"Mahindra Holidays & Resorts India Limited Q2 FY 2018 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen and a very warm Welcome to Mahindra Holidays & Resorts India Limited Q2 FY 2018 Earnings Conference Call.

This conference call may contain certain forward-looking statements about the Company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions afterthe presentation concludes. Should you need assistance during the conference call, please signal 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 -- the Managing Director and CEO of Mahindra Holidays & Resorts India Limited. Thank you and over to you, sir!

Kavinder Singh: Good Evening, Ladies and Gentlemen. On behalf of Mahindra Holidays, I would like you to welcome to the Quarter Two FY 2018 Investor Call of Mahindra Holidays.

As you may have seen already from the information which is uploaded on our website as well as our Press Release; our profit after tax for the quarter ended September 2017 stands at Rs. 31.7 crores, it is lower by 3.6% from Rs. 32.87 crores in the same quarter last year.

For the half year FY 2018 profit after tax stands at Rs. 64.04 crores which is a growth of about 1.5% over last year Rs. 63.11 crores.

Our member addition for the quarter is lower by about 14% for the same quarter last year. During this quarter, we have added 3,705 members are against 4,314 members last year. Our year-to-date level member addition are at 7,710 members compared to 7,944 members last year, lower by around 2.9%.

Having said that, we have seen growth in cumulative member base by around 8.7% which has led to the increase in revenue streams from existing members. I must also mention that this quarter, we have been making significant progress in our desire to add members who are making higher down payment upfront. We are encouraging higher down payments. Our number of members who are paying 50% down payment have increased significantly over the quarter same period last year. We are also not encouraging 48 EMI's particularly in our Blue Studio product and we have seen that has led to some amount of sales contraction for us. But we believe this is a step in the right direction.

We are also encouraging credit card payments and we have seen significant improvement in credit card payments this quarter as compared to the last quarter.

As a result of all the initiatives that we have been taking in improving the quality of the member addition, we are already seeing a fairly healthy cash position with us which stands at around Rs. 354 crores as compared to Rs. 264 crores in March 2017.

Coming back to occupancies. As I have mentioned in the past, our continued measures in the area of member engagement have resulted growth in our resort occupancies. Our occupancies for the FY 2017 H1 stands at 85.4% this is despite the fact that our inventory has grown by about 150 units and stands at 3302. In quarter two our occupancies was up at 81.1% as against 80.1% in the quarter two of last year.

We have seen a significant growth in resort income which has grown by about 17% which stands at now Rs. 46.37 crores as against Rs. 39.57 crores for the second quarter in this financial year.

We have been working on improving our engagement with our members as a result of that we have started significant number of new initiatives. One of the initiative is to give opportunities for our members to holiday in various destinations which are outside the country as well as within the country.

So, let me talk about the inventory additions. In this quarter, we have added up one resort in Kochi (Cochin), one in Singapore, and one in Srinagar. These three inventory additions have taken our total resort count to 53. We have also done arrangements as you know in this world, it is not necessarily true that we need to invest in every resort that we need to be in, so we are testing multiple destinations as we speak, and we have arrangements with various high-quality properties in Prague, Paris, Berlin, Milan, Rome, Venice, Florence, and properties in Sri Lanka, as well as properties in Thailand.

With these arrangements have been done in such a manner that our members are in a position to bank their week and at a small exchange fee they are in a position to go to these locations. So, whether it is Western Europe or whether it is Southeast Asia, our strategy of creating choice for our members has been expanded significantly as we speak in this quarter.

In addition, we have started offering our members various in-city experiences, as you know we invested in Giftxoxo last year which is now re-christened as Xoxoday. There are 900 plus experiences which are listed on our website and they are helping our members to enjoy their leisure within the city and we are already seeing a significant uptake there.

We have also, for the first time started the International Cruise Exchange Program for our members. Our members are now in a position to bank their days and they can go on Cruise to various location starting from India as well as Singapore.

