"Mahindra Holidays and Resorts India Limited's Q1 FY 2013 Earnings Conference Call"

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MANAGEMENT: **MR. RAJIV SAWHNEY - MANAGING DIRECTOR, MAHINDRA HOLIDAYS**
MR. ALOKE GHOSH – CFO, MAHINDRA HOLIDAYS

MODERATORS: **MR. VARUN LOHCHAB – RELIGARE CAPITAL MARKETS LIMITED**

Moderator Ladies and gentlemen, good day and welcome to the Mahindra Holidays and Resorts India Limited's Q1FY2013 Earnings Conference Call hosted by Religare Capital Markets Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Varun Lohchab . Thank you and over to you sir.

Varun Lohchab Good afternoon everyone. On behalf of Religare Capital Markets, we welcome the management of Mahindra Holidays and Resorts for the Q1FY13 earnings call. Today from the management team, we have Mr. Rajiv Sawhney – the Managing Director and Mr. Aloke Ghosh – the CFO with us to address the investor queries. Without any further delay, I would like to hand over the call to the management for the opening remarks which will be followed by a Q&A session. Over to you sir.

Rajiv Sawhney Thank you. We have put up what we intend to share with you in the next few minutes on our website and I do believe it has been mailed to most of the people who we had confirmation of. And our results press release is already in the public domain since yesterday. We have basis of the call that we had the previous quarter, what we tried to do was to talk about who are we, how do we earn, how do we spend, what are the positives of our model, how we go about doing our business. And all this was done by us largely since there were quite a few questions last time from people who were not so familiar with Mahindra Holidays, with our business model, with our audience, with what we are going about doing. So we felt it would be appropriate that we preemptively share those details. So we would be happy to answer questions on all of those which are there and during the period of what we share with you in the next few minutes, if people wish to go through that and get themselves prepared with the questions that they seek, we would be more than happy to answer that. It talks about why do we think people buy us, why we think people should buy us. Our appeal, it talks about how we go about adding our members, what is our acquisition process, what we believe our business strength and what really are our strategic priorities.

So talking about the quarter, because this call is more to talk about the quarter in question, we had talked last time about our strategic intent and that was to add members first. We exist because of our members, our properties are meant, created for our members and we remain committed to that. And we have taken a conscious hit in our numbers because of that and we are happy about it. Our OTH, which is the One Time Holiday Sales, is pretty much down to close to zero, yet we have had our quarter with the highest ever occupancies at the overall level. And we have a much greater satisfaction level and what this satisfaction level has led to is a significant change in the mood, if you look at the mood online, when we look at the cyberspace what people are talking about us, the kind of mood that there is amongst prospects, amongst the members itself of their sharing, it is much more positive. We had shared with you people last quarter that one of our big initiatives was to go online with our bookings. I am happy to share that on a run-rate basis, now the throughput of online is now 26% of our total bookings, so it has pretty much doubled over the quarter. What this is doing apart from just being a number is that this is providing far greater transparency to the members who booked through this route. The satisfaction levels of members who book online is palpably greater and which in itself is going back and giving us greater satisfaction levels and greater referrals from our members. And this is also helping us in increasing our occupancy rates that I talked about. We premiered our new website and for those of you who have not, I would encourage that please test drive the new website, please share with us if there are any thoughts, any suggestions, observations, criticism, but we are quite happy with the new website which fulfils couple of objectives that we had set about to do with this. One was to have much more engaged members. Second was to be influential in holiday planning. We wanted to facilitate the holiday planning process, the holiday anticipation process and the feedback that we have received from members who use it, is very positive and it is very intuitive and we would further embellish this going forward. We have shared with all of you last quarter about the new resorts that we had opened. I am happy to share that all those resorts are live and the response that we have got in terms of occupancy in those resorts have been very encouraging, so we are encouraged in our decision, in our choices, in the kind of resorts that we have selected, which would fuel our further growth and this quarter we would be looking to add more resorts, indication of which we had given earlier. So during the current quarter we would be moving in that direction.

