“Mahindra Holidays & Resorts India Ltd Q2FY16 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Mahindra Holidays & Resorts Q2FY16 Earnings Conference Call. We have with us today 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. Kavinder Singh. Thank you and over to you sir.

Kavinder Singh: Welcome to the Q2 Earnings Conference Call of Mahindra Holidays. I am sure most of you have had a chance to go through the results. In this quarter we have added 4,341 members which is an increase of almost 50% from 2,912 in the same quarter last year. I would also want to let you know that this is coming successively after a 50% jump in Q1 taking our total number of member additions in the 6 months' period to about 7,428 which is up from 4,971 in the corresponding period of the last year. A quick summary from our side as to how we see this has happened. We have been investing now for a reasonable period of time both in our digital and referral programs. These are now becoming fairly robust sources of member acquisition. The investment that we have done in brand building and advertising, both in print and digital media and various other initiatives that we have done have helped to achieve these numbers. Our investments are in the range of about 52.3 crores in this quarter. This is up from 35.4 crores in the same period last year and on a sequential basis they are higher marginally. On a sequential basis, the last quarter we were at 47.9 crores. We have also focused on selling Blue and White season inventory. This is a part of the conscious decision and this has resulted therefore in a slight decline in the AUR. As per as our room inventory goes we have not added any rooms this quarter. We surrendered a lease property of about 24 rooms and as at the quarter end we have 45 resorts with 2,867 rooms. Our planned inventory addition of 700 rooms over the next two years is on track and we are also close to firming up fresh land banks and also room inventories that we would be announcing shortly. With this, I will now open the floor to questions please. Thank you.

Moderator: Thank you very much Mr. Singh. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Neeraj Mansingka from Edelweiss. Please proceed.

Neeraj Mansingka: I have few questions. One is, what was the vacation ownership average realization for the quarter?

Vasant Krishnan: This quarter it has come a little lower. I think Kavinder mentioned about the Blue and the White season inventory that we had pushed this quarter. This has come a little lower. We normally trend at around 3.5-3.6, so this time it has come in along 3.3.

Neeraj Mansingka: And generally you also have some revenues coming from upgrades of members. So can you share some trends how that is in the last few quarters?

Vasant Krishnan: It is broadly in line. This quarter it was a bit lower. Again you know this is in sync, because when you upgrade, you push up the Purple and the Red, so this quarter it has been a bit lower. But otherwise from a trending perspective it has been fairly constant over several quarters now.

Neeraj Mansingka: Can you give some range of what percent of people would have been upgrading or something like that of the net members coming in.

Vasant Krishnan: So we do not get into that level Neeraj as you know but I can tell you that it is not a significant decline from what we have been seeing over the last 3, 4 quarters.

Neeraj Mansingka: And any securitization?

Vasant Krishnan: No securitization has been done this quarter.

Neeraj Mansingka: Can you also share why in the balance sheet I had noticed that the ASF receivables also jumped versus March quarter. So any reason specifically for that?

Vasant Krishnan: So are you referring to the receivables number or are you talking about the deferred income?

Neeraj Mansingka: I think it will be the receivables.

Vasant Krishnan: So you are talking about the current assets trade receivables, is that the number you are talking?

Neeraj Mansingka: No, let me rephrase that question, of the trade receivables the 870 crores went at least to 940 crores. Can you give a broad thought process of how it might have gone up?

Vasant Krishnan: I will give you two data points. 187 crores was as you know the securitization loan that was outstanding as of March, that was in the public domain. The securitization loan outstanding now is 121 crores. The greater than 6 months continues to be 366 crores. So as a percentage of your total receivables, it has come down to 23.7%.

Neeraj Mansingka: Sorry, can you repeat last one, again what you said?

Vasant Krishnan: More than 6 months continues to be at 366. So we have held that number at 366 crores and if you take my total receivables which is 940 crores sitting in line 2C current assets trade receivables and other noncurrent assets which is the total receivables. You must add both of them and add 121 crores. You will see that the greater than 6 months has actually come down from 24.5% to 23.7%. So that is an improvement that we have shown in our receivables largely because of better quality in some way, better collections. So receivables are well under control and if you also see our receivables from the perspective of our income, rolling income on a 12 months' basis I think the results will be there for all of you to see. It has come down from the March position.

Neeraj Mansingka: And the last question about member expiry, net members that you say is a net of expiry, right?

Vasant Krishnan: That is right.

Neeraj Mansingka: Can you also give some color on the member cancellation and the expiration of the members?

Vasant Krishnan: This is the one that is always after giving you the cancellations.

Neeraj Mansingka: Right.

Vasant Krishnan: I can only tell you that the receivables have come down and the member additions have gone up. So I think you can draw your own conclusion Neeraj from this.

