



“Mahindra Holidays and Resorts India Ltd Q3FY16
Earnings Conference Call”

January 22, 2016



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Moderator: Ladies and gentlemen good day and welcome to the Mahindra Holidays and Resorts Q3 FY16 Earnings Conference Call. We have with us on the call today; Mr. Kavinder Singh – Managing Director and Chief Executive Officer, Mr. Vasant Krishnan – Chief Financial Officer and Executive Director. As a reminder, all participants’ line 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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh. Thank you and over to you Mr. Singh.

Kavinder Singh: Good evening everyone. I welcome you to the Quarter 3 Earnings Call for Mahindra Holidays. I will start with the net member additions number in the quarter.

We have added 3879 members; a growth of about 33% from 2928 in the same quarter last year. I would like to emphasize that this is coming successively after 2 consecutive quarters where we saw 50% growth in member additions. You may recall that we clocked 3087 members in Q1, 4341 in Q2; both of which were 50% higher than their respective year on year numbers of the same period. Our total member addition, year to date is at 11,307, which is up from 7899 in the corresponding period of last year taking the total membership base to 1,94,000 members.

As I have mentioned earlier, our endeavor on making Club Mahindra an aspirational brand in providing unique family leisure experiences along with bringing lifestyle experiences at members’ cities of residence is now beginning to yield results as can be seen from the accelerated rate of member additions in the last 4 successive quarters. Total of 16,221 members added in last 4 quarters. I would like to now just spend a minute on what are we doing in terms of creating superior member engagement. We have a program called ‘heart to heart’, where we try giving an opportunity to our members to experience various lifestyle opportunities, lifestyle experiences; for example, we create a carnival like atmosphere where members come, they are able to engage in various activities with their families and this helps them to understand the world of Club Mahindra and this is in a family setting and also this helps us to get referrals for the likeminded people that they would want to become members.

The other thing that we are trying to do and this we started in this quarter; we have this program, The CNBC Awaaz India Travelogue. This program was started with the purpose of actually romancing our resorts in the context of the destination. So in this, our anchor goes to the destination, whether it is Kumbhalgarh, whether it is Gir and the viewers are taken through the various destination highlights, along with the experience of Club Mahindra. This program has been now aired, 14 episodes have been aired and we have found that there are approximately 2.9 million viewers who tuned into this program. So the idea is to create content around our resorts and this a step in that direction. We are also going to promote this content on YouTube. We are



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going to promote this in a shorter version; 3 minute edits. Also, we have found that there is a benefit in increasing the online engagement, including positive mentions of our member's experiences both at our resorts and in our 'heart to heart' events. So, we are constantly measuring that and we are finding reasonably good movement in that direction also. In terms of sourcing, digital and referral channels continue to be a robust source of member acquisition. In this quarter, we have continued to invest in sales and marketing efforts in this area. We have now stabilized at about 53-55% of our sales in the last 4 quarters, I think in quarter 4 it was 60%, the digital and the referral sales are now hovering in the range which I mentioned earlier. We believe that this is also a measure of increased member satisfaction that we are focusing on.

So, now let me move into the numbers, our performance for this quarter is in line with our expectation; Total Income at Rs. 241 crores, up 15% year on year, 'Profit after Tax' at Rs. 31.26 crores, up 33% year on year. Also, while we have been accelerating volumes, our 'Profit before Tax' and 'Profit after Tax' margins have expanded to 20% and 12.9% in this quarter versus 16% and 11.3% in Q3FY15 respectively. As far as room inventory is concerned, we added 12 tents and this quarter at Kanha, which is a new resort that we had added earlier and as at the quarter end, we have 45 resorts with 2879 rooms.

With this, I will now open the floor to questions, thank you very much.

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: My first question was; can you share the average realization per member for this quarter?

Vasant Krishnan: Last quarter, if you recollect that I had said that the AUR was somewhere hovering around a little over Rs. 3.25 lakh. So this quarter, I think they have taken conscious efforts to push that AUR up and the results of that are I think visible in the income numbers. I am sure you are also aware that we had a price increase; that has also aided in the uptick of the AUR, so that is starting to creep up again to levels that we are now starting to get comfortable with.