Overall like I had mentioned to you earlier that although the top-line growth at 25% looks alright, the profit increase is not in sync. We are not losing sleep, I am not unhappy about that. That is something that we had planned for. We are investing for growth. We are investing into this business. We are resourcing it up, new resorts, new people, new staff, new processes. And we believe that these investments which would start yielding results and outcomes over the next few quarters, we would be happy to look back and say that the patience paid off, the fact that we lived with a lag in profit over the top-line for a couple of quarters, actually bid us good. I am happy to share that we have during the April-June quarter changed our sales acquisition model. We had a major transition where we stopped giving televisions or consumer durables as may have been the case as selling aids. We would rather do that in the product or in the discount itself. Now that makes us far more flexible, that makes the product proposition f ar more elegant. Yes, during the transition, there was some turbulence as you can imagine in any changeover especially for a company which has been used to doing it for many years, it is not easy, we have done it and we are happy to say that we do not expect any impact of that on the run rate, in fact we would accelerate on our run rate going forward. I had mentioned last time about IT initiatives, initiatives that would help the members, help us in end-to-end experience being far superior. Some of those initiatives are yielding results online we talked about, the new website has gone live. Property management system that we touched upon last time, it has gone live. In a few locations, we expect during this quarter to cross 75% mark which means 75% of our total rooms should be passed for 1500 number plus would have the property management system gone live in the next 60 days or so. What that would do is help us in better inventory management, better anticipation and equally also help us in one of the key areas that we had talked about which is in optimizing cost at the resort level, it would lead us to looking at efficiencies of common shared resources. So those are benefits that we will start reaping in the third quarter really. So that is pretty much what I had to share at this stage. I will ask Aloke, our CFO to take you through the numbers and then of course, we are here to answer the questions that you may have.

Aloke Ghosh Thank you Rajiv. So what I will do is I will give a brief update about the financial results of Q1 as compared to last year Q1, so I will just take you through the numbers. I am sure many of you who are in this call would have already gone through these numbers, but I will just mention for you again before we get into the question and answer session. As far as Q1 is concerned, the operating income for the quarter was 157 crores versus 126 crores last year for the same quarter depicting a growth of 25% year-on-year. Including other income the total for the quarter was 162 crores. Now breakup of income that is a question which all of you ask, so I will give it to you right now, it is also covered in our presentation. So income from sale of vacation ownership is 96 crores out of that 157, income from resorts 23 crores, ASF 27 crores, interest and others 11 crores and we have travel business which is around 1 crores, this adds up to 157 crores. Our non-operating income is 4 crores, which adds up to a total income of 161 crores. PAT for the quarter was 19 crores which is up 12% on a year-on-year basis. Number of members added during the quarter was 3780, taking the cumulative membership base to 147K. The member addition as compared to last year had an annual growth of 12%. As far as our resort is concerned, I will give a further breakup into the various categories and income. The resort income 23 crores is broken up into room revenue of 2 crores, food and beverage 15 crores and holiday activity 6 crores, so this is what it is.

Now I will also briefly touch base upon a few points which Rajiv mentioned in this call. In this quarter, there are few activities or few incidents which have impacted the profitability, but this is something which was planned and we have taken a conscious decision to take this thing. One is what we call as One Time Holiday or holidays for nonmembers, now during the peak season, we had a black pit out and what we see is that the holidays for long-time members have gone up substantially, but we have had a hit in the one-time holidayers. The other activity was that in Pondicherry, we had a cyclone, we mentioned that in our last call. Pondicherry was not fully operational this quarter, it was partly operational, so that also had an impact on our profitability this time. The transition from white goods out had a one-time effect on our profitability. And of course when we plan up new leased resorts, there would be addition to manpower as well as the lease rental which is part of the growth. So these four elements would have impacted the profitability and would have had an effect of about 4%. So this is what I wanted to mention and I think we can start off with the question and answer session now.

Moderator Thank you very much sir. We will now begin the question and answer session.The first question is from the line of Mohit Jain from Trust Group. Please go ahead.

Mohit Jain Few questions, one on members additions, if you could give us the top gross addition and cancellation. Second, is there any specific one-off reason apart from changing sales model that would have potentially impacted net additions for the quarter?