Moderator. Thank you. Our next question is from the line of Nimit Shah from ICICI Securities. Please proceed.

Nimit Shah: Sir, I just wanted to ask one thing is that the member add are increasing by 50% for H1 but correspondingly on the VO side it is up by only 28%. So where the discrepancy is there?

Vasant Krishnan: So what is the question Nimit, I did not understand.

Nimit Shah: For the vacation ownership income, is increasing from…

Vasant Krishnan: In spite of our member addition of 49% vacation ownership is up by only 28%.

Nimit Shah: 28%

Vasant Krishnan: Yes, so you know this that 100% of our sale value do not go into the P&L, right? It is 60% that goes in, 40% is deferred. So it is a function of 60:40, it is a function of the sale price, I spoke about the AUR, dipping from around 3.5-3.6 to around 3.3. So the income line is essentially coming out of the net member addition which is what you are seeing at 60% and the sale price which drive the sale value which cover the income from the sale of VO.

Nimit Shah: So sir if I get it correctly, so this 4,341 x, say 3.30,000 x 60% that would be the vacation ownership income less the cancellations and any other adjustments which are being done?

Vasant Krishnan: You have to add the cancellation income and some other adjustments which will all come to this figure plus the realignments.

Nimit Shah: Correct. So whenever a member is being added in the quarter 60% of that is booked in that quarter itself irrespective of the cash we have received.

Vasant Krishnan: That is right.

Nimit Shah: That is all a very consistent accounting policy Nimit. I thought that it would be based on some threshold limit of cash.

Vasant Krishnan: That is the consistent accounting policy the company has been following.

Nimit Shah: Mr. Singh mentioned about this investments of 52 crores and 47 crores. These are related to what?

Vasant Krishnan: I think he was alluding to the sales and marketing expenses.

Nimit Shah: Okay that I got it.

Vasant Krishnan: If you know we have been consistently putting money behind digital, behind our referral program, behind our digital programs, we have…

Nimit Shah: This would be up by how much percent on a year on year basis if you can?

Vasant Krishnan: Year-on-year basis we are up by 48% from 35 crores to 52 crores. Some of it is also on account of the fact that the volumes are expanded, some of them are variables.

Nimit Shah: Correct and sir on the CAPEX thing how much we have spent in the first half and how much would be the CAPEX of the year ahead.

Vasant Krishnan: So we have not really kick started any of our constructions in a very big way. We are ready to start but we will do it in the opportune times. So that is not a very significant amount that we have actually expended except in one of our projects in a subsidiary, that would be around, not a very significant amount.

Nimit Shah: And for the full year?

Vasant Krishnan: Around 30 crores is the number that we have expended in the first 6 months.

Nimit Shah: And for the full year, what would be the target?

Vasant Krishnan: So that depends on how we accelerate our construction programs. So I will not be able to give you a full color now, but I am sure it would be may be a little bit more than what we have spent in the first 6 months.

Nimit Shah: So if I can put it in a different way, out of the 700 rooms which we have planned for CAPEX, work on that would have started on how many rooms?

Vasant Krishnan: Work on that is, advanced stage work is now about to start on 200 rooms and the balance are still in the approval stage. So approval stage, planning, design etc.

Nimit Shah: So construction has started for this 200 rooms.

Vasant Krishnan: About to kick start construction.

Nimit Shah: Okay and in the presentation you gave this cumulative number as an approximate like 1,90,000 or like that. Is there in future if you can give that precise amount, like 1,90,900 or like that because every time that amount keeps on an approximate basis.

Vasant Krishnan: This is nothing approximate about it. We know the exact numbers. We are just telling you it is 1,90,000 members.

Nimit Shah: Correct because we have the member additions and if we add that it comes to 1,90,963, so it should be 1,91,000 and not 1,90,000. So I just asking where the difference in that? So the correct number would be 1,90,963.

Vasant Krishnan: I do not want to get into it because I have not given you the 186 full forms.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please proceed.

Ritesh Poladia: Sir, I have not got the presentation, so can you please help me with the VO, ASF and resort income?

Vasant Krishnan: Yes, so you want the break up is it?

Ritesh Poladia: Yes.

Vasant Krishnan: So VO income came in at 137.9 crores, ASF came in at 44.8, resort income is 34.9 and other income is 15.1. Total into 232.9, that is the operating line.

Ritesh Poladia: Sir, the other position on the uptake in the sales and marketing cost, in the analyst meet the impression was that this numbers on absolute basis would come down. So can we see this would be a peak number or there would be again an increase from this 52 crores?

