"Mahindra Holidays Q2 FY15 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Mahindra Holidays Q2 FY15 Earnings Conference Call. 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, CFO Mahindra Holidays. Thank you and over to you Mr. Krishnan.

Vasant Krishnan Thanks you. Good evening ladies and gentlemen welcome to the Q2 Earnings Call.

As always let us begin with the net member addition that came in at 2,912 units this quarter. And from a sequential perspective if you look at Q1 it was 2,059, Q2 last year it was 2,416 so this quarter from that perspective our net member addition has been a trifle better.

Digital, HFRP levers that we have been pushing continue to show good traction. They are now taken together around 50% of the total member additions up from 46% last quarter sequentially. AUR for this quarter clocked 3.53, a tad lower than what we did last quarter at 3.96 and this is the consequence of our product mix. I am sure you would recollect that what we push in the market is also a direct outcome of the inventory that we have and last quarter we had pushed the Purple and the Red seasons, this quarter we kind of counterbalanced that and this calibration is something that we do on an ongoing basis.

Resorts income grew 27% this year from Rs. 24 crores in Q2 last year to Rs. 30 crores and the good part is that all segments of the business have shown growth and the outcome of conscious efforts that we have been taking both in increasing members spends continues to be a component of our EBITDA expansion. Efforts to reduce cost of acquisition is ongoing showing up in the S&M line, efforts to rationalize employee cost are also ongoing and are reflecting in the employee S&M and other expense lines. Remember that when you look at the lines we also have to factor in that there was the bell tower merger that was incorporated this quarter which was not only for the quarter under consideration but also for the previous quarter. So both the quarters' expense lines are adding it but if you remove that impact, you would see that impact of that rationalization. Securitization of Rs. 50 crores done during the quarter, and securitization of around Rs. 3 crores have been reflecting in the operating income line. Since we are on securitization, the total loans outstanding is Rs. 242 crores at the quarter end and over the next four quarters we will be repaying about Rs. 130 crores. No resort or room additions or deletions during the quarter but I may just as well tell that we have just about added 36 rooms in Udaipur and we remain cautiously optimistic that we will add out of the 400 rooms before the end of the fiscal.

This quarter, the merger with Bell Tower has been consummated, results incorporate that effect and together with the effect of the depreciation change, cumulatively taking together Rs. 4.28 crores on the Bell Tower merger, Rs. 6.86 crores on the depreciation. I will now end here and open the floor for questions.

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

Niraj Mansingka: Hi sir this is Niraj Mansingka. Few questions, the average vacation ownership realization was how much for the quarter?

Vasant Krishnan: **3.53 lakhs.**

Niraj Mansingka: And can you give some color on like you have said that you have pushed the Purple and Red in the last quarter. Can you give some color on how do you see it evolving over the next few quarters from the current levels?

Rohit Malik: Hi Niraj this is Rohit. I think Vasant alluded to that so, basically what happens is that there are seasons and there is a demand pertaining to a certain season. Typically, quarter one precedes the holiday season which is the red season so the demand that you get mostly from the market is for buying into the red season. That is how from season to season this mix will keep changing, the other thing which happens at our end is that based on our inventory availability we also try and balance it out by putting in a little more focus on a certain season which has to be commensurate with what is the inventory available at our end for the sales purposes.

Niraj Mansingka: Right. So why is that gap right now which are underutilized portion for the season and weak for a year?

Rohit Malik: This is the balance that happens - for example in Q2, we have tried to sell more of the white season which means that beginning of the quarter we thought there was more opportunity from an inventory availability there. As I speak at this point in time, it is fairly balanced so we are possibly back to pushing all seasons at the same time. Also again it is preceding another holiday season so the flavor is back towards red. So that is the kind of balancing we do for every quarter.

Niraj Mansingka: So is it right to assume that your average realization for the entire average per room added would be between somewhere 3.5 and 3.9 because 3.9 was last quarters average and 3.5 you said was this quarter average. So what would be the right approximate number to take this?

Rohit Malik: You could take between 3.5 and 4.

