism industry in India, was really hit hard. However, as the country emerges out of the second wave, relaxation of lockdown restrictions, of course, vaccination roll out simultaneously, is expected to boost consumer confidence. The progress over the last few months after we began the world's largest vaccination drive has brought about a steady recovery in domestic leisure travel. We have delivered a strong performance this quarter, demonstrating our operational and financial resilience in these difficult times. As the second wave receded from mid-June onwards and local restrictions were eased off, we have witnessed a quick recovery in our occupancies and member additions as well. And I am happy to share that the trend continues into July and looks like it will continue into August and September as well.

Our quick recovery demonstrates the strength and resilience of our business model and execution excellence, compared to the traditional hospitality players. If I were to look at a little broader macro environment, with more than 45 crores vaccinations administered, India has now overtaken U.S. as the country with the most vaccination shots administered for COVID-19 as on July 29, 2021, yesterday. Vaccine availability and hesitancy which was a concern in quarter four has now been gradually overcome. Such a fast-paced vaccination drive is likely to fuel tourism recovery. We are also witnessing a positive momentum on the ground as the second wave recedes, leading indicators such as air traffic, mall footfalls, restaurant bookings have seen a substantial uptick as lockdown restrictions have been eased off across most states.

You may have heard of this terminology called revenge tourism. We are definitely seeing some of that playing out in our country. There is a lot of pent-up domestic leisure travel demand. We have started to witness, therefore, a rebound in our resort occupancy levels which I mentioned earlier and we are expecting this trend to continue. I must say that the favorable outcome of this also is that there are a lot of inquiries for our membership plans, and the fact that we have three products, GoZest!, Bliss and Club Mahindra 25-year product is definitely helping us as we start looking at the future with confidence.

Before I get on to the quarterly performance, we are noticing few emerging consumer trends. I will just list about five consumer trends that we are noticing. The travel restrictions have facilitated the rise of staycations, adventure-led trips and solo travelling. Domestic drivable destinations are popular, people do perceive a risk in public transport, and therefore, drivable destinations are becoming popular. If I were to look at the fact that we used to sometime earlier have a trend called B-leisure, business-cum-leisure, now it is called workcation. People are moving away from their home and getting to locations where they are comfortable and more importantly, if I were to say, in our resorts we see people coming with their families, working, as well as children doing online classes, while also enjoying the Club Mahindra traditional hospitality.

Experience-led stays, we are noticing people are looking for very, very unique and personalized vacation experiences and of course, close to local communities in niche locations, which are far and beyond. Focus on health and wellness, in my opinion, though I brought it as the last point, is on the top of the mind for people. Health, hygiene, and safety have become crucial factors in the choices that the consumers make when they think about travel or stay.

Happy to announce that our Board of Directors has approved the issue of bonus shares in the ratio of 1:2, one bonus share for every two fully paid equity shares, subject to, shareholders' approval. This bonus issue, if approved by the shareholders, will capitalize Rs. 66.79 crores out of the securities premium of Rs. 103.62 crores.

If I move into the operational side of the performance, we have added 1,062 members in quarter one, the cumulative member base stands now at 2,55,160. The slowdown in discretionary spends and our inability to carry out on the ground market activations, lead generations and even physical meetings to some extent impacted our member additions. Our flagship higher tenure product, which is Club Mahindra Holidays 25-year product, gathered momentum in Q1 despite being an adverse situation. As I mentioned earlier, we have varied product offerings, which provide us a natural hedge in these difficult times; and also, most importantly, we are in a position to meet the diverse customer needs and upsell and improve our sales realization.

If I look at our value sales in Q1FY22 compared to Q1FY21, we were more than double of the value sales that we did in Q1 of last year, even though our units are slightly lower. We enhanced our member engagement through various initiatives that helped us to increase both referral and digital contribution to an all-time high of 63% in Q1 FY22.

If I look at occupancy, last year, in the absence of vaccines, we had achieved industry-leading occupancies in Q3 and Q4 of 75% and 85% respectively. What attracts people to holiday at our resorts, in our opinion, is the trust and safety, which we have been able to drive. Mahindra brand stands for timeless trust, and the safety & hygiene practices that we have put up in our resorts are routinely appreciated as people come to our resorts. Timeless trust and safety related measures have helped us to deliver industry leading occupancy of 51% on operational inventory in Q1FY22. We were doing extremely well till about mid-April but then the second wave struck. Till about early June occupancies dipped to very, very low levels. However, we have also learned to be extremely agile and as soon as the local restrictions were eased off, our resort occupancies also started to improve from mid-June onwards due to increased confidence in travel, and of course, accelerated vaccine rollout.

Given the fact that most of our resorts are at drivable distances from the cities, and we have spacious properties, and the fact that our rooms are not traditional hotel rooms, we have a studio, one bedroom, two-bedroom apartments, which are conducive to some level of distancing, we expect to benefit immensely from this revival, and we are confident that our occupancies will improve further, if I were to look at our trends even in July.

If I were to look at our room inventory, we are at about 4,198 rooms. Over the next four years, as we have mentioned earlier, we will take this number to about 5,500 plus. I must take a moment to explain what is the status of various projects in terms of creating inventory. This is in addition to the work that we do in creating leased inventory. As I often say that we have an asset light model, we have 60% of our own inventory and 40% is leased inventory. And that has served us very well in terms of our capital allocation plans.

