“Mahindra Holidays and Resorts India Limited Q4 FY16 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Morning and Welcome to Mahindra Holidays and Resorts Q4 FY16 Earnings Conference Call. We have with us today from the management Mr. Arun Nanda -- Chairman; Mr. Kavinder Singh -- Managing Director and Chief Executive Officer and Mr. Vasant Krishnan -- Chief Financial Officer and Executive Director. As a remainder, 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Nanda. Thank you and over to you.

Arun Nanda: Good Evening, Everybody. This is Arun Nanda. I am very pleased to tell you that efforts that were put up by Mr. Singh and his team have started yielding results. There are two to three things that have happened in the year that ended in March. We had a 26% growth in member addition, 19% growth in income and 49% growth in profit-after-tax. The best part is that the continued focus on improving member experiences at the Company's resorts should augur well for the future.

A lot of you last time had many questions and doubts about Holiday Club, I want to tell you that we took over Holiday Club on 2nd of September, 2015 and in the first seven months, in spite of all the problems Europe is seeing, especially Finland, on account of Russia, we made a profit of €3.2 million on a half-yearly basis.

Considering our investment, I think we have made a very decent return. If you analyze it and as I see, things are looking good in Finland. Canaries in Spain seems to be in a bit of drag but Finland itself is doing well.

I will actually now leave to Vasant and Kavinder to do the investor call. But I will be on stand-by if there are any specific questions which are directed to me. And I want to thank all of you once again for your support and your patience. I can tell you that a lot of effort has been put in various areas which Mr. Singh will tell you and it is not only the numbers which make me happy, it is the reasons behind getting the numbers. The trends of cost, the trends of collections, the trends of sales, the occupancy at resorts, the member feedback, the fact that TripAdvisor gave so many compliments and so many awards to our resorts, these are things which make me happy because if the fundamentals of the business are strong, results will always follow, that is what I have done all my life. I believe in making the company strong, results follow the efforts, I do not chase just numbers.

With that, over to you Mr. Singh.

Kavinder Singh: Thank you, Mr. Nanda. And good evening to all of you who are on the call, I would like to first welcome all of you for the Q4 Earnings Call for Mahindra Holidays. I will begin with the net member additions for the quarter.

We are at 4,878 units for the quarter; slightly lower than the 4,914 members that we added in the preceding quarter. But if we look back at the year gone by, it has been a fairly satisfying journey. We added a total of 16,185 members as compared to 12,813 members in FY15.

We have taken several initiatives in quarter four specifically that I would like to highlight. First of all, we have focused on member engagement whether it is a heart to heart program which we ran where we are engaging with the members in their home towns which is helping us in our referral leads, which is helping us get higher quality members. In addition, we also focused on improving the way we sell, whether it is extra training to our sales force, whether it is the policies that we have adopted in terms of ensuring that whatever offer we give, it is given after a period rather than earlier. Along with the down payment which earlier use to be 10% we have taken it up to 15% specifically for Blue season and White Season. All these measures have already begun to yield results. Our down payment is much higher than 10% for most of our members and this to me is an early sign of higher quality member addition. This is what has been our focus area in quarter four and this is what will be our focus area going forward.

Let me spend few minutes on how we are transforming ourselves as a company. We have always believed that we need to create pull for our product. For those of you who have been to our resorts, there is no doubt that our experience is superlative but it is very difficult for a person who has not gone to our resort to really understand the experience. So what we have been trying to do is focus on the referrals as well as the digital route for acquisition. We are noticing that in this quarter, 55% of our new members came through the digital route and referral route. This again is a sign of the growing pull for our brand. This number about six - seven quarters ago used to be at 37%-38%. More importantly this is on a growing member base.

Now, at resorts we have started new holiday activities and we are also seeing our resort income growing substantially.

Now, let me move to the financial numbers but before that there are two important things that I would like to highlight. The first is the merger of three subsidiaries that were merged into the company effective April 2015 and the second is that Holiday Club is now a subsidiary of the company that is fully reflected in the consolidated numbers from September 2015.