Aloke Ghosh So as far as the gross addition of membership is concerned, I will just give it to you. We have had a gross addition of 4704 for the quarter and the net numbers, I already mentioned earlier, it was 3780. So this is what the number was for the quarter. And as far as one-time, I did mention earlier about the transition from white goods to outside that was a one-time affect and we have a small foreign exchange translation which was a one-time affect.

Mohit Jain Can you just help me understand the new sales structure?

Rajiv Sawhney New sales structure, basically we were charging a particular price and on that, we would offer consumer durable as a benefit. Now we are much more flexible, so lot of hidden costs which we were incurring costs of warehouse, cost of transportation, cost of fulfillment and the unhappiness that wrong delivery, late delivery, wrong model could have caused would no longer be with us. And equally, the flexibility that gives the salespeople because this product category, the pricing is not advertised so it gives us the flexibility of geographic changes and value specific or unit specific changes, so we would offer them some kind of a discount which in the initial changeover phase would be slightly, if I may say, on the higher side, but we will wean that away as more important is our sales team gets used to the idea, the thought and gets the confidence that it is possible to have a direct sale, 45 minute conversation with a prospect and conclude a sale without the crutch of giving something like this. So we are quite happy that we made this change and we are very bullish that we will see a good impact of this in this quarter and the coming quarters thereafter in an accelerating manner.

Mohit Jain So if I understood it correctly, sales would be less aggressive from here on and incentive structure would change slightly?

Rajiv Sawhney I did not say less aggressive, our appetite has not waned, our appetite is only increasing and I did mention and I repeat that we are resourcing this business for growth, we are investing for growth, we have allowed our manpower expenses to go up, we have planned to do so. We have added more positions, we have beefed ourselves up in the staff functions, equally through the new resorts and equally through investments like I said in IT and new processes, which is setting us up for scaling up. So we would be more aggressive, if that is what your question is.

Mohit Jain So YOY decline as far as gross additions is concerned, that should not happen from Q2 onwards, is it?

Rajiv Sawhney That is right, absolutely.

Mohit Jain Thank you. I will come back for further question.

Moderator The next question is from the line of Rishi Maheshwari from Enam Asset Management. Please go ahead.

Rishi Maheshwari Mr. Rajiv, I would like to know if you can share with us your plan to add inventory going forward. If you can share with us on a quarterly basis, how is the inventory coming up. By the end of the year what is your plan? How much will you add in what region?

Rajiv Sawhney We remain committed to the indication we gave in the beginning of the year of 700 units through the year. We also remain committed to the geographies that we had indicated. We are looking in the neighboring countries at Bangkok within Thailand, at Colombo in Sri Lanka and within India, we are looking at places like Uttarakhand, the hill stations, there are the beaches. And within that, in Eastern India, we are weak, we have the presence of two locations now which was one last year this time, so we are looking to increase that. And I had mentioned in the previous call that that would help us even in far better extraction in the eastern market. Traditionally Kolkata, Eastern India has been weak for most companies amongst the four regions, but for us it has been exceptionally behind and one of the reasons when we went deep and analyzed was that of significant number of members, their holidays are within the radius of 600 km and within that geography, there are not much choices that we give to prospects in Kolkata or anywhere in Eastern India. So that is where we are going about looking for new inventory. So I cannot give you specifics more than this, but given that these are transactions, given the number of variables in them, negotiations take time, so these by definition are lumpy. You cannot have an even rate of accrual of inventory addition. You will certainly have a lot come in in a particular period and then there would be a lull that is not by design, trust me. It is more to do with the nature of the business, but the level of activity in the pipeline that we have, we are confident.

Rishi Maheshwari As an addendum to that, if you can also share, what will be the cost of construction in all these? How are you planning to fund this? What will be the number of resorts that will come as a result of the addition of 700 rooms that you are talking about? And what is your strategy? Roughly what will be the mix of the buyout versus your own construction?

Rajiv Sawhney Construction starts in this year, would only accrue to the company to the member 18 months plus ahead. We have in the pipeline a property that we have shared earlier, which is in a place called Virajpet in Coorg near Mercara in Karnataka close to Mysore, which is a 150-room property. So if you are looking at accrual during this financial year through our own construction that will be one. Yes, there will be more starts during this year and the balance we will have through buys and/or leases. When it comes to neighboring countries, we would never attempt to construct there, we would attempt only to buy and then re-purpose it to the extent to bring it up to our standards to what our members expect, what we have committed to them, what we have promised to them. So did that answer your question?