If I were to look at it, that in the Phase 2 of Assonora Goa project, we are adding another 57 room units. Ashtamudi project is also under construction and both of these projects, Assonora and Ashtamudi, will be completed this financial year. And Ashtamudi will add up to another 33 room units, so together about 90 room units. We are in a position, post the monsoons, subject to a certain approvals, for an about 150-odd room project at Ganpatipule, which is on the way to Goa from Mumbai and overlooking the beautiful Arabian Sea. We are all set to start the expansion project at Shimla with about additional 160 units in our flagship resort called Kandaghat. We are also at the design stages, wherein we are looking at how we can expand our Puducherry resort, a beachside resort.

Parallelly, we are doing something very interesting; we are creating an adventure activity park along with Rocksport, the company where we had invested a small stake. Work is going on very well in resorts like Assonora, Goa, Puducherry and Netrang. Our Emerald Palm Resort at Goa now has solar installations, which is in line with our ESG initiatives. We are working towards adding solar installations at Assonora and Goa Varca Resorts as well.

Our endeavor is to create new and memorable experiences for our members at Club Mahindra Resorts. Even during this period, we have created new experiences for our members, most of the experiences are outdoor experiences, which is what members want. And we believe that our commitment to offer immersive and unique leisure experiences to our members will continue to set us apart from others. In a normal year, like FY20, we had almost more than 1 million check-ins. And now we have a base of 2.55 lakh+ trusting members. And we believe that there is a huge demand, and we have the capacity to serve almost now 1.5 million room nights, and this is what will help us to serve the needs of the pent-up demand that will come.

In terms of COVID-19 related safety measures. You are aware, we were the pioneers in creating our 'Safe Stay' program, which actually includes contactless service delivery, whether at check-in, check-out, use of digitized menus, online payments, etc, at all our resorts. Obviously, we have focused a lot on also getting the highest level of certification in safety and hygiene standards from Bureau Veritas, which is a global leader in testing and inspection. 'Travel with Confidence' initiative, which was more focused on door-to-door hassle-free well-deserved holiday to relax and rejuvenate through a range of measures like COVID insurance, travel insurance, COVID testing and car sanitation services. Through all this, we have ensured our signature warmth and service has never been compromised across all resorts in the country. And as can be seen from the various testimonials that we continue to get on various social media platforms, gives us a lot of confidence that we are on the right track in terms of creating unique and immersive experiences and people value us even more than they would probably prior to the pandemic. Because today people realize the value of open spaces, the kind of service that we provide and the kind of unique value proposition that we deliver.

Let me move on to the numbers now:

Our revenue increased by 10% on YoY basis, since you have seen the numbers, I will not spend much time. Our resorts revenues were at about Rs. 15.1 crores, largely due to the partial resort closures that we had, but we very, very smartly recovered in June. Our profit before tax is up by about 12.7% on YoY basis and stands at Rs. 40.9 crores. Our PBT margins also improved by 40 basis points to 18.9%. Profit after tax stood at Rs. 30.3 crores and it is up by 13.1% Y-o-Y. We are quite happy that even in these difficult circumstances where we were going full-on, and from there we went into a kind of complete shutdown from April second week onwards, and then again we started in June. Both the bringing down and bringing up the operations has been done in a very, very excellent manner by our team at the resorts and the sales as well. So, a lot of commendation to them.

By the way, I would like to highlight, in this quarter, we were adjudged as the Best Workplace in Hospitality 2021 by Great Place to Work Institute. And we have also been ranked as #40 (we are in Top 50), by Great Place to Work Institute across industries and sectors. So, these are some great achievements that we were able to see playing out. And these results were announced in June 2021 and we are very happy to share it with you all. The fact that, we are the India's Best Workplace in Hospitality gives us a lot of confidence that we are on the right track, despite the difficult situation or pandemic that the industry faces.

If I were to look at our balance sheet, our deferred revenue pool stands at Rs. 5,022 crores. As I have always said, this is an unbooked profit with very little cost, which is also sitting in the deferred cost. We continue to remain a zero-debt company at a standalone level. Our cash position in this quarter has improved from Rs. 940 crores as on 31st March 2021 to Rs. 950 crores as on 30th June 2021, despite the continuing capital expenditure. We have seen momentum in our 25-year product. We have focused on member additions with higher down payments, lower EMI tenures, that strategy continues. And this has helped us to shore up our cash despite the devastating second wave.

Let me move on to give you a quick update on Holiday Club Resorts, our European subsidiary. As you know, in Finland, there was a third wave of COVID that was raging from March onwards. Several of the Holiday Club Resorts spa hotels were shut during the month of April and May. And the good news is that the holiday season in Holiday Club Resorts or in that part of the world starts from mid-June, and we were able to commence our operations of the resorts starting from June, just in time for the summer holiday season. And this is because the government reduced the restrictions as their infection rates came down and vaccination drive over there also picked up full steam. Happy to share that Holiday Club has launched their 8th Spa hotel, which is in Vierumäki. Vierumäki is just about an hour drive from Helsinki. It's a very active sports holiday destination with golf courses, tennis courts and spa and this is something that we are very proud of. And this opportunity came in because of the pandemic.