Let me start with the standalone numbers, the growth in revenue for the full year is up by about 19%. Profit after-tax up by 49%, member additions are up 26%.

And the quarter numbers we have grown our top-line by 23%, income up by 23% and profit after-tax is 29% higher.

Now, this at an overall level includes the effect of both the events that I mentioned about the merger of three subsidiaries of course, the Holiday Club is reflected in the consolidated numbers and I will come to that later.

As you are aware, we do carry out an assessment of receivables periodically and if you recall our last call that we did a year ago, we had said that we would be rather conservative and out of prudence we have de-recognized revenue for certain customers in our portfolio and that is reflected in our accounts.

The full year EBIT margin is at 25.3% and the PBT margin is at 17.8%.

You have already got the investor pack where you would have noticed that our occupancy is at 81% and also you would have noticed that we have improved our ARR marginally at 4,555.

With this, as far as the standalone numbers are concerned, I have come to an end. Turning to the consolidated results, these results incorporate the result of Holiday Club for the seven month period from September 2015, when the company acquired control of Holiday Club. The impact on the top-line is €89 million translating to Rs. 640 crores and there is a positive PAT of €3.4 million and that translated to Rs. 26 crores of PAT.

With this, I am now opening the floor to questions. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Sachin Shah from Emkay PMS. Please go ahead.

Sachin Shah: I have two questions. One is on your ASF and the second is on the new membership that you have started which is of the shorter tenure. So on the ASF my question is that, in this new financial year, from what I could see a little bit we have not taken any major increase in the tariff and obviously because we are linked to the PPI, WPI inflation where the numbers have been very low. So how do you see that panning out in terms of your expenses against your income because I am sure although the headline inflation numbers may not grow but I am sure, your expenses go up where as your ASF income will actually not go up? So, how do you plan to manage this against your resort expenses and overall cash flows of course? And second, on your new shorter tenure membership that you recently started how has the response been? Number two, what is the real objective of this? Third, how does this really fit into your economic model with respect to cost of building a particular house and against the 65 members and 25 years where now you will have 65 members for roughly five years and then you will again have to look for things and again the marketing cost? And how much percentage of our new memberships in the last year are of shorter tenure? That is it from my side, thank you.

Kavinder Singh: Okay, let me answer the first question. As well as the ASF increases are concerned, you are right we are governed by the WPI and CPI norms and as you know that WPI has been in the negative territory for a very-very long time, only recently it has moved into the positive territory and therefore the increase has been fairly marginal at about 3%-3.5% but as you know that we now have a cumulative base of 199,617 members. So the fact that we have certain economies of scale that are working for us, even with these inflation ASF numbers we are well in control of our costs and revenues. In fact, if you see our resort income, we have had a significant growth in our resort income and both in F&B as well as in holiday activities. So there is a significant amount of economies of scale that are playing out and that is how we are managing to keep doing well. Now let me come to the second question, as far as the shorter tenure product is concerned, we always had this product but we did not actively market it and it is not something that we actively try to sell. The reason is that this product in our opinion is geared for people above a certain age profile and that is how our sales system is designed to market this product to a certain profile of a customer. As of now the sale of this particular product is fairly limited and it is not significant. So our core business model of selling 25-year product continues and that is what the focus is in time to come. However, you would appreciate that we need to continuously look at consumer trends and if there is need to formally launch a shorter tenure product targeted at a certain set of consumers we will do that and we continuously keep evaluating that.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please proceed.

Nihal Jham: My first question is on the resort income as you mentioned we have seen more than 50% growth so, can you elaborate what exactly are the activities that led to such a significant increase in resort income?