Nihal Jham: What kind of a price increase are we taking sir, in terms of percentage?

Vasant Krishnan: It is 5% on Blue and White.

Nihal Jham: And Sir, my other question is; I know you do not disclose, but just wanted to understand, have we seen a sharp reduction in terms of cancellations, which is also aiding our member growth?



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Vasant Krishnan: Well, I think the results are encouraging. Like I said, we keep a very hawkish eye on what we purge, keeping in mind that the receivables position should be under control and we have followed the same consistent practice that we follow quarter on quarter. So there is no change in our policies, in so far as dealing with delinquency is concerned, as far as members is concerned. So from a trend perspective, I think some of the efforts that we are taking in terms of catching them early, engaging with them like Kavinder talked about, I think all of these is resulting in better collections and therefore increased member engagement and thereby reducing the number that we need to purge.

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

Nitin Gandhi: Can you share your occupancy levels and web reservation percentages?

Kavinder Singh: Occupancy levels are hovering at about 81% this quarter; it is 84% the same period last year. We did have some impact due to the Chennai situation in the Chennai resorts, so Chennai has caused the dip in the December numbers. And also if you recall, we added inventory in the last quarter of the previous financial year. Despite addition of 400 rooms, they are not seeing any dip in our occupancy so that in our opinion is a very healthy sign and as far as the web penetration is concerned, we have good news because we are now hovering at about 67%, so this number has started moving up after a long time, remaining static at about 50%-52%.

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

Ritesh Poladia: Sir one question; there is other operating income component that has shown increase of about 62%, can we get what that pertains to?

Vasant Krishnan: Yes, so that is, other operating income is the interest on installment sales that we recognize and one of the reasons why of course it is showing an uptick from the past is that you know we also continuously look at some of these numbers from; you know it is all linked in right to the collectability of the customers, your customer base, etc. So the fact that we are showing an uptick gives us an indication in our confidence level of the customer. That is point number 1. Point number 2 is; it has been quite a while since we have securitized. I think the last time, we did so, was around more than 6 quarters ago. And when you do not securitize, you do not have to pay the interest on the securitization loan. Now, how we account for it is, we take the gross interest income and then we deduct the interest that we pay on the securitization loan. Now as the loans are getting discharged, this interest amount is starting to come down very sharply. And therefore, we are now in a position to be able to recognize the full interest income into our books. And at



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this point, I might also add that our 'cash in bank' position continues to remain very healthy and that gives us confidence about our collection efficiency also.

Ritesh Poladia: But now there is no securitization outstanding?

Vasant Krishnan: There is a securitization outstanding; I think the balance outstanding is under Rs. 100 crores.

Ritesh Poladia: And can you comment on receivables amount because this quarter, we will not have the financials, so how is the situation on them?

Vasant Krishnan: Like I said, the efforts that we have been taking in terms of improving our collection efficiency has got a direct bearing on the quantum of receivables, so the situation is well under control and we are quite satisfied with the quantum of receivables that we are carrying.

Ritesh Poladia: Last question is on membership addition; like you said 4 quarters have been quite robust, can you comment like, is the situation have improved so the member addition is bit easier than the previous cycle or still the headwinds are there?

Vasant Krishnan: I think; the external environment continues to remain tough. We all know what is happening in the external world today. I think it is a series of steps that we have taken over the last 3, 4 quarters, in a couple of years actually, you know, we have taken some very conscious decisions to increase our marketing spends, focus more on digital, focus more on referral programs. And we have always been talking about that the more that they come from this segment, the greater is going to be a pull factor, the higher is going to be the stickiness of these customers and I think that has started to yield results in our view. That is, I think starting to play out.

Moderator: Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Aditya Bagul: Good evening Sir, this is Aditya, just a couple of questions; the first question is; over the next 2, 3 years, what is the total number of rooms that we are envisaging to add?

Vasant Krishnan: See, we have been talking about adding these 700 rooms over the next couple of years and I think, like I keep saying; there is the mode of self-constructing, we are constructing the rooms ourselves or we can lease it out. So, we are going to be seeing some additions to our own property in the coming year. We are also going to be starting a project in Goa very shortly that is a 200 room-project in Goa. And then of course, there are one or two more projects in Himachal. We are very close to concluding certain lease agreements which if it fructifies as we hope it will; we will be able to announce it in the next quarter.