Niraj Mansingka: Okay. And sir can you throw, I think there has been fall definitely a commendable fall in the sales and marketing expenses. So could you give some color on how do you see this trajectory again evolving?

Vasant Krishnan: This is on account of two reasons, as we move away from the traditional sources and we are not increasingly targeting customers where we believe we have got better chance of conversion that will automatically reflect in better efficiencies in our S&M lines and as we are learning this better and as we are gauging more and more experience on digital. And mind you, the cost of digital on a per unit basis will be more expensive than what it is in PRO but, if you are able to get it right and the overall quality when you take the effective cost it really comes down. That said, once you cut out the flab and once we understand what works and what does not work, we are able to do that a little better. That is the kind of efficiency that we are starting to see in the S&M line and that is why the cost of acquisition is coming down and Rohit will speak more about it and I am going to leave it to him now to add a little more qualitative flavor. Although this will start coming down, having said that, there would be more investments in this area because digital, for example, is starting to work. We would be putting in more investments in digital. Rohit you want to add some more?

Rohit Malik: Will give a little more flavor - what is happening is based on analytics that has gone into targeting the right kind of people at the lead generation stage itself and that has essentially resulted in better conversion rates, so in effect, it is more bang for the buck and obviously that is bringing the cost down.

Niraj Mansingka: So what would be the percentage coming from digital and percentage coming from the non-digital leads?

Vasant Krishnan: Right now HFRP and Digital, taken together, is more than half. A little more than half, whereas a year ago, it was around 35% and that just goes to show the kind of focus you are putting on HFRP and Digital together.

Niraj Mansingka: Sir reason I am asking this question because, fall in sales and marketing expenses also raises a flag and thought that probably aren't we slowing down the core side of the push towards the customer and will this be a leading indicator to the growth in membership additions not being there so much or just thinking a loud with you. May be you can throw some color on what part of the sales and marketing you might have cut which gives us more confidence.

Vasant Krishnan: It is essentially on the PRO activities but I am going to leave this question to Deepali to answer.

Deepali Naair: There are 3-4 levers - one is the cost of efficiency that Rohit spoke about, and what Vasant spoke about in terms of creating efficiencies. Having said that, we might do an advertising campaign in

Q4 in which case some of the savings that we manage to do now, we might end up utilizing at that time for the overall brand building and which is completely non-intrusive and for the long term impetus that we want to give for the member acquisition but that will be an ROI that gets delivered over a long period of time. So the idea is that if we can actually deliver efficiencies in savings in these first three quarters then we intent utilizing them in Q4.

Niraj Mansingka: Okay. And last question when do you see the vacation ownership the tariff rates going up or the card rates going up?

Vasant Krishnan: We have no plans to increase the membership rates as of now.

Niraj Mansingka: It has been lot of time since you have done that?

Vasant Krishnan: Last year we did the rate increase, but this year we did not increase the rates.

Niraj Mansingka: Okay. So I would see the cost, the rate of vacation ownership membership commensurate with a capital cost of a room generally also and the operating cost. So with the capital cost slightly increasing do you see need to increase?

Vasant Krishnan: There is nothing a cause of concern or worry at this per particular point of time I think it is important to stabilize the business and stabilize the sources of queries at one level. At opportune time, when we find that it is appropriate to increase the rates we will consider it.

Niraj Mansingka: Great and thank you very much. I think it was a good effort in looking at the sales marketing. Thank you very much. Bye.

Moderator Thank you. Our next question is from Pooja Swami from Span Capital. Please go ahead.

Pooja Swami: Sir, I could say as management has been emphasizing on cost optimization in last few quarters we have seen a bit impact in this quarter, the EBITDA margin increasing to 27.7% this quarter. So what would be your further steps towards improving the profitability for the company?