Vasant Krishnan: I do not know what impression you carry from the analyst meet. I think we had also mentioned this in the analyst meet that this is an area that we would be continuing to focus as far as spends are concerned especially in the digital and referral programs and therefore this is bang on as far as our strategy is concerned. So like I said, the expansion of 48% that you are seeing from 34.3 to 52.3 is largely on account of two parts. When volume expands there will be sales expenses directly variable with the volume expansions that will automatically kick in plus we have consciously decided to do lot more in terms of branding and tactical advertising which Kavinder also alluded to in his opening speech. When we add up the two together we are talking about 52.3 crores is what we have spent in the quarter ended September.

Ritesh Poladia: Just to delve more on that, is the incentive, say per member basis coming down?

Vasant Krishnan: We would not get into that level of granularity because that is something that we continuously recalibrate depending up on the needs of the business.

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

Anil Sareen: I just wanted to delve on one of the question, just partially answered, but may be a little bit more clarity is something that I needed. On a broad basis if the number of members has gone up by 48%-50% and the VO income has gone up by 28% and the realization that is AUR has gone down but not so much. So where is the miss coming from?

Vasant Krishnan: There is no miss actually. All lines may not go up in the same manner, right? If we look at the operating income it has got a number of other components too. It is just not comprising of one. For example, our resort income does not grow at the same pace and annual subscription fee grew up only at 11%

Anil Sareen: No, I am talking of VO income. I am only talking of VO which went up by 28**?**

Vasant Krishnan: We can recognize all of it. So you will have to also figure out a) what is the VO income comprising of? It comprises of 61 odd percent of members that come in. It comprises of deduction on account of the income that I have recognized, derecognized on member cancelled.

It also talks about the realignment income. So it is a combination of A+B+C, all of which comes on to the income line. So AUR is only one component of that.

Anil Sareen: Okay, so from a cash flow perspective I am talking of cancellation now. From a cash flow perspective when you cancel is there any money returned to the member or it is retained?

Vasant Krishnan: It depends on the type of cancellation. If you cancel at the recession cancellation which happens very quickly, then the member is entitled for his down payment that he has made. But if it is cancellation beyond recession, then he would be entitled as per the refund as per the membership rules. So technically if he has not crossed that threshold, etc., then, whatever money that he has paid is forfeited and it is treated in our book as cancellation income.

Anil Sareen: Got it. So this would mean that there has been a little bit more cancellation. If one were to rationalize the difference between the VO revenue increase and the membership increase…

Vasant Krishnan: Not necessary I would not draw that conclusion, unless you have got all the line items I will urge you not to draw any such conclusion.

Anil Sareen: One last thing on the efficiency, I mean the sales process efficiency though this has been discussed couple of times already, then when do we start seeing the cost per member addition coming down as such the VO increase happening in line or ahead of the marketing investments that you recently mentioned. So marketing investment typically has gone up by 50 odd percent whereas the VO income has gone up by 28%. If I were to, just as an outsider use the rule of thumb I would expect that to be consistent. I mean if the VO income goes up by X then the marketing income should also in percentage terms by a similar figure.

Vasant Krishnan: So Anil. I am going to hand this particular aspect of your question to Kavinder.

Kavinder Singh: So the way we are looking at it and I mention in my opening remarks that the new channels which we are focusing on whether it is the digital and to some extent referrals, there are initial investments being put up in these channels and they are more variable in nature. Please note that when we do investments in digital we are not doing online sales we generate leads digitally and that actually helps us to get high quality sales and it comes at a slightly higher cost than what we would ideally want it to be. So this is a new channel. There is a learning that is going on. There are investments going on, this is one reason. There is a second reason, we have also been off print advertising for a long time. So we have been doing some amount of print advertising to get some amount of salience on our brand which is what has helped also in getting the units or the numbers going up to the levels that you saw. The other way to also think of this investment sales and marketing investment is that I am really not aware as to how you see it. There is also sales incentive which is a part of this which is extremely obviously variable because there is a variability built in. So the items where the economies of scale should pan out over a period of time will not be the entire amount. There will be some amount of it which will be variable. Some amount is fixed, should be fixed and we should see economies of scale and there is certainly an opportunity here as we build our business to be able to scale down the cost. But if you have in mind that the cost will become half because we are growing at this rate that will not happen because in the way direct selling businesses work there are certain cost of acquisition that need to be incurred and they tend to be variable in nature and yes, there are fixed cost which are in the area of brand building which can be more optimized as time goes by.

Anil Sareen: So in your best reasoning, when do you see that starting to happen where the VO income slope is steeper than the cost or the investment in sales and marketing slope?