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- Aditya Bagul:** Just to follow up on that; would maturity or what would be the proportion of rooms which would be added at existing resorts versus adding in new properties or new locations?
- Vasant Krishnan:** All the properties that I just spoke about will all be new resorts.
- Aditya Bagul:** And simplistically looking, if I just divide your outstanding members to your outstanding number of rooms, you are at a little over 66 currently; very simplistically looking because I understand there is a lagged EMI component to it as well. So just simplistically looking at it Sir; what would be a number at which you would be comfortable at?
- Vasant Krishnan:** We are quite comfortable at this number. We believe we are adding the rooms commensurate to our member addition. We might be actually accelerating that room addition and we will take that call appropriately but there is no question of any discomfort as far as the room to member addition is concerned.
- Kashyap Pujara:** Just one more question was that; wanted to understand from you; the current environment, considering that the broader economy is weak and essentially the ARR's across hotels have also not moved up since quite some time and we have the liberty to actually give occupancy because we have tied up member base, so my thought was that we would be one of the natural harbors to get good deals on lease rentals as well. So are you seeing many more opportunities than what you used to see in the past as far as adding rooms on a lease basis?
- Kavinder Singh:** So lease, actually lease additions are made as a part of our strategy of adding rooms in locations where it is difficult to get permissions for construction or the destination is not proven. So we use this criteria, it is a part of a strategy that we employ and today when we look around for quality accommodations or quality resorts, it is not easy to find them and yes because of the conditions that you mentioned, yes we do get attractive opportunities but important thing is to manage quality and strike the right balance because if you do not focus on quality and if you create a problem with the member experience, then that is something that we will never do, even though we may have a distress situation coming in from the owner.
- Kashyap Pujara:** Fair enough. I think the experience is what the USP is, so you cannot be compromising there. But having said that, would you be looking at adding more rooms in the West Zone?
- Kavinder Singh:** Yes, in fact, what Vasant was alluding to, is an opportunity that we are looking to invest in.
- Moderator:** Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.



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Nimit Shah: Just wanted, again on this room addition thing; so for this financial year, our room additions has been around 60 rooms, so what is the number that we are looking at for this financial year?

Kavinder Singh: So, in terms of the financial year, as you know that the inventory comes in, in buckets and we do not necessarily set targets for financial year basis as far as an inventory goes. For us, inventory is always a forward looking thing; whether it is buying land banks, whether it is creating our own Greenfield resorts, so we look at inventory over a horizon of at least 2 to 3 years, but we also are aware of the fact that we are adding members every quarter. So we need to ensure that we have sufficient inventory, season-wise, so we constantly do that and as Vasant hinted that we are seeing some opportunities in the quarter which is now running and when they happen, we will certainly share it with you and he also mentioned that we are looking at these Greenfield projects that we have. So we constantly see a combination of Greenfield addition to our existing resorts, for example, we are looking at addition to Ashtamudi resort, we have a resort in Kandaghat; these 2 projects are already, in the sense of planning and designing, started and the actual execution will start in couple of months. So Greenfield, Brownfield and lease; all the three are continuously scanned to see that we get the number of rooms in line with the member additions. We constantly track them and that is how as and when they keep happening, we keep sharing with you and with the media.

Nimit Shah: Out of this 700 rooms which were planning over the next 3 years, how much rooms the work might have already started on the ground currently?

Kavinder Singh: There are various stages in a project; one is a design stage, so I can tell you that on all 4 design stage have started. In couple of projects, the actual construction is on, in couple of projects, the permission stages is where the project is; the moment the permissions come, we need to get local permissions, the project would start. So it is like every project is at a different stage, so it is not to say that all of them are in the design stage. I mean, there are some which are in construction stage, there are some which are in approval stage, and there are some in the design stage. This is how it works in any project management.