So we will continue expanding the leisure options for our members. The good news is that in this quarter we have seen significant improvement in F&B revenues which is a function of various unique dining experiences that we have created for our members which is helping our members to experiences multiple cuisines as well as multiple settings. And this has also helped us to increase our resort revenues.

So our focus on member engagement remains unparalleled and we are noticing that there is a significant improvement in our caps which stands at 58% compared to 50% last year.

We believe that we need to create new offerings for our member and therefore, we launched a product for prospects who are 50 plus called Club Mahindra Bliss. This product is points based product and it is meant for people who want to enjoy holiday at any time of the year. However, I must say that this point based system you will have to burn more points to be able to holiday in the peak season and in resorts which are in high demand.

So there is a testing of this product going on and as we speak, we are finding extremely good acceptance of this product amongst the target segment of 50 plus. We believe there is an opportunity here to expand this product in the near future.

We have also been recognized by various external stakeholders. We have in fact won the "Golden Peacock Global Award for Sustainability" and we are the first hospitality company to win this award.

We have recently been awarded the "Good Corporate Citizen Award" from Bombay Chamber of Commerce & Industry very recently.

As you know we were awarded "India's Favorite Resort Chain" by HolidayIQ and that happened I think, in the previous quarter.

And we have also won the "Porter Prize" for Creating Distinctive Value in the Tourism industry. Besides we get numerous awards in terms of our mobile app which we launched which has seen huge amount of success in terms of number of downloads, now there 215,000 people who have downloaded our app, the unique member downloads are at around 85,000. Significant amount of bookings is happening through the mobile app now as well as payments.

So, this, digital transformation, we again got an awarded from IDC for "The Best Operational Transformation", this is one of the most valuable awards in this area. We have recently been awarded for creating the best sales training program by the CLO and it is one of the highest awards for the area of learning and development. So we continue to focus on doing the right things and these awards and accolades have come our way and we are extremely happy to share that with the investor community.

I have now completed my part of the thing. And I now open the floor for questions.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar: My question is regarding HCR Holiday Club Resort in Finland, we have seen a significant improvement at net profit level. So, we have improved from loss of €1.7 million to €2.7 million profit. So, what was the key reason for that?

Kavinder Singh: So as far as the performance of Holiday Club Resorts is concerned as you know, we have not yet published the Holiday Club Resort's entire performance. We have just in our Press Release shared the numbers that there has been a turnaround. So, there is a significant turnaround in the operational performance of the subsidiary. We have seen the Russian tourist, which at some point of time, there was not much of traffic coming into our Finnish Resorts, so that traffic has started now. As you can see Russian tourism has started to increase and that has reflected in their operating performance. Besides they have taken multiple actions in terms of restructuring their operations in terms of cost as well as driving the sales. In fact, their top-line has grown by about 13% on the constant currency basis which shows the work that the team is putting up over there to grow their business including selling most of the inventory that they have which they have been trying to sell.

Sumant Kumar: So, because of increasing in membership addition or holidaying more from the customer side?

Kavinder Singh: So in the Holiday Club Resorts, the model is actually quite different from the way we run our business. Our business is about selling vacation ownership plans which people can use for 7 nights 8 days across multiple resorts. In their case, they sell on a deeded sale basis, the particular week. And therefore, they have the inventory of certain weeks which they continue selling and that is the business model because it is a deeded sale. But the other part in their business is a Spa Hotel Business. The Spa Hotel Business is basically to create an opportunity for a prospect to come and enjoy the facility there and therefore, they get the presentation to become members of the Holiday Club. And they have found that the Spa Hotel Business has also done extremely well as a result of the newer prospects and tourists coming into the Spa Hotel. So therefore, it is a cumulative mix of both the factors which has led to this turnaround apart from the cost management that they have undertaken.

Sumant Kumar: What is the mix of Spa Business?

Kavinder Singh: I think, some of these details are not yet in the public domain. I think, as we publish our results and as we go through the details, we will be in a position to probably share with you later.