Vasant Krishnan: There are a couple of quick observations on resort income. I think right from the year that has gone by there has been increased emphasis on increasing activities and our food and beverage space. We have been talking about deepening the member engagement at the resort on these calls and I think that is starting to reflect in the resort line. But more specifically if you are taking about the quarter-on-quarter jump that we see in the resorts I think Kavinder alluded to that in his opening remarks. The resorts income is housed in MHRIL. In certain cases where resort operation was run through subsidiaries and the income used to be housed in the subsidiaries. Since the three subsidiaries got merged in Q4 the entire benefit of the annual resort income of the three subsidiaries came in this one quarter. So that is from an accounting perspective. But when we look at the fact that our engagement has deepened, our F&B revenue has deepened, as a result the overall resort revenues have gone up annually.

Nihar Jham: I was saying that our ARR has fallen 8% if I look at it for Q4 in FY'15 and Q4 FY'16, the room addition has remained same.

Vasant Krishnan: As far as ARR is concerned it is a seasonal trend, Q3 ARR will always be a little higher than Q4 ARR.

Nihar Jham: I was comparing Q4 itself Q4 FY'15 and Q4 FY'16.

Vasant Krishnan: So it again depends upon the resort rooms that are given out and that will reflect in the ARR so these are all marginal variations that one need not be worried about. But you will always find that Q4 as compared to Q3 as I said will always be a little lower.

Kavinder Singh: On resort ARR, one more perspective can be given, see largely our rooms are for members. There is very small inventory that is available to non-members. The ARR will be a function of the type of resorts and in which season the resort inventory has been offered to non-members, it is combination of that and in any case it is not material in our business.

Nihar Jham: Sure, sir. And just one last question, what is the room addition guidance for the next two years? Just to confirm again.

Kavinder Singh: So like last time we had mentioned to you that we have at least four projects that we have clearly cited. We have broken the ground in Assonora project in March that will be a 200 room resort. As far as Naldhera project is concerned, it is a work in progress, some part of the units would come this year and the balance early next year. There are two more projects, one is in Ashtamudi which is a brownfield project. It is an existing resort where we would be adding about 59 units and in another brownfield project at Kandaghat we would be adding 115 units. Put together this adds up to about 450 rooms to 500 rooms which we expect to come in about next two years.

Moderator: Thank you very much. The next question is from the line of Arjun Khanna from Kotak Mutual Fund. Please proceed.

Arjun Khanna: Sir, if we could just start with the room as part of the resort income, the room income we see went up to Rs. 10 crores, if you can help us what was the occupancy level of FIT guest?

Kavinder Singh: Occupancy level of FIT guest, for the quarter or for the full year?

Arjun Khanna: For the quarter and the year?

Kavinder Singh: So I was mentioning, inventory is reserved for members and this inventory is offered to non-members on very basic logic of low occupancy at off season resorts and this also helps to acquire new members on site. So this number is not material either financially or in any other way.

Arjun Khanna: Sure, sir because that actually partly explains the rise in resort income year-on-year.

Kavinder Singh: Actually, if you see the resort income, food and beverage income has grown up in quarter four by 45%. Holiday activities went up by 35% and the F&B base is much higher; it is about Rs. 30 crores on the other hand the room is just about Rs. 10 crores. So if you see the resort income break-up, the large part has been contributed by the F&B and holiday activities.

Arjun Khanna: Secondly, sir if you can help us with the debt levels at the consol level, where are we expected to be, say one year down? What would be the CAPEX and holiday club if you could speak about that business?

Vasant Krishnan: So as far as the Indian operations are concerned, you know very well that we are debt free and any CAPEX requirements we will evaluate as we go along. As far as Holiday Club is concerned the debt is now residing in our offshore entity in Mauritius and you know very well that the interest will be serviced out of dividend that we will receive from the company. So we are not foreseeing any challenges on that front.

Arjun Khanna: So on the balance sheet we have roughly Rs. 630 crores. What would that number rise to next year?

Vasant Krishnan: No, it will not rise because the investment is already done and we already have 85%-86% of the company.

Arjun Khanna: Sure. Would we be expanding on our business abroad and if you could lend some color to that?