Nimit Shah: And second thing, again to the question which we had earlier, reflected in the earlier quarters as well whereas the member additions has been so strong; that is 33% growth in this quarter as well, the VO income is still not getting reflected, it has increased by only 10% to 11%, so by when we might see that the vacation ownership income also increases in tandem with the member additions? And what has been the reason for this disconnect?

Vasant Krishnan: So I am sure, you all know, how we account for our revenues. First of all, if you are looking at it from a percentage perspective, only 60% of our sales value gets into the P&L as revenue that is point number 1. Point number 2, is what comes in, is a function of a product mix and also



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therefore consequently the AURs. Point number 3, is the effect of what comes, gets out of the system and their respective AURs. And point number 4, is the quantum of upgrades that we do, what is also called realignments. It is the mix of 1, 2, 3 and 4 that results in the figure called the VO income. So anyone of them that moves, in a direction which is not north, at least optically will result to people looking at the number as if the volume addition has not translated into income. You would also realize that last quarter, the income translation to the P&L was at a level lower than what it was recognized this quarter. And I opened up in answer to my first question that this is directly as a consequence of AURs moving up. So we have to do multiple things. You want to push AURs, you might then decide to push a little bit of the Blue and the Whites which might tend to drag the AUR a bit down, how the realignments/upgrades play out; all of this results in the VO income reflecting in the P&L.

Nimit Shah: Sir, out of these 4, which you have mentioned, that goes into the VO income, which might have negatively impacted in this quarter? One is the AUR getting; because in this quarter you are mentioning that AUR is getting higher.

Vasant Krishnan: So understand, when you are looking comparing from quarter to quarter, nothing need have moved down. But even if it remains at the same level, it tends to bring the percentage in the Y-o-Y level a bit down. So it is not necessary to conclude that any component has actually moved south, even if it has remained flattish, it will still result in a percentage which is lower than what you saw last year. And our AURs at a Y-o-Y level, is a little lower as compared to Q3FY15.

Nimit Shah: So what is the absolute AUR for this quarter?

Vasant Krishnan: Well, it is better than 3.25; inch closer to a little over 3.4.

Nimit Shah: And in this quarter also, the mix was little bit different; like the off season members were higher?

Vasant Krishnan: You mean to say the mix between Purple, Red, Blue and White?

Nimit Shah: Yes.

Vasant Krishnan: It was not significantly different from what we saw in the last quarter but we had a higher AUR realization.

Nimit Shah: So that means that the members which are going out might have resulted into this?

Vasant Krishnan: Not necessary, again it depends on the AUR of the members that are gone out. So you cannot draw that conclusion, like I said, upgrades also play an important part in this.



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- Nimit Shah:** So it would be very difficult I think to catch one component on that.
- Vasant Krishnan:** Like I told you, I can confirm to you that the upgrades are not the significantly different from what we saw last quarter same period, though we might not have shown any improvement in that metric. And if that remains flattish, the overall percentage will show slight dip.
- Nimit Shah:** And sir, there is one website, clubresale.com which I think deals into memberships of I think, various vacation ownerships, so does that impact our members additions targets because if there is an online site which is available where the membership can be traded?
- Kavinder Singh:** So actually, we at least are not a part of that reselling model. In our case we issue only fresh memberships and we do have rules around transfer of memberships, so if something like this happens, it is happening more like a secondary market. It is like a used car market, so I really do not know, how it impacts our member additions because as you can see from our member additions, at least we have not felt that this impacting our business and that is where we are on this.
- Nimit Shah:** But anything like that, where the member who needs to surrender the membership or who wants to sell it to outsider, needs to first approach you guys, then only they can sell it?
- Kavinder Singh:** We have detailed set of transfer rules and those rules have to be complied with, if he wants to transfer.
- Nimit Shah:** But there is no restriction to sell it first either through Mahindra Holidays only and then only they can sell it.
- Kavinder Singh:** So the transfer has to be effected through Mahindra Holidays. It cannot be done, like you cannot sell it to someone else without coming to Club Mahindra.
- Nimit Shah:** And you do not charge any transfer fees or like that?
- Kavinder Singh:** We do charge transfer fees.
- Moderator:** Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** This question is as related to two acquisitions that happened over the last one month; mainly through your subsidiary Holiday Club Resorts, one in Finland and Sweden, I guess. I just wanted to understand, do you have any target of increasing your room count significantly there or how you are trying to go about that?