Kavinder Singh: I think Vasant also made a point that VO income has components, one is this of course 60% component, then of course there is a deferred income that we get of the past memberships and that obviously does not go in one quarter to 50%. So there is that which pulls down the income and then of course there is this third element which is this realignment and we have consciously not chased realignments because we wanted to sell, as I mentioned in my opening remarks, the Blue and White season because you can always push up the realignment by selling more Red and Purple but this was a conscious call, and the third reason that was also mentioned by Vasant was that ASF income cannot technically grow at 50% level because we have added members at 50%. It has grown this quarter at 10%. One thing which I want you to consider is that all our members are long duration customers. There is a value that we get out of these customers over the customers life cycle which is 25 years and therefore sometimes we upfront the cost but there is a realization not only in terms of revenue which we get in this quarter but about the revenue that we will keep getting in the coming quarters whether it is through resort income whether it is through ASF income. So because of the way the business is, sometimes it is very difficult to link the marketing investment to the customer acquisition numbers in such a linear fashion. So therefore I would urge you to look at this in this manner and I did mention in my earlier comment that the fixed costs, yes there certain are fixed costs which can be easily tapered down as the economy of scale kick in but as I told you those are lesser, the variable cost are slightly more in relationship to each other and therefore I did mention in my earlier remarks that we will not see a very significant reduction, we will indeed see some reduction as we go forward.

Moderator: Thank you. Our next question is from the line of Arjun Khanna from Principal Mutual Fund. Please proceed.

Arjun Khanna: My first question is you mentioned right on top that there was a balance issue between Red and Purple versus Blue and White. Could you explain to us is it a big issue in terms of too many Red and Purple members with respect to rooms?

Kavinder Singh: No, actually that is not the issue Arjun. The way we are seeing the business we are realizing that it is just about balancing because you do not want the situation where you are acquiring more Red and Purple and you are not balanced with the inventory additions that you are able to see or what you have already. So as you know in our business we have this in our product there is a right to use that the member has over any of these 45 resorts subject to his season and availability. There are lot of times people also up trade or down trade. We are using sophisticated analytics to track refusal rates, up trades, down trades and also the fact that how many people are looking for moving into the next season which is upwards. So we do these trend analysis to see which way we are going and from there we take calculated calls that look if we were to go overboard in pushing for Red and Purple, our refusal rates might go up. It is not that we are today facing any problem. It is more a conservative approach to manage the business in a very balanced manner is where this thought comes from. It is a very complex area because it is very dynamic and it varies actually week to week, weekend to weekday and resort to resort. So if you take a particular resort or weekend and then you see the demand and then you try doing some kind of planning it doesn't work. So you need to see these cycles and accordingly take a call that how much Red and Purple I should be selling and how much Blue White I should be selling to arrive at optimal mix which comes through some amount of knowledge of the business and also some amount of experience that we have internally.

Arjun Khanna: Do we disclose the percentage of our 190,000 are in which bucket roughly?

Kavinder Singh: What do you mean by bucket?

Arjun Khanna: As in Red and Purple versus Blue and White?

Kavinder Singh: No we don't.

Arjun Khanna: Fair enough. But in terms of resorts what percentage would probably be belonging to Red and Purple?

Kavinder Singh: No, all resorts are open to…

Arjun Khanna: No, what I mean is in terms of the seasons of Red and Purple versus Blue and White?

Kavinder Singh: No, you need to explain the question once again.

Arjun Khanna: So like a particular resort having say we have 45 resorts and we had 2,800 odd rooms, 2,900 rooms, so each resort would have certain months which are Red and Purple and certain ones which are Blue and White. So on a weighted average basis what percentage would be Red and Purple across our entire resort versus White and Purple?

Kavinder Singh: No we do not do like that. See there are 52 weeks. There are Red weeks, there are Purple weeks and there are White and Blue weeks and it changes because that Diwali shifts**,** so it changes actually. So you need to sort of be able to arrive at your room nights, the Red week, Purple week, by the way when we sell we are giving a right of use. So we are not selling any particular week. So what happens is, you would probably understand that there is dynamism in the demand. So we are constantly managing the demand supply and there are times when we may have more members than we think but actually the demand for the particular week in the Blue or White or Red may not be there at all. It is a function of school holidays, it is a function of many things and therefore it is a very complex area and therefore we manage it through our own experience and internal algorithms to see that we are not pushing the Red and the Purple button too much.

Arjun Khanna: I am asking this in conjunction, if we look at our occupancies we are down to 75% this quarter. I was just curious why that was given that we were on a higher up trend. Even if we look at on a year on year level, the same quarter the previous year which seems to be lower. Any particular reason sir?

Kavinder Singh: Typically Q2 is a low occupancy quarter, what is the number you have of the occupancy? What are you comparing I just want to be sure?

Arjun Khanna: 75 versus 77. The reason I am asking sir is because we were talking of having a net balance of White and Blue, so given that this is monsoon and I understand there would be more White and Blue season than the peak season. So that is why just curious.