Rishi Maheshwari Yes. And just one unanswered was the cost of construction that you would anticipate on the entire inventory for this year.

Rajiv Sawhney See, in a transaction it is very difficult to predict that, but if from a standing start we were to commence construction today, all-in cost would be in the ballpark of Rs. 60 lakh per unit and which would be all-in which means when we say it is 100 units that we have, it would be a blend of one bedroom and studio in the ratio that we normally make and obviously, it would also have common areas, etc., so a 100-units delivered would cost 100 times 60 lakh. It is not on a per room or per unit basis only that this cost happens.

Rishi Maheshwari And if you had to buy out, what is the average that we shall assume in case of the remaining that will be bought out?

Rajiv Sawhney It would vary, but we would obviously like to blend ourselves to be within that ballpark or under it, but there are above and below.

Rishi Maheshwari Just one more on this, the cancellation suggests that it has actually gone higher versus the last quarter versus Q4FY12. Now given the sleuth of changes that you have made across and the customer satisfaction actually going up, I was under the impression that this will eventually be lower quarter after quarter. More so when I see cancellation as a percentage of the gross addition, I was hoping that ratio will be much lower. However, that is not reflected in this quarter. Your thoughts on the same?

Rajiv Sawhney It will drop, there is a lag affect here. There are certain people who perhaps had made up their mind well ahead and there could be arrears in their dues to us, but at an overall level what I can share is that there is a palpable improvement, not just an improvement, I am saying there is a positivity which is reflected in higher referrals, there is a positivity which I mentioned earlier in the web space, in the complaints that we get or the escalations that I may receive, at every level that we are monitoring overall, we had talked about that we want to get inventory as an issue off the table and I am happy to say that significant moves have been made in that. So satisfaction levels are increasing. You may not see necessarily the direct impact of that in certain metrics, but you will.

Rishi Maheshwari Shall that be also reflected in the gross addition numbers, are we now looking at crossing the previous peak that we had in 2009, if I am not mistaken, of about greater than 24000 members in one year as a gross addition?

Rajiv Sawhney I will not comment on that, but what I will certainly say is that we will see acceleration at what trajectory, being the Mahindra Group, being the company policy, we would not give forward-looking statements.

Rishi Maheshwari Just a last one on the average pricing that has come in for this quarter?

Aloke Ghosh The average pricing is between 3.3 to 3.4, it is around that level.

Rishi Maheshwari What was this last year same time?

Aloke Ghosh Rishi, what we could do is, last year we can talk about it offline.

Rishi Maheshwari What was the impact of the pricing that has been taken in this quarter and how much was it?

Aloke Ghosh The impact of pricing in terms of what we took was about 12% on a year-on-year basis comparison.

Rishi Maheshwari Has all of that been effective or were you required to pass on some of the benefit as additional discount?

Rajiv Sawhney You see, the month of April would pretty much have, because when these are transactions in motion, there is always like in a relay race where the baton is handed while running parallelly. So the real impact of that would really have featured through mid May and into June for us, real benefit so to speak in the overall.

Rishi Maheshwari Just one more, as a result of this reducing or shutting the discounts schemes, are we entitled to see the benefits of that coming across in our margins from next quarter onwards? I am seeking margin improvement versus say, Q2FY12 in Q2FY13, will Q2FY13 is likely to post higher margins just because you have had lower number of discount schemes that is running across?

Rajiv Sawhney We should.

Rishi Maheshwari Okay alright. Thank you so much. I will come back in the queue.

Moderator The next question is from the line of Jay Singh Suchak from JM Financial. Please go ahead.

Jay Singh Suchak In case of other expenses, we have seen a significant increase year-on-year like round about 32%, so what is the reason for that?

Aloke Ghosh Are you asking about any specific line item or you are asking in general?

Jay Singh Suchak No in fact, I am saying what constitution or what portion of the other expenses has led to this increase? Like when we get the result, there is selling and marketing employs to the other expenses which has gone up 32%.