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- Vasant Krishnan:** As far as Finland is concerned, I think the first deal is; it was there in the press release also, it is an operational hotel that was being taken over. And the second one is that a very minor deal, so it is not even worth spending any time on it. It is a just one-year-old deal, it was more of a cleaning up operation. As far as your question about increasing the rooms are concerned, there is a plan to enhance the footprint within Finland. As far as the other geographies are concerned we need to be a little bit more careful in the light of the overall economic situation. It's something that the Finish management is very carefully monitoring. So at this stage it is better to be cautious in our growth plans and that's the strategy that is being followed.
- Nihal Jham:** But we are not looking at investing any further at this point too much going forward in the next 1-2 years.
- Vasant Krishnan:** At this particular point of time there are no plans that are in the public domain that we can share.
- Moderator:** The next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.
- Chetan Vaidya:** Could you please elaborate on financials of HCR, how the consolidated entity will look like?
- Vasant Krishnan:** We just handle the standalone and we don't put out consolidated numbers. But I can confirm to you that the first quarter numbers have more or less come in line with what we had projected. Those would be put out I suppose as by way of additional information in due course of time. It's been doing as you know the overall HCR does around €140 million per annum. On a quarterly basis the run-rates you can figure it out. It is coming around to that so it's not something that we are disappointed with in terms of its budgets. It is in line with what we had projected. So things are in a nutshell going according to plan.
- Moderator:** We have the next question from line of Ankit Kanodia as an individual investor. Please go ahead.
- Ankit Kanodia:** Do you have any internal metric as to when you compare the number of members for example right now it is 1,85,000 members, so how much room count vis-à-vis that members should be? Would you like to share something on that?
- Vasant Krishnan:** In a manner of speaking this question was asked and was answered that for the current member count, we know at the back that there are certain members which are enrolled but all of them may not be eligible because there are certain eligible criteria that needs to be fulfilled and what triggers it's called the holiday start date. Our room inventory is continuously monitored to be in consonance with the eligible membership. So as we speak now we are not seeing any concerns to the adequacy of room inventory with our member base.



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Ankit Kanodia: You don't like to share it with us, what kind of metric you use for comparing the eligible membership with the room count?

Vasant Krishnan: We have to give a week to a member so that is the metric. That is a broad metric and after that there are several other factors that go into deciding what is the adequate room inventory that we need to carry, it really depends upon the season of the particular member in our base, it depends upon how many are enrolled, it depends upon the holidaying patterns. Based on that we have a fair sense as to what is the kind of room inventory that we need to carry and that I confirm to you at this particular point of time we are not seeing any concerns here.

Ankit Kanodia: My next question is regarding the Finland acquisition. So post this acquisition are we planning anything significant in terms of changing or maybe introducing some new style of holidaying which we are not witnessing right now in the Mahindra Holiday Resorts?

Kavinder Singh: As far as style of holiday is concerned, the Finland model is different from our model. They sell fixed resort, fixed week to their members and they do a deeded sale unlike ours where it is a right to use. So what we are trying to do is that their holidaying season is not the same as our holidaying season. For example, their holidaying season starts in July while our holidaying season is April-May-June so what we are planning to do or rather we are attempting to do is to see how our Indian members can go to the new destination which is now possible to them at Finland and when they go to Finland obviously they will have the opportunity to see Midnight Sun and if they go in winter then it will be Northern Lights. So there are these things which Indian consumers for them it's almost sort of very aspirational to look at holidaying in Nordic Europe so since we have opportunity to make them enjoy Finland, Sweden and also the fact that when you reach Finland there is an opportunity to go to St. Petersburg which is just a 45-50 minutes away through a ferry. So there is an opportunity to show our members Nordic Europe as a destination, promote Nordic Europe as a destination. So our aim is to work with Finnair, our HCR team is working with Finnair to ensure that Indian travelers get a better deal. They promote Finland as a destination. So those things we are certainly planning to do to take advantage of their inventory which is their off-season inventory and therefore make our members actually use their week in exchange for a week in Finland or Sweden. So that's what we have in mind and that's what we are attempting to do.

