"Mahindra Holidays Q1 FY15 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Mahindra Holidays Q1 FY15 Earnings Conference Call. We have with us today Mr. Vasant Krishnan – Chief Financial Officer, Ms. Deepali Naair – Chief Marketing Officer, and Mr. Rohit Malik – Chief Sales Officer. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vasant Krishnan. Thank you and over to you sir.

Vasant Krishnan Ladies and gentlemen good evening and welcome to the Q1 Earnings Call. I'll begin by giving a quarter perspective. I will start with what we have done well on the profitability front in spite of lower net volume addition and I will dwell on this a little later. Let me begin with an item that is an important item to dwell on a little bit and that is depreciation. And as many of you would be aware, the new Companies Act 2013 has mandated useful life for various classes of assets. Now these are at variance with the useful life that was prescribed under schedule 14 of the Companies Act 56, because of the fact that the useful life has changed and it has come down for our classes of assets, the impact is a higher depreciation charge which we have to take in this quarter to the extent of Rs.5.3 crores.

On a like-to-like basis, therefore when we compare the profit on like-to-like basis without taking into effect the depreciation charge, the profit before tax for the year which came in a Rs.30 crores would have been up to Rs.36 crores and that would have been steady as compared to our sequential profit of Rs.36.5 crores that we talked in Q4FY14 and much higher than the Q1FY14 PBT of Rs 31.1 crores. And as we have stated in our press release, on a like-to-like basis, a Y-O-Y increase of 14% impact.

Coming back to the net volume addition, we clocked 2059 for the quarter and as many of you again would be aware, we have been talking about taking some efforts to move from our traditional sources of acquisition which is the PRO to newer areas like digital and HFRP and we have been making investments in these areas consistently and continuously and we believe that this move will lower the cost of acquisitions going forward.

Owing of product mix configuration, we had a higher product mix this quarter. The AUR came in a Rs.3.9 lakh as corresponding AUR in June 2013 was 3.1 and again much higher than 3.7 that we have clocked in Q4FY14. That explains why the vacation ownership income line at Rs.104 crores for the quarter against Rs.106 crores for the quarter ended June 2013. ASF came in at Rs.35 crores and from a Y-O-Y perspective, again, rate increase contributes to the increase from Rs.30 crores in June 2013.

Moving on to resort operation for the past three to four quarters, we have been making a conscious effort and we have initiated several measure to increase resort revenue. Our resort revenue would include parts like F&B revenue, holiday activities and also FIT spend. While sequentially, resort revenue is up from Rs. 26.7 crores to Rs. 34.2 crores, we must spend a moment to look at the June 13 to June 14 numbers. In June 13, we clocked Rs.27.8 crores as against Rs.34.2 crores this quarter. Y-O-Y increase of 23% and this increase is across all line, room F&B and holiday activity etc. F&B is partly an account of rate increases that kicked in at the end of May, and our efforts to make it more attractive for a member to spend more at the resort is starting to yield some results and all of this in some measure has contributed to our EBITDA expansion 22% this quarter as against 20% last.

Moving to expense line items – to take out the effect of one-offs and variable spikes on account of incentives and commission, I think I spoke about it last quarter. I think the effect of rationalization is slowly starting to reflect in our P&L but the full benefits will still take some more time to play out. Some balance sheet items, we had the Manali acquisition this quarter, we added 60 rooms and with that our IPP funds are fully utilized. But again coming back to rooms, the 60 rooms we leased in Kodai expired and there is a deletion of 14 rooms and therefore we have a net addition of 44 rooms taking the total to 2451.

I think it will be useful for you all to know that the subsidiary losses would be in the region of around Rs.4 crores, of which one subsidiary we have in the last stages of the merger, we have received the court order so it is not yet effective and as you know that unless it becomes effective we cannot take it into the standalone. The impact of that subsidiary would be around Rs.1.86 crores that will be reflected in the next quarter.

Bank balance is around Rs. 35 crores to Rs.36 crores. Securitized loans are down to Rs.228 crores and we will be repaying Rs.82 crores over the next three quarters. With that, I will open the floor to questions.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Niraj Mansingka of Edelweiss Security. Please go ahead.

Niraj Mansingka Just wanted to have some more clarity. I know you have been doing some rationalization on the cost side on the sales and marketing front, but if I wear to assume that reasonable amount of sales and marketing was variable in nature, still the numbers of per net members added still continue to be high so could you throw more color on how you see the evolution of your cost on the sales and marketing pan over the next one to two years.

Vasant Krishnan Sure. So Niraj before I get into the details of cost of acquisition, just understand that it has got several components. It has got a variable component of incentives and commission that I spoke about in my opening remarks. There is also about a fixed component and we have also spent a lot on what we call acquisition activity. So what I meant in the opening remarks and I said that the cost of acquisition we believe will go down, is because of the shift in focus from Prospect Reach Out (PRO) to Digital and the HFRP program. We believe that the cost of HFRP and Digital over a long term will be lower although there may be short term expenses that we may have to incur but over the long term we would believe that the cost of acquisition will start coming down.