Vasant Krishnan: As of now we do not want to make any futuristic statements on our expansion plans but we would always keep an eye out because one of the reasons why we have picked up is to leverage opportunities across Europe but we do not have any plans at the moment.

Arjun Khanna: Sure. Lastly, just some book keeping questions, if you could just help us with the tax paid for this quarter being slightly lower than average and our other income being substantially lower at Rs. 32 lakhs.

Vasant Krishnan: So again, it goes back to the merger, when you have the losses with the merger when the merger entity came in, you could take the benefit of that in your current tax provision and we also lent monies to our subsidiaries that got eliminated so that is why the interest income on the ICDs got reduced and that reflects in the other income coming now.

Arjun Khanna: So going forward, we should see a tax rate of around 32% for FY'17 - FY'18.

Vasant Krishnan: Subject to normal tax breaks.

Moderator: Thank you very much. The next question is from the line of Rishabh Bhutra from JHP Securities. Please proceed.

Rishabh Bhutra: Sir, in case of resort income if you could exclude the subsidiaries which have been merged what would be the growth?

Vasant Krishnan: We will get back to you with that number offline because we have not prepared the numbers with the merged entity.

Rishabh Bhutra: No, issues sir. Sir, in case of other expenses it has gone up substantially. What are key components which has led to such increase on Y-o-Y and Q-o-Q both basis?

Vasant Krishnan: So again the other expenses is largely the expenses that is coming from the resorts, because we have both the top-line as well as the expense lines coming in…

Rishabh Bhutra: But top-line has not increased that significantly…

Vasant Krishnan: From the resort side, you will see that most of these lines items pertain to power, fuel, operating supplies, repairs and maintenance and other items which are pertaining to resort operations and you must understand one thing that when we talk about a quarter the entire expenditure of an annual of three companies all have come into the quarter.

Rishabh Bhutra: Okay. So this could be partly on account of the merged entities as well?

Vasant Krishnan: It is predominantly and it is not just one quarter expenses. It is the annual expense coming into the quarter for three subsidiaries.

Rishabh Bhutra: Okay. And sir, if you could elaborate on the HCR, how things will shape in that company and lastly, inventory and cash have gone up significantly.

Vasant Krishnan: Are you talking about the consolidated inventory?

Rishabh Bhutra: Yes, sir consolidated inventory and the cash balance also.

Vasant Krishnan: So let me explain that, I think we have already talked about the profits of HCR after we took control, €3.2 million with GAAP adjustment €3.4 million. So, that is without making future forward-looking statement, it kind of gives us the momentum to move forward as far as HCR is concerned. Inventory has moved up in the consol books because as you know we do not have any inventory to talk about in standalone. But the HCR business model which is based on a deeded sale of time share week, it reflects the inventory that they carry in their books so, that is why you will see that inventory number in the consolidated statement. Our cash balance at the standalone level has been consistently rising. We have not done any securitization, that is proof of our operational efficiency and collections and that is reflecting in our cash balance as well as our mutual fund investments going up and that again is reflected in the standalone books.

Rishabh Bhutra: This could be utilized for pairing up of the debt?

Vasant Krishnan: There is no debt in the standalone books.

Rishabh Bhutra: No but at consol level, we can repay…

Vasant Krishnan: No, that idea is that the debt will be completely funded overseas and there will be enough cash generation from the overseas entity.

Rishabh Bhutra: And sir, how is the valuation done for the time share inventory which you mentioned?

Vasant Krishnan: Inventory is always valued at cost or net realizable whichever is lower. That is the principle in accounting.

Rishabh Bhutra: Okay. Sir one request, going forward if you could just elaborate on the HCR model in the presentation that would be really helpful.

Vasant Krishnan: Sure, we will take note of that. On the question on resort income, on an annualized basis our resort income was Rs. 131 crores in FY'15, it went up to 172 crores in FY'16. If I you take away the effect of the merger, it is Rs. 162 crores.