Vasant Krishnan: Pooja there are multiple levers that we can keep pushing but there is a time when some of these levers will start becoming counterproductive. As far as cost of acquisition is concerned we knew where the flab was I think we have cut it. Some of these affects you are going to see, some of the affects you might see playing out in the next few quarters. But beyond the point of time you have to start investing and that is what Deepali was saying we have to keep investing in brand. So, it is just not a question of just cost and cost rationalization alone. In so far as our focus is going to be keep investing in frontline sales and marketing activities, inefficiency taken out of the equation, but see where we can cut as far as support is concerned because support that does not add and value to the table is something that we are looking at again very closely that is from a lever perspective. There are other levers that we can keep pushing in terms of improving the level of automation and experience in the resort because that also is something that we should not lose sight of. And that effort you are also seeing in the resort income going up so it is not just a question of just looking at the cost side of the business it is also looking at how is that we can improve the member spend and it increases the resort revenue because both of them flow into EBITDA line straight away.

Pooja Swami: Right. So entry in terms of means you are increasing the occupancy rate as we have seen our company doing it at 90% level at some point of time and now it is doing at 77% so that could also be a lever for that and is there anything done in that prospect?

Vasant Krishnan: It is a very seasonal business and if you look at our occupancy in this quarter it will be low because the quarter two traditionally has always been a low quarter. So if you look at Q2 FY14 and Q2 FY15, we are on 75% to 76% which is the parts of the course. You will get your 90% in the holiday season.

Pooja Swami: So for the year what is the rate you would see?

Vasant Krishnan: 82% to 83% would be a good rate to take from an annual perspective.

Pooja Swami: Right. And sir one last question, when you consider India as a time share market we see that it is not penetrated market considering some other market. So, \what is the reason which is leading to low member additions when you see it as an overall market except the TRAI regulation what we had seen earlier.

Rohit Malik: Pooja this is Rohit, I will try to give a perspective. When you compare it to global market – there are clearly two markets which have been big ones for vacation – one is Europe and the other is US. Europe over the last I think about seven to eight years has declined and in fact from a growth standpoint if we look at Europe as a market may be the numbers are negative. The market which is grown to a substantial size is the US, for multiple reasons the big ones being vacation ownership is one of the biggest platforms of holidaying. They do not do packages in US. And holidaying is possibly a bigger need in US than what it could be in India. So I think therefore the comparison between the two markets may not be apple-to-apple. Having said that, as far as India is concerned we see the market potential to be exciting and it continues to be exciting though we do not compare it to the penetration rates that a US market enjoys so that we keep aside. What we need to do to grow this market being the market leader I think we understand the onus lies on us whether it is in terms of the product and the experience or with the respect to the sales practices that we adopt or with respect to the branding that Deepali was just talking about. I think the onus lies on us and we are mindful of that and I think that is something that we continue to do on an ongoing basis.

Deepali Naair: Pooja you may also consider the fact that we are quite hopeful in terms of the market situation because whatever work we do with the consumer, the habit of holidaying is increasing among Indian consumers. The habit of domestic holiday is increasing among the Indian consumer. That is the leading indicator for us because if you are the leader then the category also gets cutout like that. However, at any point of time you will compete with the discretionary spend which any household has in any market situation so that of course is something that we compete with, we may not compete with other brands, but we compete with lots of other categories when it comes to getting the consumers money.

Moderator Thank you very much. Our next question is from Abhinav Gupta of Edelweiss. Please go ahead.

Niraj Mansingka: Sir again Niraj here. Sir what was the number of members who expired for the quarter?

Vasant Krishnan: No members have expired during the quarter.

Niraj Mansingka: Okay. Can you throw light on the other expenses because that is also a large part of your cost and how do you see that?

Vasant Krishnan: All are resort expenses really lie in the other expenditure. Are you asking for a breakup of the other expenditure?

Niraj Mansingka: I want to see the thought process of how with an increase in realization or revenue how this will track from the current levels?

Vasant Krishnan: So essentially you would see a large part of our indirect overhead sitting there. A large part of our resort expenses will all go in there. Other than the on-roll employees which will sit in the employee cost.

Niraj Mansingka: Any color no how this will evolve or how you are looking at the cost side on that side or it is fairly optimized?