Sumant Kumar: Okay. So this 13% kind of growth was there in the past or we have strengthened our marketing team there?

Kavinder Singh: So obviously, the sales and marketing team along with the operations team has done this work to grow the business. So, 13% growth was not there obviously if the cost re-engineering was not done. both these reasons have contributed to the growth in the profits from a situation where we had a loss of €1.7 million to a profit of €2.7 million in this quarter.

Sumant Kumar: Okay. The second question is, the India business we have de-grown by 14% in membership addition. So, despite whatever you are doing in the digital transformation and all. But we are not able to scale up the membership addition and we have not seen membership growth this time. Is this because of higher base in H1?

Kavinder Singh: No, I do not think it is to do with it. I think, I have mentioned in my opening remarks and I will once again mention this to you that if you notice our cash position, it has improved significantly from Rs. 264 crores to Rs. 354 crores. So our focus is on two, three fundaments. Number one, attracting the members of the right profile. Number two, ensuring that they do higher upfront payment. I did mention that 50% down payment paying members have increased significantly. Number three, most of them doing their down payment through the credit card which is to ensure one stickiness and also in some manner credit worthiness and there is a third thing that we have done, we use to sell 48 EMI Blue Studio product. We have stopped selling that product. Today, if someone wants to buy 48 EMI products in Blue, it is not available. Because we believe that 48 EMI Blue Studio product was leading to members over a period of time not continuing with us. So, we have taken steps to ensure that there is upfront cash commitment from the members. Right members are sourced, and this is helping us as you can see in our cash position and the collections and therefore, this is the step that we have taken to improve the quality of member additions and therefore, you are noticing a slight dip in the member additions in this quarter. We believe this is temporary, we will continue to focus on our digital and referral strategy which will help us to grow our business as we go forward.

Moderator: Thank you. We will take the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: My first question is that this decision of change in chasing quality over quantity when comes to member addition, is it going to be temporary? Second, what led to this change of decision? And third, what is the drop in the calculation weight post the implementation of this strategy?

Kavinder Singh: So let me give you a straight answer. Our focus has always been on quality additions. But you know that in a business when we constantly evaluate as a part of continuous improvement, we realized that there is indeed an opportunity, in fact, I am seeing it as an opportunity to be able to get higher down payments upfront. Because we believe today, if our customer acquisition strategies are tilted towards referral digital, why should we not be able to get higher upfront payment? So, this is a challenge that management has undertaken that we would like to attract members who can do higher down payment, we would not like to sell 48 EMI's Blue product which may lead to over a period of time customer not paying. We believe that these steps will help us to get the constant improvement and I say constant improvement because this is a journey we would like to do that, we have been doing it in the past, we are doing it more aggressively and you can see that numbers in terms of the cash position are telling us the story that our cash collections have improved, our cash position has improved dramatically, if you see over the last two years - three years and specifically in the last six months. So, this is a drive that we have been undertaking in the past, we have accelerated that drive. And coming back to your question on cancellations, as you know that we always release the numbers net of cancellations. So, in terms of like-to-like all the numbers that we are releasing are like-to-like and you can compare it with the trend lines that you have available today in the public domain.

Tejas Sheth: No. What I mean was, let us say in the quarter you added gross level of 100 members and then at the end of rolling period of three months, you saw a drop of 25% has that 25% number come up with this strategy?