Rishabh Bhutra: Okay. And on quarter basis, sir?

Vasant Krishnan: On quarter basis, the entire Rs. 11 crores impact has come into the quarter.

Moderator: Thank you. The next question is from the line of Chetan Wadia from JHP Securities. Please proceed.

Chetan Wadia: Sir, my question is relating to HCR, I have a couple of questions so, I will ask them right now. Can you outline the HCR revenue model and cost structure as it stands today? Also, what is the opportunity for membership addition and cost optimization at the HCR level and what might be the potential revenue growth and the margin implemented you will be looking forward to in the years to come?

Vasant Krishnan: HCR is in the time share business which is slightly different from what we do. They have deeded sales. So they would actually sell weeks to customers and it was recognized that sale in the books and then you carry across the inventory. So that is the business and revenue model. In so far as the margins are concerned, we have already told that against revenue of €88 million for the seven months' period there is a PAT of €3.2 million. In spite of difficult conditions in that part of the world I think we are starting to see some green shoots which is reflected in the numbers in the seven months. There are possibilities as always for cost optimization. We are working with the management closely and as things improve we would hope to leverage the synergistic benefits of this acquisition that will reflect in the profit and loss account going forward.

Chetan Wadia: Yes, sir, the way we are conducting all the member engagement initiatives in India, what kind of similar initiatives have been adopted over there to improve the performance?

Vasant Krishnan: So there are a number of initiatives they have also been taking in terms of boosting the sales of inventory, the low season week's inventory, adding of new sales offices, we are trying to expand into Finland, deeper into Finland & Sweden, new products have been introduced and all of that should augur well going forward. As far as our Spa Hotel business is concerned there is improved quality of services, there is cost optimization that is happening and we have been able to tide over and we are seeing an increased market share across all our resorts. In fact, in March 2016 was a very good month for Holiday Club with highest level occupancy across all the Spa Hotels.

Chetan Wadia: Okay. Sir in the last Analyst Meet you have highlighted a new customer segment has been identified and a new product will be devised for them. Of the members that we have added for the year how many of them come from these new schemes?

Vasant Krishnan: It is not material. I think most of our members, as Kavinder has said, is from the core product which is the 25 year product.

Moderator: Thank you. The next question is from the line of Nimit Shah from Isec. Please proceed.

Nimit Shah: Sir, could you explain in the consolidated numbers there is an item of share in profit loss of associates with a (-149) million, this is related to what?

Vasant Krishnan: Nimit, you know what happens is that when we took control of HCR in September 2015 and enhanced our stake from 23% to 85%. Prior to that it was being treated as an associate, it means that we were not consolidating the top-line we were only picking up the associate profit or loss. So this reflects the results of our share of the results of HCR for the period April 2015 to August 2015.

Nimit Shah: April to September?

Vasant Krishnan: Yes, I must also tell you that before we took over full control there was a write-down of inventory and receivables in HCR which is an exceptional nature and that resulted in that loss coming to 9.4 million and our share is what is reflected. It is a one-time hit in the P&L of that company.

Nimit Shah: Sure. It was a September year end company?

Vasant Krishnan: It was a September year-end company we have now got them to change the year into March to coincide with our year ending so they are comparable.

Nimit Shah: Sure. So if you can let us know the September 2015 numbers in terms of turnover EBITDA and PBT?

Vasant Krishnan: As far as we are concerned, I mean you would be concerned with HCR only from September 2015 when we took control. Top-line consolidation as I told was around €89 million.

Nimit Shah: That is the sales which you are talking about?

Vasant Krishnan: That is right, the top-line.

Nimit Shah: So at the time of acquisition, we had the numbers from September 2012, September2013, September 2014. September 2015 was not there because we had done the acquisition during that time. So you had shared the numbers in terms of turnover, EBITDA, and PBT for the last three years to four years. So if you can share for September 2015 also it would be great.