Aloke Ghosh In other expenses, there is a couple of things which would have impacted us. We have said that when we are adding up the resorts, the resort rental also comes into the other expenses. You would know that around the end of March, we added up quite a few resorts, so around 2.18 crores of the spread specific has impacted the other expense line because that is what has gone into other expenses. Besides that there would be certain items in other expenses which will grow with the volume of business. Just to give you an example, you would have food and beverages or heat, light, and power in the resorts, as the resort occupancy these costs would go up, so it is a variable expense, the resort occupancy. So that is another item which has moved in the other expense line. Besides that at the beginning of the call, I just mentioned that there was a one-time translation for an exchange effect which has gone into other expenses.

Jay Singh Suchak Any change in the percent of people taking EMI when they are taking new membership compared to last quarter?

Aloke Ghosh Typically no, we have not seen much of a change. So interest bearing to non-interest bearing ratio has remained around 70-30 which is what we have seen, so not much movement there.

Jay Singh Suchak As I mentioned earlier that the occupancy percent was highest ever in this quarter. What was your occupancy percent this quarter?

Aloke Ghosh It was 89%.

Jay Singh Suchak Great, thanks so much.

Moderator The next question is from the line of Mohit Jain from Trust Group. Please go ahead.

Mohit Jain Can you repeat the occupancy number?

Aloke Ghosh 89.

Mohit Jain This is at the company level?

Aloke Ghosh Yes, that is correct.

Mohit Jain What would be your closing inventory number in terms of number of rooms?

Aloke Ghosh This time we have also culled a few of our resorts in the sense that resorts which we felt were not critical for our activity or we did not see occupancy moving as per plan, we have culled a few of our resorts. So from the number which we had given last time, the numbers would be around 86 to be precise than last time.

Rajiv Sawhney It was 2049 minus 86.

Mohit Jain What percent is on lease out of this? Or is there any guidance on that front?

Aloke Ghosh Our lease, Mohit that is not changed what we have already discussed before. Buy to lease ratio for us has been in terms of rooms is 60:40.

Mohit Jain 60% owned and 40% lease?

Aloke Ghosh That is correct.

Mohit Jain And that may increase in the favor of lease for this year because we are planning to add 700 units?

Rajiv Sawhney No, we did not say that. Like I said, there is a construction element, there is a buy element and there is a lease element.

Mohit Jain So buy element could be higher. Got it, thank you very much sir.

Moderator The next question is from the line of Varun Lohchab from Religare Capital Markets. Please go ahead.

Varun Lohchab One question from my end, you talked about adding 700 rooms to your inventory, if I go by the typical ratio of 50 members per room, does that mean that you are looking to add around 35,000 members over the next couple of years, or is it that you are looking at a slightly different ratio now of number of members versus the inventory. So if you can just spend some time on that?

Rajiv Sawhney That is an interesting way of asking us what is our appetite to grow of getting a forward-looking statement from us and what we expect. Well, we had put 700 as a number because we want to, going forward, be ahead of the demand curve when it comes to supply. If we are six months ahead or even nine months ahead of the demand, we are happy to do so, we are in parallel developing our ability to be able to move the overflow of inventory that members may require through OTH, through portals and through other agents, etc. So we would not like to have a situation ever again where members are not able to get holidays when they wish to get them. And the fact that there is a demand-supply mismatch is not what we would have. So we are going ahead of the curve on whatever we feel for demand and that also gives us greater elbow room to move gears for great growth. If I have excess, if you may, inventory basis, the formula that you gave then it gives me greater freedom as a company to get bolder and do more things and acquire customers and like I said I reiterate that we are preparing ourselves for the future, we are investing for the future for the growth and that is what we are going for.

Varun Lohchab These 700 rooms are over what timeframe, is it this year or over two years?

Aloke Ghosh This financial year.

Varun Lohchab Okay that's it from my end. Thanks and all the best.

Moderator The next question is from the line of Gopi Krishna Shenoy from SBI Life. Please go ahead.

Gopi Krishna Shenoy If I can get the number of members who are eligible to avail the room facilities right now out of 1,47,000?

Aloke Ghosh Gopi, this is a number, we do not share. This question was asked last time as well. This is a number which we do not share externally.