Kavinder Singh: So it is very simple, the answer is not going to be as straight as this. I will tell you the answer is in the realm whether are we getting higher cash up front. So our cash position shows that we are getting higher cash up front. Our collection efficiencies are far superior than what they were. Otherwise, the cash position would not have improved. So our focus on getting by the way internally we are tracking how many people are paying higher down payment and that number has significantly improved I can tell you that. So higher down payments not taking in members who were taking 4 years EMI on Blue Studio product which may lead to lower retention rates as I may say and also making sure that people are paying most of their payments through the credit card particularly the down payment. These are the steps that we have taken which we believe are the step in the right direction. As we speak, we are parallelly focusing on expansion strategies by going into markets where we have not been whether it is Tier-II towns or Tier-III towns and that strategy is going to also play out simultaneously. So, it is a work in progress. It has always been a work in progress. So whatever number you have seen in the past have been on these initiatives delivered and the current numbers are also on the similar initiatives, this is the first time I am sharing with you these are the two measures - three measures that we have taken because we realize that we really focused on these two - three measures and that level to a some level of a drop which we believe is attributable to these measures that we took. So, which we believe we must share with the investor community.

Tejas Sheth: So this is not going to temporary in nature, right? It is now perpetual that you will continue this strategy?

Kavinder Singh: Our strategy of quality member additions has always been there.

Tejas Sheth: No, what I mean is quality members is taking upfront payment let us say and discouraging our long tenure EMI products.

Kavinder Singh: Yes. So, the strategy of not having a long tenure on a Blue Studio will continue. The strategy on getting higher upfront payment as much as we can, it is not that everybody is paying 50% down payment or 30%. Our idea is to keep on increasing this. So, it is to that extent work in progress.

Tejas Sheth: Okay. And in our opening remarks you did mention that you have opened several foreign destinations for the member. Are these destinations where you said, it would be more like time share basis similar kind of method. Will they will be for a temporary period or we have a very long-term contract with the members?

Kavinder Singh: So let me explain it, we have 53 destinations. 50 destinations we had, we added 3 destinations which is Kochi (Cochin), Srinagar and Singapore. In addition, I rattled out many destinations whether it is Prague, Paris, Berlin, Rome, Venice, Colombo, all these are arrangements that we have with various resorts, these arrangements are on pay as you use basis. We have very special rates with them. We are in a position to use this arrangement to give our members the member can bank his room nights and get those room nights in these destinations, in these resorts with a minor exchange fee. The idea is to test the destinations. The idea is to see what kind of an uptake members will have and also giving choice to members. This is a new world that we live in. We will continue to grow our own resorts, as I mentioned, I think, I do not know whether I mentioned this time, we are continuing our expansion of existing resort in Ashtamudi and new Greenfield Resort in Assonora and Naldehra. We will continue to invest in our own properties as well as the long-term leases that we have done which is giving us 53 resorts in India and abroad. These additions which I have mentioned, we are not counting in our resorts in our resorts by the way. But they are available to us.

Tejas Sheth: And so when there is a selling proposition to any new member, is it said that this option of arrangement will be available over

Kavinder Singh: So since, these options will be there as long as we want them to be there we are not committing that these options will be there. We are committing 53 resorts and growing resorts.

Tejas Sheth: Okay. My last question, on this new strategy of taking down payments

Kavinder Singh: Higher down payment.

Tejas Sheth: Yes, higher down payment avoiding long tenure, has your acquisition cost of the member come up a little or there is no change in it?

Kavinder Singh: In fact, our acquisition cost has been lower this quarter significantly. Our resort expenditure is lower significantly. Our resort revenues are higher significantly and that is why despite the 14% drop that we have seen in the member additions, you have seen almost flat profit about 3% lower. And in fact, our margins had improved. If you look at our PBT margins they are up by about 1%. So, there is a significant control in cost of acquisition as well as resort costs.

Tejas Sheth: So you have been mentioning that it is 25% of member fees is what your acquisition cost is, can you put a number that how much…

Kavinder Singh: Can you tell the cost of acquisition?

Akhila Balachandar: The cost of acquisition is around 23% - 24%. It used to be around 25% and we are currently trending lower by a 1% plus.

Moderator: Thank you. We will take the next question from the line of Rahul Veera from Elara Capital. Please go ahead.

Rahul Veera: Just wanted to understand because of this new strategy that we have adopted, is the price realizations going to come down now because we are asking the customers to pay higher down payment?