Vasant Krishnan: Yes, so it is an 18-month period from October 2014 to March 2016, so there will be no number specifically available for September 2015.

Nimit Shah: Correct. So this (-149) million it is our share of loss for 23% stake?

Vasant Krishnan: For 23% stake that is correct. It is a one-time hit.

Nimit Shah: So what was the total loss at PBT at the entity level?

Vasant Krishnan: €9.4 million.

Nimit Shah: Coming to the room addition, thought you highlighted that there were plans for 500 rooms over the next two years but in FY'16 our room addition has been flat because right from the start of the year we were highlighting there were projects which has already broken ground we might do some inorganic acquisitions as well. So nothing has happened on that front so, any thoughts on the room additions for FY'16?

Vasant Krishnan: So let me start by answering the question on the construction side. Three projects have already broken ground. One of them has already broken ground and one is very nearly going to break ground in the next 30 days, all decks have been clear.

Nimit Shah: So which phase is that, one is Goa.

Vasant Krishnan: Goa has already broken ground.

Nimit Shah: How many rooms in Goa?

Vasant Krishnan: Goa is 196 rooms.

Nimit Shah: 196.

Vasant Krishnan: Then there is Naldehra, its under construction, it will get 113 units by the year end. Then we will have Kandaghat and Ashtamudi, both of them will go on stream in the next two months to three months.

Nimit Shah: Kandaghat and Ashtamudi, these are Brownfield projects, 59 rooms and 150 rooms

Vasant Krishnan: Turning to the inorganic acquisition, we are very close to signing up a few deals obviously because of reasons of confidentially I would not be able to tell you where it is but we are progressing very rapidly in the Western Part, where we have got a huge deficit. But as I told you these are opportunistic deals. We will not do an inorganic deal unless it is attractive and unless we get them on terms that are very favorable to us. So we are on it and we are very comfortable in dealing with this matter.

Nimit Shah: So any reason why FY'16 did not see any room additions?

Vasant Krishnan: No, like I told you construction is a function of many things like acquisition, permission, permits, approvals, etc., and I told you that time also a lot of things happen in this country which delay projects but the good news is that Assonora has started, 196 rooms are on stream on now in the next couple of years you will have 196 rooms added to our inventory. You will have Kandaghat and Ashtamudi also coming in which is fairly significant number to take together 200 rooms. So these 200 rooms together will give you around 400. Naldehra with another 113 rooms. So I was saying with Assonora, Ashtamudi, Kandaghat, Naldehra, we are talking about something like 500 rooms to 550 rooms in next 24 months. We are very confident that we would be in a position to deliver that. As far as the inorganic route is concerned, we are pretty close to signing up a few agreements. For reasons of confidentiality, I cannot share the location. But in the next quarter or two, we would be looking at some inorganic acquisitions to our inventory.

Nimit Shah: And what would be the size of that rooms like 100 rooms - 150 rooms?

Vasant Krishnan: We will not be doing rooms which are less than that because it does make sense for us to manage rooms of small sizes.

Nimit Shah: Sure. And sir lastly, any dividend which has been declared by the Finland entity?

Vasant Krishnan: Yes, so they have declared dividend at €0.3 per share.

Nimit Shah: And our final stake stands currently at 86% or more than that?

Vasant Krishnan: 85.61% to be precise.

Moderator: Thank you. The next question is from the line of Anil Sarin from Edelweiss. Please proceed.

Anil Sarin: My question pertains to HCR, we have in Indian rupee equivalent roughly Rs. 360 crores - Rs. 370 crores of debt that we have taken. What is the plan to repay this debt? I noticed a circular which you had issued to the Stock Exchange where there were some property sales, if you could share some light on that.