Vasant Krishnan: The infrastructure cost I can share with you is something that we are looking at very closely. As you know our branches, whether it is holiday world or outlets, we are looking at the appropriateness of some of those delivery outlets with respect to what they are delivering and whether we need to move to slightly more nimble and more cost effective infrastructure is something that we are closely looking at. If we get savings there, it will be reflected in that line.

Niraj Mansingka: Okay. And sir one last thing is on the trends of membership addition, I know this we are harping again and again. Can you throw where you see the growth coming in back and how do you see and to what level it can go to?

Vasant Krishnan: I think this question keeps coming up and we keep repeating it. I think more than volume I would urge everybody to look at value. It is better that we have focus more on the value part of the business and therefore if you rather have people at a certain level who can as we say stay and spend with us. So without giving any color on how we see the future, I think we are on a track where we understand what it takes to get a high value customer as we call it. And focus our energies towards acquiring him rather than spending efforts on people who would be easy fruits to pick up in the initial stages and some of the learnings we are now capturing and we want to leverage on those learnings going forward. To say that look, we will rather have high value members added on to our business who will stay and spend with us more and that is kind of even reflecting some of our resort revenues going up, rather than looking at low value business who will get stuck in the middle and then we will have a whole host of effort in trying to revitalize such members. Rohit you would like to add something to that?

Rohit Malik: I think that pretty much says it. It is more about acquiring right and then deriving value over the lifetime of the member.

Niraj Mansingka: Okay. Sir last question on the cancelations. I know you have stopped giving the numbers but can you give a trend how it has been for the last…..

Vasant Krishnan: It is more or less the same as what it was last several quarters now.

Moderator Thank you. Our next question is from Sumant Kumar of Elara Securities. Please go ahead.

Sumant Kumar: My question is related to the membership addition what we have seen in the couple of years membership addition in the range of 12,000 and previous year like 2007-08 we have seen the kind of 20,000 additions. So what is the outlook for coming year? What kind of annual number we are looking for?

Vasant Krishnan: We do not give guidance as I already said that the net member addition this quarter was 2,912 units. And last quarter we did around the same number. We did slightly better this quarter. So we do not want to give a guidance in terms of what would be the total member addition but I can tell you that whatever we are doing we are pushing the HFRP button, we are pushing the digital button, and it is not to say that we are going to have a number which is going to be completely different from the kind of trends that you are seeing in the last two quarters. So you could take that from a trending perspective. Please note, however; that we do not give any guidance.

Sumant Kumar: Assuming that everybody is expecting the recovery of domestic economy so.

Vasant Krishnan: So we would remain hopeful that we will be able to leverage on the recovery of the economy into our membership base.

Sumant Kumar: So what are the key steps we are taking to scale up our membership addition annually?

Rohit Malik: So there are two things – one is the number of people out there in the market selling for us which is what we call the feet on street. So one of the way is clearly of leveraging the economy bouncing back is to deploy that many more people but we will be a little cautious in doing that. We would not want to overcommit ourselves. The second bit is – the efficiency in the process of selling itself which helps us convert more. I think there we are clearly on a trend line where we are improving quarter-on-quarter for the last three quarters now. So I think between the two we should see an upside but as Vasant mentioned, we wouldn't be making any comments in terms of what numbers exactly we kind look forward during the next two quarters.

Sumant Kumar: So what are the key challenges because if the US is doing good in timeshare business so what is the key challenges here we are facing in India?

Rohit Malik: So we believe we are doing also well in timeshare business in this country, but as I said the two environments are completely different. I think I mentioned it sometime back as far as holidaying is concerned in US the first methodology of holidaying is timeshare, while in India the more popular one is packages which people pick up whether domestic or global. Having said that, we have discovered this over so many years and given the member base that we have, the market out there which looks forward to the kind of experience that we have managed to create over the past 17 to 18 years so that continues to be our market and we are getting a little more intelligent in reaching out to that market based on our experience in the past and that is playing out in both cost of acquisition and the efficiency of sales.