Kavinder Singh: No, it will have no impact on the price realizations because please note that we are not reducing our prices, we are only asking higher down payment. It has an impact on our cash flows, it has no impact on average unit realization.

Rahul Veera: Okay, fair point. And sir, also wanted to understand, can we get the split of other expenditure this quarter like between advertising and rent and lease expenditure?

Kavinder Singh: I will pass it to Akhila -- who is our CFO to answer this question please.

Akhila Balachandar: We have not put it up in the Presentation. So as it is not in the public domain, we will not be able to currently share it.

Rahul Veera: Okay. And sir, one last question. I wanted to understand sir, why there has been a significant drop in the employee cost in this quarter?

Kavinder Singh: Akhila, employee cost.

Akhila Balachandar: Yes. So couple of reasons, if you remember, last quarter, there was a significant increase in our employee cost by around 28%. And one of the key reasons was that we shifted a lot of our off-roll employees into the on-roll across certain key customer facing positions. Now, what we have done post that is done a fair amount of rationalization internally on the employees in terms of sales incentives, the commissions. And between quarter two and quarter one at H1 level, the employee cost increase is around 14% which is attributable around 6% to 7% to the off roll on roll movement and 7% to the overall increments in the organization. So, basis last quarter, we have done a lot of work on the cost control and employee cost and I think that has really paid off.

Rahul Veera: Sure. So, are we saying that, in terms of per resort, we are employing lesser number of people or something?

Akhila Balachandar: What we have done is kind of rationalized it to bring it to optimum requirement, we have not reduced the number of people, but we have done a fair amount of analysis what was the productivity, what was the requirement and done some optimization there.

Rahul Veera: Sure. And the same can be said on the sales side? I mean, just trying to co-relate because of the sales I mean the drop in the vacation ownership, is it directly related to the lesser number of sales executives or something?

Kavinder Singh: So again, we do drive sales executive productivity also to an extent you are right. We did take a decision to keep lower number of sales executives as you know there is some attrition and we did not do the back filling. And we have been trying to improve our sales productivity and to some extent that may have impacted our sales also.

Rahul Veera: Sure, fair point. Sir, any particular target that we are looking forward to for this current membership additions for this year, we have already crossed more than 7,000 members.

Kavinder Singh: So what we do is like I have mentioned all the time that we are committed to ensuring that our members have great experiences in our resorts. And therefore, the member additions as well as inventory additions have to be in line. If you recall, we have made that statement many times in the past. And as you can see, our inventory addition has accelerated in this quarter itself we have moved our inventory up by around 95 units and the previous quarter was around 55 units. So our objective would be to ensure that the inventory additions are slightly ahead of the member addition. So in fact, the fact that we are looking at inventory additions positively should be a good enough signal for our member additions because we need to do that in tandem. But normally we do not give future guidance for the numbers that we would add. But inventory additions you have a fair sense of what we are adding.

Moderator: Thank you. The next question is from the line of Ritesh Poladiya from Girik Capital. Please go ahead.

Ritesh Poladiya: Sir, given our 50% member acquisition is through digital and referral, do you think the acquisition cost of 24% - 25% is higher and what it will take to improve this number?

Kavinder Singh: What will it take to?

Ritesh Poladiya: Improve this number?