Ankit Kanodia: I think I read somewhere they have this facility of having one resort being co-owned by 5 or 6 individual investors and they can use it.

Kavinder Singh: Yeah so they have this product which they called as fractional villas where six people can own a villa and it's a separate product from their main time share business. So they have this separate



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business, one is a timeshare business and other is the fractional villa business and of course they have a spa hotel business also.

Ankit Kanodia: We are planning to have something like that in India as well?

Kavinder Singh: We are studying their model and obviously what works in Finland may not work in India. So we need to just understand a little better and see what works over there and how we can tweak the model and create a model for Indian population or Indian target group that we may have to identify. So it's on our radar but to be straight with you we haven't yet decided the product and we have not decided any date for the launch of this product.

Moderator: Next question is from line of Shalabh Agarwal from Snowball Capital. Please go ahead.

Shalabh Agarwal: The first question is regarding the inventory across seasons. Does that change from year-to-year as in the resorts which were present last year and the resorts which are present this year also; they will have the same number of weeks in each season or is that available?

Kavinder Singh: Our season chart is resort specific so once we set the season for a particular resort, there is no reason for us to change that other than the fact that if Diwali is last time in November and this time in October, to that extent yes, it would change. But otherwise the seasonality is around the resort and within the resort if there is a festival change of date happening, to that extent, it would change.

Shalabh Agarwal: But the volume of the number of weeks will not change?

Vasant Krishnan: No, broadly they won't.

Shalabh Agarwal: The related question to that will be how do we manage the inventory across seasons as in there is a limit to number of Purple members or a Red member that one can have so how do we control that because what a member wants will be the member's choice, we cannot probably control that.

Kavinder Singh: While some of you look at this ratio of 66:1 or 65:1, we internally have a lot of metrics to track the seasonal inventory versus the members. Again within members we have eligible members so we have these metrics which are constantly being tracked so that we are able to see whether there is in any place where there is an issue developing. And in any case as we add inventory these issues, even if they are developing, they are taken care of through the addition of inventory.



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Shalabh Agarwal: So there may be instances where you might be forced to sell or have a better proposition in a lower season if there is a higher demand for the higher season.

Kavinder Singh: There is obviously--if you're referring to the opportunity-- that there is an opportunity to sell. If I have got your question right just correct me whether my understanding is right because I have a little bit of or maybe it is better if you can repeat the question that would be better rather than me interpreting it.

Shalabh Agarwal: What I meant is when a member comes in; member will have his own reasons of taking a particular season. The inventory in any particular season is limited because it is only determined by the number of weeks we have. So if we get more requests on Red side or a Purple side and we have only limited inventory then we might be forced to make the lower seasons look more attractive so the members may opt for lower seasons?

Kavinder Singh: No, the way it works is that I think now I have understood your question quite correctly. The way it happens is if you are looking at a resort. At a resort, the Red and Purple members clamouring to get the weeks which they have paid for and therefore if there is a demand which is more than what we can service for example if you take Goa, in Goa there are times when the situation arises. So what we've worked in terms of the way we communicate with our members is at the end of the day people go to Goa because it's a beach destination so we have various other beach resorts and that situation which happens in Goa is not necessarily happening in all beach resorts. So lot of times our members because of this situation they end up experiencing another beach resort. We use something called 'reshaping the demand' so one of the marketing tasks that we have is our members when they sign up they don't have to only sign up for Goa or Munnar or some other name. They need to sign up for the fact that we are able to show them 45 resorts in different destinations and therefore people are able to get different experiences. So, in terms of reshaping the demand that's also a core marketing task that we undertake.

Shalabh Agarwal: Has there been any change in terms of the kind of seasons which are getting sold more compared to what they were a year back or two years back, has there been any change in terms of which seasons are selling more?

Kavinder Singh: This is something that Vasant was mentioning that if you look at the pattern of the seasons we are not seeing any major change in the pattern of seasons the way we are getting sold at least in the near term. That is what he was mentioning that in the last quarter to this quarter we haven't seen any pattern in terms of the seasonal mix. So we are not seeing in the last 2-3 quarters any major change.