Holiday Club Resorts has earned a revenue of about EUR 21 million. If I were to compare it with the Q1 of last year, this is up by 65% year-on-year. Our revenues in Timeshare sales and Spa Hotels, increased in Q1 FY22 verses Q1 FY21, largely due to higher level of operations in Q1 FY22 versus Q1 FY21. Holiday Club resorts has received government subsidy of EUR 2.58 million as a part of COVID-19 relief, which is included in other income. Despite the COVID-19 related restrictions, Holiday Club Resorts, through very strong cost containment measures, have been able to keep the operational losses at EUR 3.46 million.

If I look at the outlook, vaccination rollout is improving the sentiment for tourism in Europe. Domestic leisure travel is very strong both in Finland and Sweden, where we have operations and is expected to remain so throughout the year. The summer holiday season in Finland is at its peak, with high occupancies in spa hotels and rentals. The holiday season continues till mid-August, and we are very confident that domestic tourism will continue to grow in Finland. Focus on implementing cost efficiency measures will continue throughout the year.

Let me come to my conclusion:

And to summarize, although uncertainty around the pandemic continues, the risk seems to have receded globally with the world adapting to the pandemic way of life. And of course, there is a recourse to multiple vaccines and better medical therapies than there was when the pandemic struck. Domestic tourist trips in India, which saw a growth of 13.5% between 2010 to 2019 has actually seen a strong bounce back on account of revenge tourism and strong pent-up demand for travel. We did see that in quarter three and quarter four of last year, and now we are beginning to see that again in quarter two and some part of June that went by.

More so, people are noticing the fact that the international holidays are something that is out of their radar. Therefore, there is a change in the holidaying preferences, people are wanting to go domestic, they are looking for destinations which are drivable and looking for resorts which are spacious so that they can catch a breath of fresh air, ideally without the mask. But the fact remains that even in our resorts, we expect our members to wear masks even outdoors. But then there are a lot of activities that are done in such a manner that while they are physically distant, but they can remain socially connected.

We conclude here that the long-term fundamentals of the leisure travel industry in India remain very, very strong. The vacation ownership industry, with its loyal membership base is even stronger and resilient compared to traditional hospitality players. I am confident that the future holds significant opportunities for companies like us that can innovate and adapt to the environment and provide holiday experiences that are safe, in line with the emerging trends and expectations of the consumers. Our performance through the entire pandemic brings out the resilience of our business model and at the same time highlights our ability to move swiftly and with confidence in tough conditions.

I would like to mention that we are optimistic about a quicker recovery this time around compared to last year, both for our India Business and Holiday Club Resorts. Travelling preferences have changed due to COVID-19 towards workcations, drivable destinations, preferences towards resorts rather than hotels with options to keep children engaged in activities. And most importantly, the focus is on family leisure vacations. With a trusted brand position and our resort infrastructure, we are well poised to serve this newly emerging leisure vacation phenomenon, both in India and in Holiday Club Resorts. I am confident that more such happy families and members will bring in more referrals, which will lead to a virtuous cycle of growing our profits and of course, cash.

As I mentioned, the biggest source of happiness comes from the recognition of getting the India's Best Workplace in Hospitality and being ranked amongst the top 50 Best Companies to Work for and rank 40 across all sectors and industries in India for 2021, while dealing with this pandemic and bringing in the performance that we have brought. I hope each of you and your families continue to remain safe and healthy. And our thoughts are with all those who have been impacted by the pandemic. Thank you for your time this evening. We are now opening the line for questions. Thank you so much for your patient listening.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir, two questions from my side. I looked at this quarter, I see that our margins are obviously continuing higher, despite the impact of second wave, and it's much better than what we were doing even pre-COVID, adjusted for all the accounting. So, I just wanted to get a sense from you that as things normalize, have you structurally identified aspects which can see these margins continuing in the future?

Kavinder Singh: So, on margins, the way to think about margins is that we are constantly looking at opportunities to reduce our costs, whether it is in the area of lead generation, resort operations, or marketing. While I must say that there will be times when we will tactically spend money on marketing, because we are also watching the external situation, but there are enough structural levers that we have which we have pressed last year, and we are even doing better than that in this quarter, so that gives us a lot of satisfaction. But I must say that as we move towards steady state, when I say steady state means come to pre-pandemic levels and beyond, we would have identified even more opportunities for cost reduction. But for us, one thing is very, very clear that we will judiciously use our decision-making capability to invest money into building the brand, into focusing on the right quality of member additions, and in such a manner that while we keep improving the income as well as the profits and see how we can sort of keep growing our margins. You must have noticed that even prior to the pandemic; we were improving our margin by about 100 basis points every year. I am not saying that such a track record will continue, I am not giving that hint. But I am seeing that there are always opportunities to keep improving through productivity and efficiency metrics, while parallelly focusing on the growth.

Nihal Jham: Sir, the second question was more from the accounting side. And while I was going through the presentation, I also need to appreciate the granularity that you are putting up in the new presentation, so I would want this to continue in the future. I see that our lease liabilities have increased as compared to March, whereas we have not added any resorts. So, is it that any resort has been turned into a lease which has led to that, just for clarification purpose?

Kavinder Singh: The simpler answer here is that we have long term leases, while some of the long-term leases came to an end, and they were renewed. So, as you know, in the right-to-use model of accounting IndAS 116, the whole idea of leasing is that you define something as a right-to-use asset and then there is a corresponding liability in the balance sheet. When you see such a big movement, it is because that some of the resorts, the leases ended, fresh leases were signed, basically renewed. And since the beginning of the period this has started, you have seen this. And as it moves towards the end of the period, the unwinding begins to happen. So, this is a very pure accounting thing. And it is caused by renewing the long-term leases that we have done in this quarter. I would also like Sujit to come in, our CFO, to give further color, Nihal.