Gopi Krishna Shenoy If I have understood it properly, we had 2049 rooms, out of that we culled out 86, that means we are left with 1963 as of June, is that right?

Aloke Ghosh Yes.

Gopi Krishna Shenoy And out of this, 60% is owned and 40 is leased.

Aloke Ghosh Yes.

Gopi Krishna Shenoy For our own rooms, we said 50 lakhs is our cost, what will it be for the leased one?

Aloke Ghosh Just like Rajiv mentioned, we have an average rate which has worked out, that is building on the location of that place. We looked at something within the Rs. 1000 per night kind of range but it's always varying according to location.

Gopi Krishna Shenoy I was also wanting to know why is it that you have mentioned in the slide presentation that is uploaded in the site that we will be targeting at an individuals whose annual income is about 25 lakhs when our average ticket size is say, 3.4-3.5 lakhs? I couldn't get the…

Aloke Ghosh We did not understand your question, do you feel that is too high or too low?

Gopi Krishna Shenoy I thought that it is too high.

Aloke Ghosh That is 25 lakhs is too high?

Gopi Krishna Shenoy Yes.

Rajiv Sawhney Now when you look at a target, it is what is called the "bull's-eye" meaning that if we had to go for a particular communication, a particular target you would go here. We have members and even when we go around scouting for them who would be in the range of, let's say, 18-20 and upwards at 30-35, you will in center. But we do believe that below 18-20, it is not going to be, let's say, the average profile of members who would want to come in because if you take an income of 18-20 and work out what's the take home of that person would be, it's the amount they would pay for a house which I am assuming they will buy before the time share or the car they will buy, it does not really leave them with enough money for buying this product.

Gopi Krishna Shenoy Has the cost of customer acquisition actually inched up for us in terms of commissions and all that?

Aloke Ghosh Are you asking whether it has increased?

Gopi Krishna Shenoy Yes.

Aloke Ghosh No it has not increased except for the one-time effect which we spoke of which was the transition from the white goods out, otherwise it is at the range which we look at, if you take off this one-off.

Gopi Krishna Shenoy So it has not gone up, is what you are saying?

Aloke Ghosh Yes.

Gopi Krishna Shenoy And in terms of member addition which class of members we have added most?

Aloke Ghosh We have disclosed this, you have seen, we disclosed the total member addition that is what is there. We do not disclose the class of members.

Gopi Krishna Shenoy I just wanted to know when we changed the strategy completely year before last, I just wanted to know whether we are on track with that strategy as such or whether there is a change there again?

Rajiv Sawhney Yeah we are on track.

Gopi Krishna Shenoy Thank you, that's it from my side.

Moderator The next question is from the line of Rishi Maheshwari from Enam Asset Management. Please go ahead.

Jiten Rajiv, just couple of questions, one is that we keep looking at all of the data that we get from macro side and all the kind of assessments that we make in terms of industry size and demand, etc., for our particular business. If you were to give us little bit of idea what exactly is your target audience and how big is that market because it is very difficult for us to believe that there are only 200,000 families vacationing between yourself and Sterling or at best if we include couple of other small players, it does not exceed 250,000. So 250,000 members, can you just give us a gauge of really what is the addressable market? And when do you think the growth rates would pick up and where you are looking at things, I mean your guidelines of maybe 3700 becoming 4500 next quarter is either here or there, and I am sure your aspirations are far higher than that. So can you just touch base upon really where do you see the industry and give us a little relevant example of what sort of a market are we really chasing or what has been the industry experience in other emerging markets or developed countries, etc., if you can just throw light for the benefit of all, I think that will be very useful.