Niraj Mansingka Right. But can you give some more color in the cost numbers because what I understand web has already picked up to a reasonable extent now. But that is not reflected in the cost of the sales and marketing going down. So when do you see that entire thing reflecting on the cost falling.

Vasant Krishnan With volume picking up automatically you will start getting the benefit of a reduced percentage of cost of acquisition, so right now the cost the of acquisition would be more or less the same as what we spoke about in the last quarter. Tad higher actually because volumes have not happened, but once the volumes reach a certain level with the same fixed cost, that will get amortize over a larger number.

Niraj Mansingka No, those are clear to, actually I am just trying harp on the data again and again because over the last two years you have increased your percentage of members being added from the web. I understand that you had problems about the TRAI regulation and so you might have got the wrong side earlier. But going forward, say your revenue base would say your memberships would be doubling from here, as a ball park what should be the sales and marketing increase in percentage happen say a number of members double from here. So that would give us a good idea on your variable cost where fixed cost breakup.

Rohit Malik This is Rohit. I may not be able to quote a percentage but I guess somebody can get back to you in next couple of days on our other conversation but principally the way we are progressing in terms of our cost of acquisition as Vasant mentioned there are two parts to it, one is completely variable which is what he talked about which is the commission, incentives and offers, the other is the money that we spend in doing activities acquiring and those activities happen across digital that happens across member referral program and happen across below the line activations that we do on the ground.

Now, below the line activations on the ground which we categories as PRO is where a larger percentage of so-called fixed cost resides, as we slowly pull out of that and we continue to invest or divert some of that money into digital and member referrals, we will see a gradual drop in this quarter-on-quarter for possibly for next four quarters or so. Having said that, what we are also conscious of and therefore we may kind of go and do some investments there is at of all these three digital requires a build up cost so possibly whatever investments we made four, five quarters back have brought us to a certain level but buoyed by the results that we are seeing there we are very keen to build it up to the next level for which we may require some more investments. So to that effect one will calculate the COA and one may not see a dramatic drop in the next three to four quarter but one is expecting that to start kicking in three to four quarters from now.

Niraj Mansingka Okay and last one this is from the sales and marketing if I can take one more question. Was there an expiry of some members in the current quarter as well?

Vasant Krishnan No, there was no expiry this quarter.

Niraj Mansingka So is it possible for you to give us the gross members which were added.

Vasant Krishnan No, we don't do that we don't get into that granularity so our numbers are always net of cancelation, the net member addition.

Niraj Mansingka Any color on cancelation that would give me a though process on how the gross additions would have been

Vasant Krishnan It was marginally lower than the cancelations that we had in the March quarter last year.

Niraj Mansingka In the march quarter?

Vasant Krishnan Yes, that is right.

Niraj Mansingka So the trend is downwards. Thanks.

Moderator Thank you. Our next question is from Nimit Shah of ICICI Securities. Please go ahead.

Nimit Shah I take your point that you have been focusing more on digital media for the member acquisitions but 2,000 members add seems to be much on the lower side so what has led to this sharp de growth on the member adds and how do you see that number moving up in the coming quarter.

Rohit Malik This is Rohit, I will take that question. So Nimit, I think I can say that with some bit of comfort that this quarter onwards, more so, and I would say to some extent it is also continuing trend on our part to take a conscious call on which side of business do we want to grow and what kind of members we want to acquire. So in some of the conversations that we may have had in the past, I think we have been conveying that through our own experience of members joining us, staying with us, using our resorts and so on and so forth we have reached a stage where we have got a fair bit understanding through what sources and what kind of members should we be going after. So I think this quarter we have very clearly tried to stick to that and therefore if one must look at her overall acquisition, percentage breakup of members that we are getting from digital and HFRP is significantly higher than what it was either year-on-year or sequential basis.

That percentage is an indicator of the kind of members that we are getting because we have clearly realized that through digital and member references we are able to generate some bit of pool where we are getting members who would stay with us through the full course of membership and therefore would also give the economic strata that they come from and would spend that much more and therefore one can look forward to higher revenues from the resort. So I think that conscious call and stringent adherence to that is possibly why I shown this steep drop for the quarter. Going ahead, however; we foresee that playing out and giving us the kind of growth that we expect from the right kind of member base.

Nimit Shah So would that mean the target addressable population has decreased because of your conscious efforts to focus more on the member quality.

Rohit Malik No, what it implies is that our internal effort is going to start getting focused more on the target group. The target group remains what it was in terms of the size outside; I think internally we were kind of possibly not focusing as much on that target group, and as I said, it has emerged more from experience and learning and the data that we have gathered over last two years.

Nimit Shah Sir, would you be able to report a growth as far as the member addition is concerned as compared to last year?

Rohit Malik It would not be prudent on our part to make any forward-looking statements on that.

Nimit Shah But Q4 you have reported 4,500 and has been a drastic data reduction from that, though I agree that Q4 is always a better but from 4,500 you started your digital efforts I think somewhere in December or January. So you had a good run up in the fourth quarter and again there is a sharp reduction, so what has led to that and how do you see things moving up, I just wanted more clarity on that front.