Sujit Vaidya: To add to what Mr. Singh said, there are two big resorts which were on a pay-per-use basis which have now become our long-term leases, as we were very happy with those two resorts, namely the Arookutty and Netrang. And, one of them, which was coming to a completion of the lease which we renewed again, was in Mussoorie. Because of that, you would see the increase in the right-of-use asset line, but also compared to that in the liability line as well of a lease liability, you would see the increase. Of course, there is a small difference because of the interest cost which is shown separately and is not accounted under 116. So, that's really the reason for the movement on both these lines, which you need to look at simultaneously.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Congrats on a good result. I want to ask, post reopening we have seen room rates go up sharply in late June and July, and, samples of revenge tourism, especially in the hills and outside the metros. And high inflation typically convinces people to go for holiday memberships. On top of that, you can't travel abroad because of restrictive quarantine needs. So, are you seeing this leading to a spike in the pipeline for inquiries at all, versus late last year or even in March at all, are you seeing a larger than usual inquiry pipeline for your memberships?

Kavinder Singh: So, I think I mentioned that there is renewed interest in looking at having a solution where you are, in some manner, de-risked from the future increases in prices. Because as you rightly said, the leisure destinations are now very pricey. And in our case, since our rooms are larger, families can stay together. In a typical hotel, a family of four will take two rooms, but in our resorts, because our rooms are larger, people would stay in studio apartments. So, we have a natural edge here. And the fact that we have built the reputation during the pandemic of creating a very, very strong and successful ‘Safe Stay’ program, which led to a lot of awareness around the people who have been to Club Mahindra, who talked to their friends and families. The best part is, the feedback that we get is that we don't understand what safety protocols you use, but we feel safe in your resorts. Now, that is something that is fueling, the referrals. As I mentioned, referrals and digital route, there is more interest, more inquiries. But I must hasten to add that, over the last, 14 to15 months because of this pandemic, there is obviously caution when it comes to big ticket purchases like ours. So, that is why I mentioned that even there, we are now beginning to do well, we are noticing that our higher tenure products are moving much better than what they moved in the first quarter of last year. So, broadly speaking, answer is yes. And it gives us a renewed confidence and optimism looking into the future.

Nagraj Chandrasekar: And when you have this sort of 65% digital plus referral method for adding subscribers, does the variable cost of activation come down a lot compared to roughly sort of 1 lakh per membership we had pre-COVID, how much does it come down by? And is one of the main reasons for the higher margin we see this quarter?

Kavinder Singh: Not exactly, some part yes, some part no, let me be very, very frank, and transparent with you. When you try to acquire leads digitally, you know the companies which are in this business, whether you do SEO, SEM or whatever, the digital costs are constantly rising, particularly in terms of lead generation. But on the other hand, referrals help us in reducing our cost of acquisition. So, it's a very complex mix when you see the cost of acquisition. And there are times when you need to entice people with slightly higher discounts when people do not want to spend, particularly in the doom and gloom that was there in May, and we continued selling even in May. And you know, in May, there were so many people who were affected by COVID, friends, family, and yet we were able to make people think of holiday because one day this too shall pass, and we will want to holiday. And therefore, please look at this product. So, for us, if I say that referrals help us in bringing down the cost of acquisition, answer is yes. But digital takes it up a couple of notches, because digital focused lead generation is expensive. But again, there are good conversions, so there is a good reason why we continue to invest in building our capabilities for digital.

And having said that, I think there are times when you don't spend enough on the brand, because you know it's not going to work. So, therefore, again, there is a margin kicker that comes from lower marketing costs. And there are many other things that you do in terms of energy savings in the resorts, again, margin kicker comes from there. So, it's an interplay of factors, some costs go up, some costs go down. But yes, at the end of the day, as I answered Nihal a little earlier, this is the skill that the management must have, that when things are not going so well, how do you really manage costs. When things are going well, even then you must continue to manage costs, because you can't outspend yourself. But you need to spend money to build the business to the next level in terms of thinking about building the brand, creating the brand pool, which eventually again will lead to reduction of cost. So, it's kind of a bit of a cycle going up and down. But again, with a clear objective and direction that we want to improve margins on a continuous basis.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: My first question is related to the cultural and behavioral aspect of Indian customers, as in our members. So, we are generally impulsive travelers, and we basically take this travel decision right in the moment. And that's why even when I spoke to about half a dozen customers, maybe it is a very small sample, but I got a divided answer, as in, half of them were saying that they are happy with the booking system because they book in advance, and half of them say that they never get the resorts of their choice. So, I think this is one aspect where we must work on, wherein even if we build on our inventory, which we have already guided for in the next few years, we will always face the situation of, in the peak demand time there will be many customers looking for the same properties, right. So, are we putting in any sort of training or educational thing, so that this culture or this habit or this behavioral thing slowly changes over time? Because this is something which will always be a problem and it leads to some sort of a customer dissatisfaction.