Kavinder Singh: No, you do not need to connect like that. I will explain you. See the occupancy typically as you yourself have noted in Q2 is lesser. So 2% is not a variation that we need to get concerned about. The way to look at it is please note that from last year to this year we added inventory. If you recall we mentioned that over the last 15 months we have ended up adding about 460 or 470 odd rooms. Now when you add that kind of inventory, the denominator is increasing. And in fact it is actually good that despite adding this kind of inventory we are held on to occupancy level. Our occupancy levels haven’t dropped, so in fact the new resorts that we have added, the new inventory that we have added we are seeing in terms of the occupancies, all those resorts that we have added and all the inventories that we have taken they are upwards of 80%. So this is a low occupancy quarter. There are issues related to monsoon. There are issues related to the school holiday season getting over. So it is a very standard cyclical variation that we see and it has nothing to do with the Red, Purple area. It has everything to do with the inventory that we added and it has everything to do with the way people holiday.

Arjun Khanna: Just a bookkeeping, in a 45 number of resorts is Lonavala a part of it.

Kavinder Singh: Yes.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please proceed.

Jayesh Gandhi: Sir my question is relating to RCI, RCI is getting aggressive in India adding 30 more resorts by 2017. A member of Mahindra Resort, if he is paying subscription for RCI also, will he be eligible to use RCI properties in India?

Kavinder Singh: Yes, the RCI's global vacation exchange program does not limit any member to use the resorts in India or abroad. By the way when a member becomes Club Mahindra member, the member does not pay any RCI or membership fee for at least first 2 years and after that if he wants to continue he has to pay to RCI, a very small sum and therefore he actually can enjoy the 30 resorts which you are mentioning are coming up and of course the fact that he can enjoy 4,500 resorts internationally.

Jayesh Gandhi: Can you just tell me what is the minimum amount say for a Blue member who might be wishing to go for RCI membership also? What is the minimum amount he has to pay annually?

Kavinder Singh: He does not have to pay anything in the first two years.

Jayesh Gandhi: No, after the two years.

Kavinder Singh: So it depends on, I mean often I do not remember the rack rates, I think they run a lot of promotions also, so I am not aware actually. I think off hand I can put a guess, don't hold me to this number it could be about Rs. 7000 or 6000 and then again it is for a period and then there are various levels of membership. I am sure you can easily find out this information from RCI.com, this is absolutely public information that should be available.

Jayesh Gandhi: So from that what I am understanding it is Rs. 7000 annually paid for RCI membership also when a guy becomes a member of…

Kavinder Singh: I do not where are you coming from, what are you actually trying to find out from. I am not able to get the real question actually.

Jayesh Gandhi: I am trying to gauge that whether Mahindra Resort can leverage on RCI's properties in India also?

Kavinder Singh: Actually the way to look at this is, I just want to be very clear on this that our properties that we have are let us say first of all larger in number than RCI affiliated properties number one. Number two, within the RCI system out of the 45 resorts that we have, 23 of our resorts are rated as Gold Crown Resorts by RCI members who are global vacationers. So we on our own will not talk about 30 resorts in India. We talk about 4,500 resorts of RCI which includes these 30 resorts of India. That is how we leverage. So when they keep adding 4,500 will become 4,530 first. That is how we see it.

Jayesh Gandhi: So is it that RCI currently has closer to 100 odd resorts?

Kavinder Singh: Where?

Jayesh Gandhi: In India.

Kavinder Singh: No, I have no idea about that and really to be honest with you there are times when a resort gets affiliated with RCI by paying some fees and all the resorts by the way do not have the same trading power. RCI has this concept of trading power. All resorts are not treated equally. This is just for your information. So I mean, they may be having 100 or whatever number. It really does not matter because our members enjoy very high trading power in the RCI World and they are able to even holiday in Disney Land in Orlando. So if they have a good week like Red and Purple so we really do not promote this idea that enjoy 100 resorts in India. The truth is the person is becoming a Club Mahindra member, he has first of all option of 45 resorts and 4,500 resorts globally which will include probably whatever number you are seeing in India.

Jayesh Gandhi: And sir my next question is regarding the VO income which more or less I am looking at last 2-3 years in the same range of 450 crores to 500 crores. What do you think will give it a leap going ahead?

Kavinder Singh: The VO income that you are seeing in the last 2-3 years is also a function of the volumes number that we have disclosed. I mean, if you see the last two years of numbers, you know 12,800 and 12,100 respectively. So if you have that kind of numbers you will have income at that level and as you know that 60% of the income is recognized upfront and 40% comes through the deferred income route which is more in the form of annuity and therefore that is not likely to suddenly rise when you increase the members and that of course the effect will come over a period of time. Now coming back to what can take the VO income up? There is in this VO income we also have this realignment income which is clearly built into the VO income. So if we really push for realignment, yes, VO income can go up and the other route is through the numbers going up but remember one thing, the focus on VO income is a very classical and a traditional focus on VO income. I think we should look at other incomes that we are able to generate from the members which I mention earlier. I was talking about all the sources of income. So I think we should see what the previous members whom we have acquired what is the income coming out of them, that also is an important source of valuing the business.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Funds. Please proceed.