Rohit Malik Sure, Nimit. I may possibly repeat but the drop as I indicated earlier and I think Vasant also mentioned in this opening remarks is because we are possibly beginning to get more comfortable with what we can do with digital member referrals and therefore consciously beginning to reduce our effort and resource deployment on the PRO. And that is what has played out this quarter and from here on one can expect to kind of continue to do better and expect some kind of number growth happening there.

Nimit Shah Okay, and sir any updates on the resort addition of 500 rooms which we intended to add over the next 18 months?

Vasant Krishnan Vasant here. We are on track for that, I think you already know about Manali acquisition and the new rooms inventory we had mentioned this in the last call also that it is not greenfield, it is basically expansion of rooms in our existing resorts in Munnar, Virajpet, and Kanha so that is on track. So at this particular point of time, I think we are in a comfortable place to achieve the target of 500 rooms.

Nimit Shah And sir you have reported a slide which talks about the member upgrades on a year-on-year basis, would it be possible to give that number on a quarterly basis like what has been the member upgrades?

Vasant Krishnan No, member upgrades continues to be an important focus for us I think because of the fact that it reaffirms the members' commitment to our product, the satisfaction level and it has shown a sharp increase so we are very pleased with that and that is again like I said levers that we will continue to push. It is showing a good healthy traction, I can tell you that of course on a quarter-to-quarter basis sequentially there is not a great delta that I need to report on, but the kind of numbers that we have got on Y-to-Y basis it would be higher. But on a sequential quarter it is more or less on the same track as what it was in the last quarter.

Nimit Shah And sir last question, reasons for lower employee cost as compared to the last year?

Vasant Krishnan So you have to take out the one time spikes, incentives is the variable that fits in that line and because of last time we had a good run and therefore the incentives was also higher. So you have to take that out of the equation and when you take that out of the equation, I already mentioned that our lines are comparable.

Moderator Thank you. Our next question is a follow up from Niraj Mansingka of Edelweiss Security. Please go ahead.

Niraj Mansingka I wanted to know on the rooms, what percentage of rooms right now are provided to non-members.

Vasant Krishnan We have a Member First policy so unless and until we have a vacancy in that room or occupancy, we will not give it to FIT and let me make the point clear upfront. We believe that of course in all seasons, in all times all the rooms are not occupied by members and so we have internal data to suggest what percentage of your total room availability you can optimize for FITs and that I think I have been telling you that there is a lever which we will now push. I think we have done that and if you look at the FIT revenue it has moved up from around Rs.3 crores on a timely basis

Niraj Mansingka Right it is Rs.2.7 crores.

Vasant Krishnan Yes so that number has moved up. And that is because we are now starting to look at that data and understand that there is a possibility for us to be able to exploit rooms for FIT, without compromising on the Member First Policy.

Niraj Mansingka What was the percentage for the quarter?

Rohit Malik Around 2.6% is what we had used for non-members.

Niraj Mansingka It is still low member compared to what it used to be in the past when it had touched beyond 10%.

Vasant Krishnan There is always an optimum measure so we have to look at that optimum measure and push that lever carefully.

Niraj Mansingka True. But number of 2.5% looks very low because the revenues have almost doubled and during that period it was 4% and the number of rooms have not really changed.

Vasant Krishnan Like I said look at an FIT line, you have to look at it not only from an occupation perspective but you have to look at it from the ARR, so if you look at what we got in FY14 all through it was 4,100 and we are not looking at 4,700 so it is number of factors that play out, but we have to be careful again I am coming back to this, we have to be careful in using this.

Niraj Mansingka I totally understand it but is it possible to share the number on the percentages because 4,627 was the ARR and it was 4,784 there is no change in ARR and in number of rooms also there is hardly any change so basically that time it was 4% so just wanted to confirm that it is still that 4% range or any higher or lower.

Vasant Krishnan We will look at those details and give it to you, but again on a broad thumb rule, if we just explain that to you once again so that there is no confusion. Increasing member spends is something that we should looking at very carefully. The management is looking at those levers very carefully. FIT is just one of them and F&B revenue is another one, increase in holiday spend, bars and restaurant all of that are levers that we can push, these do not effect member or member interest in any manner.

Moderator Thank you very much. Ladies and gentlemen our next question is a follow up from Niraj Mansingka of Edelweiss Security. Please go ahead.

Niraj Mansingka I think it is the last question. Can you give some color on your realization of Rs.3.9 lakhs against Rs.3.3 lakhs on quarter back?

Vasant Krishnan You are aware and have got the White, Blue, Red, Purple so if you push the Purple and Red more…

Niraj Mansingka Right, but it think last quarter you were trying to do a…

Vasant Krishnan That was on inventory balancing. This time it came in a 3.9 and you are also aware of our inventory room addition plan so we are comfortable.

Niraj Mansingka Okay, so is it right to say that you are have broadly managed your asset liability management?

Vasant Krishnan We don't see a challenge, a significant challenge.

Moderator Thank you. Ladies and gentlemen that was our last question. On behalf of Mahindra Holidays that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(The document has been edited for readability purposes)