Kavinder Singh: Okay. I noticed that you are giving me a problem and you gave me the solution, so I hear that. And I must be honest, I can only add to what you are saying. Please remember that there are seasons under which memberships are sold, so there is a Blue, White, Red and Purple. Because we have resorts all over the country, the product is designed that if you are a White member or a Red member and you choose to holiday, you will get a holiday, not necessarily in Goa in November or December. Because the fact is that's not the season for which you bought the membership. So, you are right, and that is where you gave me the solution, which is what I appreciate, we must constantly educate our members that you have bought a season and you have also taken a decision that I will be flexible to go to different destinations because you are not buying a particular week on a particular property. So, therefore, if you choose to every time to go between 24th to 30th December in Goa, Varca, while you are not even a Red or a Purple member, then you are bound to get an answer as no. Equally, if you are a Purple member and if you plan well, you can definitely go to Goa, but probably not every year, because there are others too. And more importantly, we are not selling the memberships for Goa or only for Lonavala, or for that matter any other resort that may be very popular. So, by design, it is expected that people would probably explore, it is meant for people who love travel, who want to go to different destinations. And if they really feel that their needs have changed and they want to upgrade, then we have an option to upgrade you to the next season.

So, you are right, while we will keep adding inventory, we must keep educating people as well as to how and why this membership could work for you. And you are right, there lots of people who are super happy with the planning and the membership as is. And there are some people who are saying, hey, I am not getting the booking that I want. But they would not tell you probably at that time, that were they trying to book higher, or that they are very inflexible and they wanted to only go to a particular location, and they were not flexible about the location as well. So, yes, as I told you that you gave the question and you gave the answer. And I am in agreement with your answer as well. So, education and training, and constantly explaining and communicating, is the right way to go about it. While also, using this as an opportunity to upgrade, because just for you to know, we don't share the upgrades data in public, but it's a part of your income. There are lots of people who are continuously upgrading from their base membership to the next and to the next. Because they know that if they go up on the membership tier, their ability to holiday in peak season obviously improves.

Ankit Kanodia: And just to add to that, maybe if you can incentivize our customers, like if you book four months in advance, or maybe three months in advance, you get some benefits, that benefit could be anything; that can lead to some sort of behavioral change.

Kavinder Singh: So, again, as I say, you are giving us lots of ideas. And the good part is that we keep playing with these ideas. And some of them we implement, some of them we don't. We do keep doing beta, there are lots of experiments that are going on all the time and including the kind of experiment that you just now mentioned.

Ankit Kanodia: Yes. Sir, my second question is related to HCRO. Sir, we invested about Rs. 400 crores some years back in HCRO. And if I look at the depreciation and finance cost of this quarter only it comes out to about Rs. 65 crores. And just hypothetically speaking if an investor comes and offers us Rs. 400 crores, should we not sell HCRO and focus on our domestic business?

Kavinder Singh: The answer is not as simple here, although again you have given an answer. But I must say, it's not as simple an answer as you have proposed. Because please remember that there was a time, about two years ago, when HCRO delivered EUR 12 million EBITDA. And we always thought that we would go from here strength to strength, unfortunately, the pandemic struck. And of course, parallelly, we were lucky to hire a very respected CEO, Ms Maisa Romanainen, who is an extremely smart leader, and she has been able to reduce costs during this pandemic significantly, and you will see the effects of that in the coming quarters.

My suggestion to you is that as far as Holiday Club is concerned, it's a company which has phenomenal strengths, and it has been marred because of these very crazy situations that have turned up during the pandemic, because their business model is slightly different from ours. They sell fixed week, fixed location timeshare weeks, so because of that reason their model is very different. But they are a very strong holidaying nation. You will be amazed that in our resorts the occupancies are upwards of 95%. I mean, people in Finland are holidaying much more than people in India. It's not to say that Indians don't know how to holiday, in fact, Indians are holidaying, you have seen the news clips were Shimla, Mussoorie and all, there are road jams. So, I think the need to holiday has been very, very strong in Finland as a culture. In India, we are now slowly moving towards that culture, at least post pandemic there is a big need for holidaying which is getting established.

So, the good part is that it's a very, very well-established company. It has strong strengths. And we believe that it can generate a significant amount of profits as we move forward. And whether we divest or whether we keep Holiday Club with us is a very, very big strategic decision. Our objective of getting Holiday Club into our fold was to see how we can create a choice for our Indian members beyond India, and parallelly use Holiday Club as a springboard for expansion into the rest of Europe. The situation has obviously from then been quite volatile, because of the pandemic and even earlier there was a bit of a recession going on there. But I think as we come out of pandemic, Holiday Club Resorts is something that is going to surprise us positively in terms of the way we are thinking about it and making plans for Holiday Club.

Ankit Kanodia: Thank you. My last question was related to bonus issue. As per the accounting rules, we still have negative results. So, have we got our things sorted out with MCA which we discussed in the last year's concall recording can we declare dividend and go for buyback if required?

Kavinder Singh: Actually, you have touched three issues, dividend, bonus and buyback. So, first of all, just to confirm to you, dividend and buyback is not possible because of the negative net worth situation caused by the hit that we got during the transition into this IndAS 115. So, that part is a settled position, we are continuing to work with Ministry of Corporate Affairs. Obviously, because of pandemic, we have not been able to get any decision out of the MCA. As far as bonus is concerned, we are not restricted to give bonus because we have a securities premium account which can be used by our company, and our Directors confirmed the decision, and therefore, that decision will be put up to shareholders for approval in the AGM, and post that, the bonus issue would get materialized. So, that's the answer for the bonus. But buyback, as well as the dividends currently are not allowed till MCA gives us an exemption.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis. Please go ahead.