Vasant Krishnan: So first question is on the Rs. 360 crores loan, right. So we have said that this is an investment that we are going to nurture and grow and we remain confident especially with the results that we are seeing over the last five - six months that we are on the right track as far as the investment and the returns from that investment are concerned. In so far as servicing that loan is concerned, we have said this before and I will repeat, that the interest on that loan can be completely serviced from the dividend that we get from that company. So there are no immediate worries on that plant if the worry is that we have to fund debt service. In Finland, the form in which you hold an asset in the form of shares. So you could be holding land in the form of shares. Everything is in the form of shares. Now because of regulation, they are held in the form of companies, they are SPVs and they all happen to be subsidiaries or step down subsidiaries of the company. If you were to sell that land, which is part of that business, it requires us to intimate to the Stock Exchange. So it is not a divestment of the business or an undertaking as one would classically understand it. This is part of normal business for HCR.

Anil Sarin: Okay. I see but is there a plan to sell some of the properties so as to eliminate the debt or the debt would eventually would be repaid through profits from ongoing operations of HCR?

Vasant Krishnan: That is the plan, that we should be having enough profits and cash generated from HCR to be able to service the debt. There are no plans to sell any property. The inventory that you see is finished goods inventory and the measures that we are now taking, we are starting to see decent traction as far as time shares sales is the concerned in the last couple of months.

Anil Sarin: Okay. One last thing from my side, is there any cross-selling or some synergy benefits from HCR for MHRIL?

Kavinder Singh: So as far as synergy benefits are concerned, there are three areas where we are trying to work very closely with the Finish subsidiary. What we have done very recently is that we are trying to create significant awareness of Finland as a tourist destination both amongst our members and as well as public at large. So, to that extent, there is a plan being worked out with Finnair and few other travel operators to popularize Finland as a destination. So this is a step number one which will hopefully increase the traffic to Finland as a destination and therefore help their business. Coming back to the second area with respect to the synergy – we routinely get opportunities to enhance our inventory in Western Europe and since we are not very familiar with those markets, the Finland subsidiary is actually responsible for evaluating those opportunities to grow in Western Europe. The third area in our mind is to see how we can take some advantage as far as their IT assets are concerned because as you know that Mahindra Group has a company called Tech Mahindra. So there is an opportunity for them to possibly leverage the experience of Tech Mahindra. So we are looking at opportunities where they can be supported on the IT bit from our group company. So there are these areas which we are focused on in parallel. Since we are extremely prudent in cost management so there is some learning that we are trying to transfer to them as to how to manage costs better. We also find that they are extremely good in projects. They are able to run and deliver the projects much faster than what we do in India. So there is an action going on to see how we can learn from the way they are implementing their projects faster. So these are few areas which we believe can help us synergize the benefits of this acquisition.

Anil Sarin: But specifically there is there a path to cross-selling where Indian members could at a fee use those facilities and vice versa?

Kavinder Singh: So that has already been opened up. The Indian members certainly can use any of those 30 resorts. There is a small exchange fee but the opportunity for Indian members to holiday in Finland, Spain and Sweden is now open because they are members of Club Mahindra. As far as vice versa is concerned yes, there is a plan to do some amount of activation in Finland specifically for India which will help the Finnish members to also enjoy the Club Mahindra resorts in India.

Moderator: Thank you very much. The next question is from the line of Tejas Seth from Reliance Mutual Fund. Please proceed.

Tejas Seth: Just wanted to understand how you see the member addition trajectory in the coming year considering the growth which we have seen in last year?

Kavinder Singh: **A**s far as member addition is concerned, as you know, it is an outcome of various initiatives that we take so whether it is the aspirational offers that we run in the market, whether it is the awareness creation, whether it is generating the leads through referrals, so it is extremely difficult to pinpoint what the growth would be. But what I can say with reasonable amount of confidence is that our confidence in our product proposition is extremely high. We know that this product is unique. We are fairly differentiated and in fact the advantage that we enjoy as you know is that we also have pricing power. For example, in October we increased prices of our product without any impact on our volumes. So, we believe that we are in a differentiated position. All we have to do is to be continuously focused on getting the right quality leads through the referrals as well as the digital route and also create sufficient pull for the product to continue growing the business and more importantly create unique experiences for our members both on and off the resorts. So last year's growth certainly is as you know is coming on a slightly lower base. This year, our bases are slightly higher. But our focus is not on what we will end up doing, we just want to do the right things, we believe the numbers will be an outcome.