Tejas Sheth: Just want you to know how many additions of the members where through referrals in this quarter?

Kavinder Singh: So typically what we have been giving is the referral and digital as a contribution to our overall sales that is the number that we have been sharing. This quarter it stands at 51%. 51% of our sales happen through the referral and digital.

Tejas Sheth: It is marginally down.

Kavinder Singh: On an expanded base. So technically not comparable.

Tejas Sheth: Second this I wanted to know last 2-3 quarters we have seen a very good traction in member addition. Just want you to know is it factor of cancellation of the legacies which we had in previous year and now we are not having it?

Kavinder Singh: Actually I wish the answer was as simple. See the way to look at whatever you are saying the trend that you are seeing has to do with the internal operational efficiencies, systems, processes, the work that was being done, the investments in marketing that I talked about, you know the way we are trying to sort of organize ourselves. So it is a combination of actually the training input that we are giving to our sales force, the combination of the way we have reorganized ourselves internally slightly and the way we are looking at the entire selling process and the way we are also looking at how to market, there are constant improvement that we are making in terms of our marketing skills including the way we look at the referral programs. There are lot of small things that need to be done to get to the level, coming back to the specific answer on the cancellations being done. I think the way to look at is over the, since this is the figure which is net of cancellation and the previous figures were also net off cancellations, technically these are apple-to-apple comparison. So if cancellation goes up, then the numbers can go down but you can make it up through very high additions. So really it is a plus minus game. At the end of the day it is the net additions that we keep releasing and they are always apple-to-apple. So if there is an increase, it cannot be able through cancellation coming down. It has to be through the sales and marketing efforts which I mentioned earlier, now we are sort of driving that.

Tejas Sheth: Okay, the let me just rephrase it again. Would the gross addition growth rate over last 2-3 quarters be higher than that net addition growth rate or lower than the net addition growth rate?

Kavinder Singh: So actually even we do not look at our business like this. Actually in our world there is nothing called gross. There is only one word which we share with you because after the sales whatever has been the churn, there is only one number and we need to only measure our performance with one number because the fact of the matter is that the cost are being matched against the revenue that we are generating and there is no revenue for cancellations, really. So for us the way we look at business is that yes there is some cancellation. Post cancellation this is the number, this is the sales that we have logged in and these are our cost and this how the entire profitability is. Really there is no other way to look at the business.

Tejas Sheth: I think in last two years our marketing strategy has changed drastically, if you can just highlight what has really worked for you in leading to this growth trajectory in member addition and what has really not worked because we have been increasing our investment as you said towards marketing and towards digital media, if you can just highlight what has really worked for you?

Kavinder Singh: Just bear 2-3 facts in mind, we are probably one of the most under penetrated markets in the world for any category, any consumer category, leave alone vacation ownership. I mean, if I were to look at the potential of this business from a basic I would use two logics, one if you see the US vacation ownership market and we are actually poised at the same point that US Vacation ownership market was around 70s or 80s where it actually took off. All the factors that is required for a vacation ownership market to take off are actually present in India, whether you look at the inflation, whether you look at the GDP growth rates, whether you look at the disposable income increasing, if I were to use the fact that the US vacation ownership market as a percentage of their hospitality business is just about 6%-7% and we are even actually lower than 1%. So if I use that as a logic we are not US I am aware, it is a 5x opportunity. If I go into the disposable income we know for the fact that at least there will be 2 million households which will easily be our target consumers whether I look at the car buying households in India annually, whether I look at the air conditioning buying households in India, if these are the surrogates they are upwards of 2 million and what is our penetration compared to that. So really we see at least 10x or 15x opportunities.

Tejas Sheth: This whole thing was always available. Two years ago also we had this kind of opportunity and…