Aditya Bagul: Congratulations on a very good set of numbers. Sir, I just had two questions from my end. First is, I wanted to correlate the cash balances that we have, and our room inventory additions that we are looking to sort of add over a period of the next two years. If I understand correctly, we have about 2,500 own rooms, just wanted to know what will be our own room addition over a period of the next two, three years, and what is the Capex in terms of rupees crores that will go into that?

Kavinder Singh: So, Aditya, as I have mentioned that we have a plan to go ahead and add about 1,500 odd rooms over three to four years. Of course, the mix will evolve based on the opportunities that come. We are looking at acquisitions, we are looking at Greenfield. Currently, as far as the greenfield projects are concerned, we have land banks, and we are evaluating various opportunities. But in this year, we will break ground in Shimla, Kandaghat, which is another 150-160 room addition to our existing resort. And we will be breaking the ground for a greenfield resort in Ganpatipule. So, this year itself, we will have a commitment of at least Rs. 300 crores of CAPEX that will play out over two to three years, because it will take two to two and a half years to get these resorts going. Of course, there is Rs. 100 crores Capex plan already going on in the Assonora which is a Goa resort, as well as at the Ashtamudi Resort.

So, all in all, there is about at least a Rs. 400 crores capex very, very clearly visible. We are also looking at a 60-room expansion in Puducherry, and that might just happen towards the end of this year. So, that makes it roughly Rs. 460 crores. So, in simple words about Rs. 500 crores capex plan at least is being initiated or is in progress, some part of that is in progress in this year, of course it will play out over two, three years. Obviously, I will not be in a position to say what will happen next year and beyond. But going by our plans, two things can happen. There could be acquisitions because we are evaluating various deals. So there could be acquisition related outlay that may happen. And of course, parallelly, we will keep looking at leasing opportunities. So, that's how it is going to play out. So, therefore, I don't see any change in our position of having at least Rs. 1,000 crores kind of Capex over four years. While we will deliver at least 1,500 to maybe 1,800 over the next four odd years in terms of the total inventory additions to what we have today at about 4,200.

Aditya Bagul: Understood sir. Sir, and in terms of acquisitions, we mean individual property acquisitions, right, we don't aim to add vacation ownership companies per se?

Kavinder Singh: I think there are no vacation ownership companies that we are currently engaged with. So, we are quite happy to look at resorts because that is what serves the purpose of our members well, and that's what we are focused on.

Aditya Bagul: My second question was essentially to understand our member additions. I understand this quarter was slightly lower at 1,062. But if you can help us understand what has been the texture of this member edition, what proportion of our members are coming from a shorter duration product, not necessarily in this quarter, but over the last let's say five or six quarters? And if the shorter duration product is of a higher proportion, how are we going to switch our sales team and our customers' mindset to move towards a 25-year product going forward?

Kavinder Singh: So, just to give you a sense, from the time the pandemic set in sometime in March mid onwards, we have noticed that people would like to do the transaction at a lower transaction value. And therefore GoZest, Bliss obviously became more popular than our core 25-year product. But every quarter, last year we were able to increase our 25-year-old products contribution. And then came again wave two and again the same trend happened. But this time when we went into quarter one of this year, we did not go down to the levels of last year, even though we have sold 1,062 odd units. The value of that units is more than double of what we sold, which was about 1,270 units in quarter one of last year. So, the value focus is intact.

Now, looking at the customer behavior, we believe that if you are able to, and this is by the way practiced by international timeshare companies as well, if you can get a foot in the door of the customer, and just think about GoZest as more like a test drive, and the customer is even paying for the test drive, we are selling GoZest as a product, it's a paid test drive. And then when the customer comes to our resorts, we will upgrade them from GoZest, obviously because of the pandemic all of this has to still play out. But I can confirm that our conversions from GoZest to CMH 25 have already started. The good news is that people are upgrading from GoZest to CMH 25. A very small number to begin with, but it has started.

And the reason people would look at upgrading from GoZest to CMH 25 is, while the transaction value of GoZest is lower than CMH 25, but from a customer standpoint, there is huge value in CMH 25 compared to GoZest, because on a per room night basis, benefits basis, CMH 25 is a far, far more value-oriented product. And the reason we would like to upgrade is because we would like to have a longer-term relationship with a customer and get a lifetime value, so it's a win, win. If I were to offer you a higher value proposition, if you have come in through the GoZest versus to go to a 25 year, you would look at it. And in any case, it makes sense for us to upgrade. So, for us, I am going to use a word, let's hope that it turns out to be true, it could be a situation where this idea of GoZest which was born out of pandemic can become a very, very big idea going forward into the future where this is a continuous funnel of customers that you make them happy, and you convert. And obviously, your cost of acquisition goes down, because when you brought a customer for a lower tenure product, the cost of acquisition is low. And all you do is just give them great experience and then upgrade.

So, to me, it's a very interesting situation that we are in. And more importantly, with the renewed interest in holidaying, domestic holidays, even people who used to regularly go on international holidays are now wanting to travel in India. And that's another segment that's going to be a huge attraction for us. And, by the way, because of our focus on trust and safety, we are anyway now seen as a premium destination. We were always premium, but now, with the added focus on safety and hygiene, we are right up there. So, I see all of these confluences of factors actually playing out well for us into the future.