Rajiv Sawhney Well, if you look at the demographics, I would not like to complicate this conversation by going into complex demographic or psychographics, etc., I would just like to take a very simple surrogate which is the automobile and say that 2 million plus automobiles sell in this country on an annual basis and if you just take a straight line method then in the last 10 years, there would be more than 15 million because in the last 10 years they were not selling to a piece. So people who have bought the automobile in the last 10 years in itself adds up to more than 15 million people and those are the people who can very easily afford this category, equally people are for social reasons being weaned away from visit friends and relatives and they are being forced for social reasons to holiday, people are also because of higher discretionary income and because of the nuclear family wishing to spend quality time. So the reasons which propel the market size and the headroom for this business are huge, but to stimulate demand, one needs to deftly manage supply and demand equally because in any other product category, you first need to manufacture and only then can you sell because we need to give the physical possession of the product since as a group we sell automobiles, let me take the automobile example, I must first manufacture 3000 XUV 500s in a month for maybe able to sell them that many numbers. So equally we have taken the conservative route to say we want to make supply a non-issue and we want to be ahead of the demand curve which gives us then the freedom to stimulate demand and be positive on that. So to answer your question of how large is the potential for this category, I cannot even begin to describe how huge it is, but that is not what is our focus at this point in time, our focus is to deliver an experience which is memorable. Our focus is to make sure that people who are not members of Club Mahindra through the stories that they hear from people who have holidayed through the other members that they should want in, they should want to become members of Club Mahindra because of the positive stories that they hear and which is where the referral piece comes in. And I do not know if you were there at the beginning of the call, but we did mention that we are seeing the positivity and we are seeing the needle move in terms of the acquisition that we are getting, we are getting higher numbers through referrals and we expect this movement to accelerate going forward. So was I able to answer your question?

Jiten Well numerically, where do you think is the target in the next 3 to 5 years, I mean do you see you can reach a run rate of at least 50,000 additions a year or things like that or is that too far-fetched a dream?

Rajiv Sawhney I would refrain from getting engaged into what we can get into, but I would say there exists a market and we had shared in our presentation in the previous quarter of the leisure hospitality market in this country, timeshare is not even a fraction, so there is that much activity which is happening as we speak where people are going on discretionary leisure holidays and for us that market, of course, is expanding as is. So we as timeshares need to get a slice of that and even if we get a slice, we are talking in gross, not in percentage terms as an industry but in number of Xs.

Jiten Rajiv, that is not getting reflected in the last couple of years which were the best years of India's growth. Now we are at a 6%-6.5% GDP and the last time we had a 20,000 kind of net add in 2008 and post that, I think we are not seeing the number. So when do you think we will break the jinx. We really have a lot of hope. We believe and the industry, and the business and the leadership is excellent and the company has demonstrated quality and a very good execution, etc., in the last couple of quarters under your leadership. While your company has been listed for three years, lot of investors have been a little impatient and our compliments to you for all the great changes that you have brought about because we have been hearing that in the market rates are still climbing, that is the greatest reflection of the change and the thought process that is now happening. But when do you really think that we should raise our feeling and move ahead? I am not really asking you for what is happening next quarter or next year, so this is not really a guidance that I am seeking from you which will refrain you from answering, but I am really saying that when do you say is the inflection point and what are those things that you need to do for the inflection point to happen so that we move probably to 3000–4000 a month and not every quarter?

Rajiv Sawhney See, we had shared earlier that in this transformation piece, there were various elements if you look at our transformation recipe then there are various elements which needed to be changed, tinkered, adapted, moved and of course, the thing which takes the longest is the supply side, the inventory itself. So the pieces are falling into place, we are happy with the fact that the jigsaw puzzle is no longer a puzzle, we can see the pieces coming together, it is blending and for us to be able to demonstrate to you what the outcome or what it can deliver I would ask you to be patient yet I would not ask you to be patient for the longer term. Now I am sure you will ask me what does that mean in number of cues. But I think I am not just hopeful but very optimistic that we will have a conversation hopefully in this calendar where you tell us of something which we told you and you reverse it back to us and say okay, we see what you were talking about.

Jiten One more question Rajiv is that what is the ideal level of the inventory? So if you have 1000 members, you need to have room nights, let's say you need to do about 20 rooms or so for 1000 members. So ideally where would that number, I heard you answering one of the participants on the call that there is a little bit of shortage that you are fulfilling, little bit of inventory that you want to build ahead of time which I think is the best thing that you could do but, for example, this year when you said you will add 700 that is a gross add and I think a low scope of culling some inventory in quarter one and probably maybe more to come in the next few quarters. Where do you think is that ideal number where you need to do against the number of members? So if you have 150,000 members today, ideally there should be about 3000 rooms which they are, so really where do you think you want to get that ratio going forward?