Kavinder Singh: No, but I didn't finish. So I am saying this is the broad background. Since this is the broad background, once you have this background, what is required is the management was really look at this backdrop and actually start thinking about how you want to grow the business and that is where your earlier question about what kind of marketing investments are needed to technically grow this business. So few things. Number one, how many people really know that what is Club Mahindra's proposition? So there is a need to create awareness. I mean, people who are well educated, may be in Delhi Mumbai, maybe there is X% of people who know what Club Mahindra is. But there is Tier-2, Tier-3 towns. So first of all focus on the Tier-2, Tier-3 towns. Second digital as a channel was never available to generate leads. It is just last 2-3 years that digital has really being available. You can today target possible members on Facebook and today you do not even have to pay Facebook by targeting those members only when the potential member clicks you have to pay. So there are opportunities like this which never existed before. If you start putting 2 and 2 together for example if you take referrals, now we have a program which we have started for our members which we call as heart-to-heart where we actually meet members on a regular basis and we have a carnival like atmosphere and members come there. They have a good time. It is almost like a carnival and they actually end up giving us more referrals than what we would imagine. So changing the way we look at referrals, changing the way we look at digital, changing the way we need to look at our brand in terms of highlighting the brand benefits whether it is in our sales pitch, whether it is the way we target our prospects. So there are alliances that we are looking at as a very big route. We are able to today get into alliances with other brands which are very similar set of customers who values the life style experiences that we provide. So it is a whole new way of looking at things and actually targeting some of those things and while you do that in the initial term, the investment may look slightly higher but the good news is I was expecting that the investment will be upfront and the results will come later, fortunately for us we are little lucky that our results have come in line with our investments. It is not that we have done too much upfront investment and the results are yet to come. So it is a way of looking at things with the overall belief that we are heavily under penetrated. That is why I was giving you the under penetration backdrop because that gives us the confidence that what we are doing is right.

Tejas Sheth: So that was helpful. So one last question, so this year just pure mathematics, 3.3 lakhs x 535 members broadly would have been 145 crores of value of membership addition. Is there any matrix which we maintain that, what would be the potential value of inventory of member addition we can do over let us say one year or two year perspective?

Kavinder Singh: I think the last part I missed what you said, I didn't catch the point. Actually I heard very carefully but I couldn't understand them.

Tejas Sheth: There are lot of resorts or rooms which you add and obviously there is a matrix which you follow in terms of how many Reds and Purple or Blue, White member needs to be added vis-à-vis the room addition. As on today's room let us say 2,800 rooms which we have, there would be some unsold inventory of members which you will be having which needs to be sold vis-à-vis the room inventory which we have currently. So is there any value which you can put to that?

Kavinder Singh: No, I do not think you should look at it like this because we do not sell fixed week or fixed resort which is the traditional time share model prevalent in West. Our membership gives the person the right to use and as I told you our demand is quite dynamic. There are times when we have a peak demand and there are times when we have a low demand. So the way to look at our business actually is that if I am adding members at a certain rate I need to ensure that the inventory addition goes also at a certain rate. We obviously have internal formulae, how we add inventory in line with the member additions because we constantly track refusal rates, we constantly track destination popularity and we constantly see member preferences also. We keep doing internal surveys to find out what members are wanting. So it is an outcome which drives our new destination strategy, new resorts strategy and sometimes leasing and we do lease resorts and opportunistic acquisitions also we have done in the past of resorts. So perhaps it is an outcome of those internal calculations that we do which throughout, there is no way we should value the excess inventory if at all we have. For example, if I were to say that in this quarter I had 75% occupancy, 25% of inventory was available technically but I cannot value it. The other way to monetize that inventory is that I do some amount of FIT, which is this free independent or whatever travelers what we say, typical hospitality terminology wherein we invite non-members and we do that because we have to monetize the inventory that we have and we do that in a very careful manner because we do not want to inconvenience members we only do that in resorts where there is low occupancy and that also actually flows-in in terms of our FIT income and this is the way to look at it rather than saying that okay I have 25% free rooms and therefore I can put a monetary value to it. I do not want to do that. On the other hand the way I want to see is that if there is a member if we have added today he has a life time value over the 25 years and I want to see what more I can do for the members, therefore the members spend more at our resorts. Our resort income goes up whether on holiday activities or F&B or any other activities.

Moderator: Thank you. Our next question is from the line of Sumant Kumar from Elara Securities. Please proceed.

Sumant Kumar: Yes. There is an offer for iPhone 6 and iPad for customer acquisition. So assuming that the current investment is 53 crores, so can we assume that it will increase investment going in the coming quarter?

Kavinder Singh: So let me explain that these offers whether they are iPhone or whether there are any other offers they are very time bound, they do not remain forever and it is for people who are buying membership above a certain level and I can assure you that whether we dial up the offer or dial down the offer, our cost of acquisition are not at all influenced, actually very insignificantly influenced by these offers. So the aim here is to actually attract attention and hopefully help in the sales closure and also we are very careful that we choose brands like iPhones and iPads because they are truly aspirational brands and our brands is also aspirational. So we also see the fit and I can tell you one thing that one good thing about marketing is that people think that when you give this kind of an offer the company is spending money away but the truth is that very few people take the offer. They get excited by the offer, they come there, and they say we do not want this, you just instead of this give us some cash back which is much lower than the cost of the iPhone by the way. So the Redemption is much lower than what we think.