Moderator: Thank you. Next question is from the line of Rajesh Verma from First Call. Please go ahead.

Rajesh Verma: I am glad to see a very informative and a well stacked investor presentation, so great job done there. My question is that in this challenging pandemic period, your occupancies have repeatedly been higher than the other listed hotel chains in India. Could you throw some light on what are the key differentiating factors that help you realize a high occupancy? And do you expect this trend to continue?

Kavinder Singh: Let me answer the question from the end. I do expect the trend to continue, and I am extremely confident about that. The reason I am saying so is that quarter three and quarter four last year, we hit 75% and 85% occupancies when even the vaccine wasn't there. And now with vaccine rollouts, I don't see any reason why we should not be climbing well beyond 70% even in this quarter that we are currently in. So, the good news for us is two; first is that we have obviously been in the business for almost 25 years, we have built a huge amount of trust. And of course, with the focus on safety, people can look forward to holidaying in a very safe environment at Club Mahindra and that too in open and spacious resorts with larger apartments and many unique outdoor experiences. This is something that has become a very smart positioning for us, but particularly post pandemic. So, I think people are beginning to realize that. So, that is what is helping us in some manner to get the higher occupancies that you alluded to.

The second thing is that our members, they are valuing their membership even more, which is why we are even getting higher referrals from our members for their friends and families to join. I can go ahead and enumerate multiple reasons, but I think at a very broad level, the fact that we started with the 'Safe Stay' program much earlier than the other hotel chains, and we focused on getting Bureau Veritas certification on COVID safe protocols, as well as the fact that we moved into completely contactless service transactions, right from check-in, check-out, billing, etc, all transactions moved to contactless. And the fact that we trained our people not to compromise on the service and warmth, we have this terminology called 'SEWA', you know Sewa means service in Hindi. But we have something which is very, very unique for us, we call it as Service with Empathy, Warmth and Attentiveness. So, empathy, warmth and attentiveness were never compromised during this period as well.

So, we remain extremely focused on service, we have this unique differentiator of large spacious properties away from the cities where people can catch a breath of fresh air, which is what I mentioned; and more importantly, larger rooms, and doing activities where you are physically distant, but socially connected. And of course, lots of work done on food and beverage area as well. Because we noticed one thing that post pandemic dining out is, again, really on top of people's minds. When they travel, they are not travelling only, they are actually looking for a lot of opportunities to sample different kinds of foods. So, again, that's another area where we have re-engineered our menus and tried to up the game there as well. So, at an overall level, I think all of this is playing out to get the occupancies higher, I don't want to compare with anyone, but I think in the leisure play that we are and since we are not focused on weddings, MICE, our focus is very clearly family vacations, I think this focus also helps.

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

Nemish Shah: Congratulations on a steady quarter in these challenging times. So, I just had a question on our cost of acquisition. So, like you mentioned, we are already starting to see some of your GoZest members converting to CMH 25. So, I am assuming the cost of acquisition for them will be very marginal. So, are we seeing the cost of acquisition, which is around 25% for us, currently trending downwards? Or do we expect to stay at these levels, and we expect to reinvest those incremental savings in cost of acquisition back into the business? So, just some color on that.

Kavinder Singh: So, at a very operational level, answer is yes, that the cost of acquisition when you convert a GoZest to a CMH 25 is lower. But from an accounting perspective, it will not be very easily evident to you, because a GoZest to a CMH 25 will be an upgrade. So, it will not be a new member addition. So, when we upgrade, what you will see is what it does is it will reduce the future exits, because GoZest is a three-year product. With upgrades, we are ensuring that the future exits come down. And on a lifetime basis, the deferred cost of GoZest which is over three years, and with a small increase in the acquisition cost, it will sit over the balance 22-23 years if it's upgraded to 25 years. So, the real benefit will come in terms of the accrual of VO income, less the deferred cost. So, while VO income will keep coming in, the deferred cost will obviously come but it will be much lesser, so therefore there will be a net positive impact. But on a pure play cost of acquisition for the new member additions that we do, that is not going to get sort of impacted by this kind of an upgrade. So, I gave you a very technical answer, but your understanding that on a longer-term period what you are doing is by upgrading members from GoZest to higher conversion, CMH 25, you are in some manner reducing your lifetime cost of customer acquisition over the lifetime of this product, no doubt.

Moderator: Thank you. The next question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Now, you have already provided the operational occupancy for the quarter, could you please highlight what it was for the month of June? And also, a sense of occupancies in regions of Maharashtra, Uttarakhand, Himachal? And also, which have been your best locations for this quarter? That will be all.

Kavinder Singh: See, I will say that we ended the quarter with about 51%, so June was at least 10% to 12% higher than that average roughly. As far as resorts are concerned, obviously Maharashtra resorts are right at the top of when it comes to occupancies, whether it is Alibaug, whether it's Lonavala, Hathgad or Mahabaleshwar as well. Himachal is leading the pack because the restrictions to travel to Himachal are almost nil. Rajasthan is doing extremely well. Gujarat did extremely well for a long time, continues to do well. The other way to look at the answer is that in the South restrictions were significant even in June in terms of opening the resorts. So, pretty much most of June we could not open the resorts in south. And as you know, right now Kerala is affected and that's why the occupancies are low. But Goa did extremely well, Goa has also bounced back. So, if I look at broad terms, everywhere there is movement upwards, very, very strong movement upwards. Right now, the only place where the movement will sort of happen after some time once situation comes in control is Kerala.