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- Shalabh Agarwal:** The other question that I had was how do we keep track of the F&B revenue because now it's a sizable, it's around 100 crores business for us annually. I'm asking this because I myself a member and I have seen something like this. How many people taking a buffet versus how many people getting billed?
- Kavinder Singh:** I think if you are a member so your queries are around membership. I think we should have an off-line conversation on whatever issues are.
- Shalabh Agarwal:** This is regarding revenue getting captured in the system.
- Kavinder Singh:** So revenue getting captured, there are standard accounting practices if you are billing and every food and beverage item that you consume in the resort, nothing is by design free. So it is billed to the respective member and it is rolled up into the accounts. It's very simple and straightforward like any other hotel does today in the country.
- Moderator:** The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.
- Arjun Khanna:** My first question is in terms of CAPEX, you mentioned 700 odd rooms over the next few years. I understand some will be a mix of leases and some will be new projects. Could you help us with what kind of CAPEX we expect for this year?
- Vasant Krishnan:** Just a quick clarification, the 700 rooms that we have been talking about are all constructed rooms so what we add has got nothing to do with the construction. Whatever plan we have for addition we will do. Construction will come, the balance can always be met with leases that is at one part. As far as the cost per room is concerned, it actually varies from resort to resort and the kind of specifications that would go into a particular resort but we can take an average of around 75 to 80 lakhs a room as far as CAPEX is concerned.
- Arjun Khanna:** And how have we seen this number move over a period of time?
- Vasant Krishnan:** Going ahead or talking about...
- Arjun Khanna:** Historically?
- Vasant Krishnan:** It is obviously much cheaper. But over the last 3-4 years we have been trending between 65 to around 75-80. Again like I told you a lot of it depends on the specifications and the finishes as the kind of amenities that you're going to provide. So if you are going to really look at our resort



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in Goa which is going to be top of line, it will cost us a little bit more but within the range that I just set out.

Arjun Khanna: This number you mentioned for this 75 to 80, does it include the cost of land?

Vasant Krishnan: No, it does not but that's not significant.

Arjun Khanna: My second question is what would be the impact of the new accounting standards IndAS on revenue recognition?

Vasant Krishnan: Difficult question to answer at this particular point of time. GAAP assessments are being undertaken so we will have to wait till the GAAP assessments are complete.

Arjun Khanna: Would we have a timeframe by when we would be able to share with the analysts what kind of impact we expect?

Vasant Krishnan: This must go to our board and then only it can go into the public domain.

Arjun Khanna: My third question is in terms of, we saw it was earlier questioned also in terms of the increase in our share in the new resort from 24% to 100%. Has there been any equity outflow from the Indian entity into HCR or this is through internal accruals of HCR?

Vasant Krishnan: No, it is been structured as an overseas loan so there has been no outflow from the Indian entity.

Arjun Khanna: Lastly you mentioned that AUR has moved up roughly 4%-5% from 3.25 lakhs to 3.4 lakhs odd. If I understood correctly you also mentioned there was a price increase of 5% on Blue and White. So that means that the AUR hasn't really moved up much even though the last quarter we had a lot of sales of Blue and White, is that a fair understanding?

Vasant Krishnan: We are not looking at it from that perspective but some proportion of this AUR increase would have come from the price increase also, some part of it would have come from the product mix change. Like I said the product mix change was not very significant so it is a combination of both.

Arjun Khanna: But ideally the proportion was exactly the same.

Vasant Krishnan: If the proportion is exactly the same the AUR will remain the same so then obviously it would....

Arjun Khanna: But we have taken a price hike sequentially of 5%.