Tejas Seth: Okay. So are we taking any new initiatives?

Kavinder Singh: So as I mentioned to you there is a significant initiative that we launched last year which we are going to scale up even further is called heart to heart where we engage with members both on resort and off resort. This is a far higher frequency of engagement than what we used to do in the past. Coupled with the aspirational experiences that we bundle as a part of on boarding, so if a new member comes in today, we have attractive experiences including cruises, etc., which we bring in, which helps the member to enjoy a lifestyle which we offer. So finally we are in the business of offering a much differentiated lifestyle for our members and that is what we intend communicating going forward also.

Tejas Seth: Sir, I think there was one parameter which you really track was that how many members actually go to their resort of choice? And since we have not added many rooms this year has that number gone down?

Kavinder Singh: So that has not gone down which we track internally. The reason is like this if you recall a large part of the inventory addition of I think 400 odd rooms happened in the last quarter. So this year we were very comfortable on inventory because that added to our base inventory and our room night addition as a result of that inventory was substantial. In fact, in the early stages we had slightly lower occupancy than what we would have been comfortable with. But over a period of time, occupancies are beginning to move up but I can assure you that if you are operating at about 81%-81.5% occupancy we are extremely comfortable and the areas where we need to run up on the inventory is well-known to us and therefore suitable action as we mentioned to you whether it is Goa, whether it is Ashtamudi, whether it is Naldehra, or whether it is Kandaghat, the inventory actions are already in place. So we feel extremely confident of meeting the requirements of the new member additions that we are doing along with the existing members.

Tejas Seth: Okay. What will be the average realization of new members sold in this quarter?

Vasant Krishnan: It is around 3.3 per member.

Tejas Seth: Okay. And lastly, if you can just give us what will be the market value of finished goods inventory at HCR?

Vasant Krishnan: So we would not want to get into that because that would be making a profit projection but the €50 million that is sitting there is lower of cost or NRV and the NRV would be higher than the cost but how much is something that we would not like to get into.

Moderator: Thank you. Ladies and gentlemen, we will take our last question now, which is from the line of Abhishek Jain from Everett Consultants. Please proceed.

Abhishek Jain: Actually sir, I want to know a couple of data like how many of our resorts owned and leased in India?

Vasant Krishnan: Yes, around 65% or thereabout should be owned, the rest should be leased or managed.

Abhishek Jain: Through our sales of our subscription, we do not need any cash to expand?

Vasant Krishnan: I understood that is how the model is indeed to work and that is how it has grown for the last 20 years, we have been debt-free right since then.

Abhishek Jain: Yes. So sir, how much was the cash generation in this year in standalone basis and at the consolidated basis?

Vasant Krishnan: So we are seeing the balance sheet, we have got nearly Rs. 84 crores in cash and cash equivalents.

Abhishek Jain: So this is the cash and cash equivalents, I am asking how much was the cash generation, free cash flows for this year?

Vasant Krishnan: Rs. 25 crores.

Abhishek Jain: Rs. 25 crores. And one more thing, what are our inorganic growth plans going forward because we are generating enough cash flows?

Vasant Krishnan: Inorganic growth really means that we would acquire a resort or any such property on which we could maybe develop a brownfield resort or a completely operational resort. These are opportunities that we keep evaluating from time to time. As of now we have no plans. As and when we acquire one we will let you know.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference call over to Mr. Singh for closing comments. Over to you, sir.

Kavinder Singh: I would like to thank all of you for patiently listening to the Earnings Call. And we appreciate the interest in Mahindra Holidays and with that, thank you to all of you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Mahindra Holidays and 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.