Jaiveer Shekhawat: Thanks a lot. One more question to top on that. Given that we have already opened up in Finland, and this is going to be a holiday season, so can we expect occupancies in excess of 90% going forward?

Kavinder Singh: In fact, in all their resorts it is 100%. The Finnish take their holidays very seriously, and particularly the summer holidays. As you know, the sun comes only in this period. So, from mid-June to about mid-August, it's a solid time for them to holiday. And we are seeing all time high occupancies in Finland right now.

Moderator: Thank you. The next question is from the line of Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.

Dikshit Doshi: Sir, I have two related questions. The first is, if you can share the data. So, like last year member addition was 12,000 and in current quarter it was around 1,000. So, let's say in this 13,000 how much is a 3-year, 10 year and 25 year, if you can give the break-up?

Kavinder Singh: So, I think, generally we do not give the breakup of the product mix. But generally speaking, I would have mentioned, and I continue to mention that the 25-year product is a dominant product. Of course, because of the pandemic, it's not routine times, there are times when 25 year does not remain a dominant product. But then there are GoZest and Bliss, but in my opinion, what is important to really think about our business is that, how much is the sales value that we are generating out of our products? Are we continuously growing the sales value? Because, for us, each product is an opportunity to upgrade it to the 25-year product. So, we don't worry too much about the product mix per se. For us, what is very important is to have the customer with us over a longer period of time, that is how the value gets realized in our business.

Dikshit Doshi: Okay. So, the reason why I was asking, so let's say earlier in the history we used to build one room for, let's say, 60 members. And if I take around Rs. 3 lakh membership average, then it is around Rs. 1.8 crores to Rs. 2 crores we used to get for one room. In that case, we used to spend Rs. 1 crore for inventory and balance remains with us as an investment. Now, in this case, we will be adding more of our members where it is having a lower value, obviously, three years and 10-year program will have a lower value, then in that case our cash inflow at the initial stage will be lower. Then how we will fund the capex?

Kavinder Singh: Alright, okay. So, you really think about it as a portfolio kind of strategy. We know exactly what mix we should have, keeping in mind what you just said. But remember we also on the supply side have not been bringing in capex for every unit that we sell. We also are bringing in long term lease as a route. And I did mention that we have an asset-light strategy, neither asset-light or nor asset-heavy, we believe in a mix where we can create inventory, even despite whatever you said, if you look at it how our cash is growing. And the reason our cash is growing is that we are also focusing on higher down payment, lower EMI tenure kind of customers. And you are right that if our mix tilts towards the shorter tenure products, then how do we manage this mismatch. And we have done internal calculations, portfolio mix, and we understand that there is a certain mix that we need to achieve, and we are constantly mindful of that. And we are aware that on the supply side there are opportunities not just to build every time a customer comes in a room for the person, but also leave. So, if you look at the combinations on the supply side and keep a portfolio strategy on the demand side, it is possible to arrive at a mix where you do not have this asset liability mismatch.

Moderator: Thank you. The next question is from the line of Vimal Parikh from JHP Securities. Please go ahead.

Vimal Parikh: I just wanted to understand the rationale behind this bonus issue, what is the management's thought process?

Kavinder Singh: The bonus issue is not decided by the management, it's a board prerogative. And as far as my understanding is concerned, since I, of course am in the board, is that we believe that we have not been able to give the dividends. We also believe that a bonus is one way of increasing the liquidity in the market. And over a period of time when the liquidity increases, could it be in some manner, and I am just making a hypothesis, it's a question, could it be rewarding to the existing shareholders? I am not sure whether the answer is yes or no, but as you know, companies over a period of time keep giving bonuses. So, the jury's still out whether bonuses lead to rewards eventually. For sure, it leads to higher liquidity, whether it leads to rewards to the existing shareholders or not is a question that we can keep discussing. In some cases, we have seen it does, in some cases it does not. But one more thing which I can confirm from management side is that the fact that we have increased our authorized capital, the fact that we will increase the equity capital, still subject to shareholders approval, in some manner is also signaling management's confidence that we are in a position to service that expanded equity base.

Vimal Parikh: Thanks for the clarification. And can you give the breakup of other income, if possible?

Sujit Vaidya: The other income largely has two components to it; one is the treasury income which comes in based on our cash surplus which gets invested into liquid investments. And the second one is, according to the accounting standards, the rent waivers which we got because of the partial shutdown of our resorts, which we then negotiated, those rent waivers are also shown as other income.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Kavinder Singh for closing comments.

Kavinder Singh: First of all, thank you very much for being with us for this conference call. As I have always mentioned that we are quite humbled by the fact that there is a lot of attention on us, on our performance. And most importantly, the questions that get asked make us think harder. We always learn from these interactions and we look forward to these interactions. And each of your question is noted down by our team and we keep discussing, thinking through as to how we can give more disclosures, and how we can continue to come up to your expectations. On this note, I would like to close the call from my side and wish you safety, good health today and all the time. Thank you so much for being with us.

Moderator: Thank you. On behalf of Mahindra Holidays & Resorts India Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.