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- Vasant Krishnan:** Yeah but when I give you the net number, it was also factored into account that there are also what we call a recession cancellation. A recession cancellation happens within 15 days when a party decides to exit the system because he bought it on impulse and then he decided he does not want to be part of the system. Now that also affects the AUR so if they are higher or lower than that net AUR can go up or down so like I said there are many factors in the mix.
- Arjun Khanna:** I understand the cancellations will have an impact but given that we have this data, I'm not sure how it affects the AUR.
- Vasant Krishnan:** That's what I'm telling you; there are multiple factors that affect the AUR. A - The gross level at which the customer came in, B - The AUR at which the customer exited the system especially in a recession cancellation.
- Arjun Khanna:** I actually thought this was just for the new members which we have acquired this was the AUR?
- Vasant Krishnan:** The recession cancellation which happened very quickly, the 15 day cancellations.
- Moderator:** We will take a last question is from the line of Abhishek Jain from Everett Consultant. Please go ahead.
- Abhishek Jain:** What is the vision of the company, vision 2020 kind of, have you prepared anything on that?
- Kavinder Singh:** The way we work is that we obviously get into our strategy sessions. We prepare strategy for the future and in any case the vision that we had set for ourselves to be amongst the top five vacation ownership companies in the world. We are not there yet. We are in the top 10. I think we are sixth, we don't know that for sure. But we are certainly the largest vacation ownership company outside of US, based outside US. So obviously our aim is to grow the vacation ownership business and ensure that the growing leisure travel market for the families is something that we remain in the forefront of. So that's the core, we obviously want to remain number one and grow the business and because of the fact that we have acquired the Finnish company so we do have global ambitions. We continuously look for opportunities because this is truly a global business. So we really want the growth to come largely obviously we are focused on India. But if there are opportunities that we see globally, we are quite open to it. So we continue to remain focused on making this business a large business, a business which gives the leisure travel, particularly family leisure travel in India and if possible in the other markets, we remain at number one; this is exactly what we are focused on.
- Abhishek Jain:** On this particular thing I would like to ask couple of questions like outbound travel from the country is very high. What is your plan for this Finnish Company, are you looking to just stay at



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the Finland only or you are also looking forward to expanding to other countries as well through that company?

Kavinder Singh:

As I mentioned earlier that as far as the Finnish acquisition goes we are looking at opportunities, how Indian members can take advantage of the low season of Finland where we have our peak season. So there is an opportunity to mix and match and therefore get the best of both worlds for both the companies. At this point of time this acquisition is fairly new and we are focused on ensuring that the results are in line with the budgets as Vasant was mentioning. So as I mentioned very clearly that we are the third largest vacation ownership company based outside of US. So our aim is to grow the business either through acquisitions or through the organic route but we see India as a huge potential market and as we are also quite India focused while we remain open to new opportunities but at this point of time we will remain focused on what we have including Finland.

Abhishek Jain:

Right now we are having less than 2 lakhs members so when we can see the doubling of this membership like 2 lakhs to 5 lakhs or 4 lakhs, how many years will it take?

Kavinder Singh:

Difficult to say when we will double but just to give you a size opportunity, our opportunity as we see it is at least five times the current level. Now in which period of time that will happen difficult to say because we have various ways, we have checked the opportunity and obviously you can also do from the surrogate of whether it is the number of cars sold, whether it is the number of air conditioners sold, whether it is the population, Indian households earning more than Rs.2 million. So there are various ways you can cut and see what the size of the opportunity is and we believe at least there is a 5 times the current size opportunity that is waiting for us to be tapped. When will it happen that time will only tell. I think we don't want to sort of forecast the future here.

Abhishek Jain:

We are done with our restructuring and all the legacy issues that was crippling the company so where do you see in the next 3-4 years? Right now we are adding something around 15,000 members per annum so when we can see increase to 20,000-25,000 per annum kind of membership addition? We have attained fairly large scale; it is not a scale issue anymore.

Vasant Krishnan:

Let me answer the question in two parts. First of all there were no restructuring issues so I do not know where that is coming from. As far as the second question is concerned I think that has already been answered. While we are all working very hard to tap into the opportunity it is very difficult to do any sort of prediction as when we will hit 400,000 members, 500,000 members or when we will hit 15,000 members or 20,000 members the answer remains the same. We will continue to try our best as management we must try and push all the levers to do what is required to be done to grow this company.



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

Kavinder Singh: We thank all of you for being present for the Quarter 3 Earnings and we are now closing the call and once again thank you very much from me and my team.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Mahindra Holiday & Resorts, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

This document has been edited for readability purpose.