Moderator: Thank you. Our next question is from the line of Nimit Shah from ICICI Securities. Please proceed.

Nimit Shah: Sir, I am not asking for any guidance but after this strong H1 in case of member addition, just wanted your color on the consumer sentiment and how do you see things going forward, we are doing the right thing in terms of digital marketing as far as referrals, but any comments on the consumer sentiment side and how do we see things going forward?

Kavinder Singh: So I think it is the way of looking at it again, I think the consumer sentiment is still not improved from whatever I have seen across these sectors. But one thing is certain that if there is a good product proposition and if you are able to attract attention the opportunity does lie as you know we have been able to show in the last 6 months. But we have to be very cautious of one thing that the consumer sentiment is very fickle and when as we go ahead we are still cautious. We are not saying that look we are very bullish and this is the way things will be, it is an effort that we will continue to make. You are not to gain the attention of the consumer towards product proposition and the fact of the matter is another way of looking at this business is the way economy is still growing at 7%-7.5%. People are stressed, they want a break, and they want to go on a holiday. The need to go on a holiday does exist. It is only how we can convert this need into a habit that we must go on a holiday every year. If I want to go on a holiday every year in a family friendly environment, in an apartment size which is bigger than a typical hotel unit, along with my family and do activities along with my various family members then truly Club Mahindra proposition becomes very relevant and therefore it becomes an opportunity for us to convert. So it is a constant effort. I would not want to say consumer sentiment has improved. I wouldn't want to say that consumer sentiment is very bad. I would only say that we will have to be at it to ensure that we are able to utilize our potential as a company.

Nimit Shah: In terms of geographical mix are we seeing any change in terms of new geographies or Tier-2 Tier-3 towns?

Kavinder Singh: Good point. I think I want to touch on this point. We are seeing certainly in Tier-2 and Tier-3 towns a reasonable demand, reasonable level of enquiries. Even on our digital leads we find, we call them up country towns which are non-metro towns. We do get lot of enquiries from the up country towns. I think because we are aspirational and because people believe that if they become members they can go to places which otherwise they cannot possibly go. We see Tier-2 and Tier-3 towns having a demand which is unmet even now. So there is an opportunity that needs to be possibly leverage even better.

Nimit Shah: This was visible in H1 numbers also in terms of member additions?

Kavinder Singh: I mentioned in the early part that the distribution and the way we tap the market is also going to be a determining factor for our growth and this has played a role in this performance also.

Nimit Shah: And last thing, Mr. Vasant, any highlight on Finland's numbers for the last year?

Vasant Krishnan: So the Finland numbers as you know are not in public domain, but whatever has come in has come in line with our expectations.

Nimit Shah: So last which we have disclosed is September 2014?

Vasant Krishnan: Yes, so you will not get September 2015 in all probability. We are trying to see whether we can align their accounting period with us, so you will get one in March when we consolidate. When I looked at the numbers in September 2015 there are no surprises either way.

Moderator: Thank you. We have the last question from the line of Kartik Lakshmanan from BNP Paribas Mutual Funds. Please proceed.

Kartik Lakshmanan: Just want a clarification when you said you want to focus more on the White and Blue members, typically the new additions would most probably in these two houses, so to that extent does that infer that you would kind of taking away the focus on upgrade for some time because of the inventory that you see going forward?

Kavinder Singh: So it is not truly either or because if you see the variation in the AUR as I think one of you mentioned that it is a very marginal variation and so when we say balancing it means marginal. It is not a big change in strategy or a big change that we are going to start pushing White and

Blue more than the Red and Purple. It is just a balancing act as I mentioned and therefore I would call it as a very routine minor variation in the way we are now conducting the business.

Kartik Lakshmanan: And this is per se probably next 2-3 quarters any timeframe we have in mind sir?

Vasant Krishnan: So actually we do not even look at this way, as I was mentioning to you we constantly track demand and utilization and we constantly use this almost on let us say month-to-month basis to decide and let us be also very clear, once side we do our work, the other side also, the consumer also make choices. When somebody was asking me this is consumer sentiment there is always a mix, once side we are looking at Blues and White but there are also times when consumers are looking at White and Blue in preference to Red and Purple because they would want to be cautious. So it is a combination. It is not just completely in our hands. You would appreciate.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Kavinder Singh for closing remarks, over to you sir.

Kavinder Singh: I would thank each one of you for joining this call and these interactions do give us insights as to how you think about the company and the business and obviously they set some kind of thoughts and we are grateful and happy to have interacted with you on this Q2 Earnings Call. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Mahindra Holidays & Resorts that concludes today’s conference call. Thank you all for joining us and you may now disconnect your lines.

This document has been edited for readability purpose.