Sumant Kumar: Okay. Still the kind of volume growth, if it is consumption-related story, we are seeing that the timeshare industry in volume terms we are not growing so that is why if the economy is going to grow and the people are not able to spend the lump sum amount of 5 lakhs, 2 lakhs.

Rohit Malik: Sumant, for us, the growth is to the cumulative base of members that we have. Unlike a product transaction where somebody buys the product from our showroom and walks out and then we never get to earn out of that individual, our product is not like that. Whatever we acquire, whether we acquire 12,000, 15,000 or 16,000 a year that is all becoming part of a cumulative membership base and therefore our membership base is growing year-on-year. And that membership base of ours, on annual basis, is an opportunity for us to earn which is what I think

Vasant mentioned sometime back when you look at the impact that it has on our resort income or the deferred income they are all becoming part of our growing cumulative base.

Sumant Kumar: Okay, but do you think the amount what we are charging but the people are not able to give one time EMI also because they are already leveraged like they are leveraged for the house loan, they have car EMI. So the thing is how the people for tourism again will go for EMI.

Rohit Malik: So that's why we are choosey in terms of picking up who we are picking up.

Deepali Naair: And if you refer to one study that Trip Advisor has done recently in India – one of the top items that people want to spend on when it comes to discretionary income is travel and holidaying. So it is also about what the consumer wants and how their preferences are changing over a period of time.

Sumant Kumar: If anybody has spent 2-3 lakhs they have many preferences for expenditure. They have home loan EMI, they have car EMI so the third preference is coming for tourism. So tourism if they have to pay EMI of 3 to 4 lakhs they are preferring to go by own. Annually they have to spend 20,000 so they will go for own management for travel.

Rohit Malik: So Sumant that's an individual's choice. What you are saying is right but generally travel is a very-very specific requirement of people. People plan it differently. There are some people who will plan it the way you mentioned it, there are lot of people who will plan it the way we offer it. So yes I agree but then that is an individual choice people make.

Sumant Kumar: Do you have any plan to convert these kind of people to timeshare?

Rohit Malik: We are constantly working on that.

Sumant Kumar: I think in 400ml and they are offering in 10ml so that kind of things can happen in timeshare?

Rohit Malik: As I said, we are working towards it. We may look at creating something which will meet requirements of these people but that is in future.

Sumant Kumar: And sir to drive the membership addition we are going for global expansion. So could you please throw some light on that?

Rohit Malik: From an acquisition standpoint, we have seen success in the Middle East. We are testing waters in a few places beyond that but I would not comment on that right now. Once we have kind of seen some success in the other markets, possibly we will come back and update you but we are seeing very-very positive response in the Middle East markets.

Sumant Kumar: Okay. And what about the room addition going forward and what kind of CAPEX plan we have?

Vasant Krishnan: I have already spoken about it in my opening statement that we just added another 36 rooms in the present quarter (3rd Quarter FY15). And we remain hopeful that we will be able to add another 400 before the fiscal is over and as far as CAPEX is concerned it clocks in at around 75 lakhs a room and we are fully covered.

Sumant Kumar: For FY16 do you have plan for CAPEX and room addition?

Vasant Krishnan: As of now I think the focus is to deliver the numbers that we have been speaking about before the end of this fiscal. We have got land bank which we will be talking to you about at the appropriate time, which we will then focus on in the next year.

Sumant Kumar: So total number of room addition will be 436 rooms in FY15?

Vasant Krishnan: We have already added 60 rooms in Manali last quarter.

Sumant Kumar: So what will be the total number of room addition?

Vasant Krishnan: I would think there are around 500 rooms including 60 and the 36 that we have added and that would be a good number.

Moderator Thank you. There are no further questions from participants at this time. I now hand the call over to Mr. Vasant Krishnan for closing comments.

Vasant Krishnan: Alright. So thank you very much for joining the call. I think we had a very interesting discussion and I hope we have been able to answer all your questions. We would continue to work on the track that we have outlined and we look forward to interacting with you again soon. Thank you very much.

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

(This document has edited for readability purpose)