Rajiv Sawhney Well if you look at raw mathematics then the number is 50. If you look at why would I discount that, I would discount that for two reasons, one is there is a lag in the people getting eligible. On an average, a member becomes eligible in 12 to 14 months because of the payment plans that they are on. And on an average 10% to 15% of members do not holiday during a particular year and that is the pattern that we are seeing and we have also compared with other peers in the United States who have got much longer reach or network to look at that. So this is on a stock basis, that means if I am not adding any members, I have got 'X' number of members then how many rooms must I have. And then you have to plan with that then for growth and for how much growth you want to accelerate and how much elbow space that I talked about, you wish to have and we would rather have more plans there.

Jiten So would at any point in time, let's say 150,000 members mean you would at any time have at least 3000 rooms and then start moving ahead, so you are well ahead of the curve which means you can once again in the resort income see a lot of walk-in kind of customers also availing of this facility and the income rising?

Rajiv Sawhney Yes, but we would remain committed to members first. If all members have had the opportunity to book a place and they have exercised their rights and we have reached out to them and we have encouraged them, we talk about engagement, we talk about holiday planning, we talk about reaching out to our members and encouraging them to holiday with us. All such activities have led to 100 room resort having an occupancy of 80, we have 20 rooms then I will circulate the company I have the expertise to go and go into the marketplace and get what the hospitality business calls the FIP and we call OTH, we will get that business to make sure that overall we are sweating our assets to its maximum.

Jiten Given where your vision is and given your optimism and bullishness on the business, which is something we completely share, what is your strategy to get into purchase of land bank and anything that you have executed in Q1 and what is the plan to build out land bank in the current year, not number of rooms?

Rajiv Sawhney I think I mentioned that a bit earlier, let's amplify, we are actively looking at land banks, we are looking at unlocking some of the properties that we have, some of the lands that we have to start construction and we are looking at building a land bank and we are looking at various areas. We put places like Munnar, places like Coorg, places like Kumbhalgarh, on the map of India. These were undiscovered, unknown places before Club Mahindra went there as the first movers and invested in that place because we believed in that. We would be creating more such destinations going forward. So you should hear from us going forward in the next couple of quarters of land acquisition equally.

Jiten So basically I mean these 700 odd rooms that you are adding right now give you a comfortable situation with the members as well as the available rooms, inventory, can I take these 700-800 as the new normal in terms of room addition every year given your aspiration?

Rajiv Sawhney Well I would put it differently, what we are planning for all this to place, and I will see why we would need to get more rooms going forward.

Jiten So, can I take this 700 as the new normal and you will not fall short of there in the next couple of years going forward?

Rajiv Sawhney Why do you want to restrict me to 700 as a company?

Jiten No, I am just saying at least let's begin with 700 because we have never done 700 ever historically.

Rajiv Sawhney Correct point.

Jiten So that is all I am saying even if you start at 700 it is a very big start in that terms. And secondly I mean in the future what would you like your constructed rooms versus purchase versus lease to be in the next two years, I am giving you fair time to say that if work starts now and you keep on moving in the same pace next 2-3 years, then basically your constructed versus your purchase, last year it was all done in an emergency basis because you had to fulfill obligation and that was a very good thing you have done and probably you may carry that on further, but going forward, ideally what is your mix, how much do you want in terms of your own constructed and how much would you like in terms of lease and how much would you like to do an outright buy?

Rajiv Sawhney We would like 75% or thereabouts to what we create because we are proud of what property that we have created and we are able to give the experience, that is what people cherish, that is what we have done, in what we have done, that is what we would like to aim for.

Jiten So that means as of now it will be 75 by build and 25 by lease?

Rajiv Sawhney Correct.

Jiten Going forward this will be the metric?

Rajiv Sawhney Yes.

Jiten Rajiv, I wish you all the very best and we hope to get pleasantly surprised in the quarters ahead with all the hard work put in by yourself, Alok and all other team members and I wish you all the best for the year ahead.

Varun Lohchab I think we have finished the timeline of 5 p.m., so we can take one last question if any or otherwise closedown.

Moderator There are no further questions at this time.

Varun Lohchab Thank you very much.

Moderator On behalf of Religare Capital Markets that concludes this conference. Thank you for joining us.