Kavinder Singh: Improve this number. Okay. Just to give you a sense that cost of acquisition in our business includes the incentives as well as the commissions, right? So in direct sales there is a component of incentives that is directly attributable to sale and therefore, it comes here and it does not come in our man power cost. So, as far as the lead generation cost is concerned, we are focused on reducing the lead generation cost. Our aim would be to constantly reduce the lead generation cost. So there are two components marginally which are there in a cost of acquisition but there are three components, there are discounts, there is this the lead generation cost, and incentives. So we are constantly keeping the numbers on the lead generation cost that is an area that we are constantly fine tuning because we run multiple campaigns and some of the campaigns tend to work well. Some of the campaigns do not tend to work well. And therefore, we do see some variability in the cost of acquisition. It is our desire to lower the cost of acquisition. But one of the ways that we think about this whole issue is that if we reduce the cost of acquisition and it should not lead to an increase in other indirect costs. For example, if we are using secondary data our cost of acquisition can come down. But it will lead to intrusion, it will lead to a lot of wrong prospects being put up for meeting with the sales executives. So our aim is to balance these two things. Constantly improve the quality of campaigns to reduce the cost of acquisition, parallelly ensuring that these conversion rates are maintained. So it is a constant balancing acquisition. But I must give you one more piece of information that digital is actually not a cost effective source of acquisition at this point of time because we acquire leads through digital and the conversion happens offline. So really speaking, the Google's and Facebook's and the various companies on which we target our prospects, the cost of digital are extremely high even as we speak. Our aim would be to become more and more effective in the lead generation through the digital route which will help us bring the cost down. Similarly, drive the referrals which will help us bring the costs down. So these are the two initiatives we are doing to bring our cost of acquisition down then what we are today. We have already seen early results, as you saw Akhila commenting on the cost of acquisition.

Ritesh Poladiya: My second question is when we acquired HRC, there was an inventory of about €50 million what would be the number as of now and is there any debt reduction on the books of HCR?

Kavinder Singh: I do not think, some of these things are right now in the public domain because as I mentioned in my opening remarks or rather when the question was asked that the results would publish a little later and we just wanted to give an early heads up and that is why we shared the profit numbers. But I think, when the results are up about a week or 10 days later when we would have the consolidated results put up on our website that time probably we will have more information which we will be in a position to share.

Moderator: Thank you. We will take the next question from the line of Manish Poddar from Renaissance Investments. Please go ahead.

Manish Poddar: Sir, I just had one small question. If you could give us the number or any approximate idea, in the total membership, how many in the current number would be under this 48-month down payment option?

Kavinder Singh: Okay. So we do not release this number in the public domain. All I want to mention to you and confirm to you is that we are tracking this number and this number is significantly down. The 48 EMI number and this is something that we are committed to doing and this we believe is the right way forward.

Manish Poddar: Okay. And just would you be able to quantify let us say had this change in this strategy would not be adopted, what sort of member addition would you have seen let us say in the first-half Y-o-Y basis?

Kavinder Singh: So certainly, it would have been higher because of the fact that we would have expanded our base of prospects who would have signed up for us. So in some matter when we are taking this decision we are shortening the base of prospects who would look at us because we are no longer offering the four years EMI on a Blue Studio which is the entry point for some of our prospects.

Moderator: Thank you. The next question is from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Sir, I wanted to know regarding what is the size of the opportunity in time share vacation business in India? The share of organized and unorganized players and also at what rate do you see the segment grow at currently?

Kavinder Singh: Okay. It is a very interesting question. I think, sometime earlier I may have answered it, but I will make an attempt again. As far as the size of the market is concerned, it is extremely to get handle, the only way to probably look at the size of the market is to look at the segment which can afford vacation ownership. So we believe there are at least four to five million households in India who can afford to buy a vacation ownership product who have an income of upwards of Rs. 3 million per annum. And we have triangulated this data from car ownership or from various other sources and we believe that this is the addressable market size even if you assume 20% of them or 25% of them would end up buying you should have about a million members and as we speak we have 225,000 members and if we were to add some of our competitors I think the number would not cross 300,000 or thereabouts. So really speaking, clearly at 25% penetration level of the four million households that I talked about we have a 3x opportunity. But if you look at any other which way for example in the US the time share as a percentage of the hospitality business is around 5% and we are less than 1% of the hospitality business in India. So I believe there is a 5x opportunity. As far as we are concerned, we believe for Club Mahindra there is a 5x opportunity to grow. In what timeframe it will happen, it is a function of how effectively we deploy our strategies and how effectively the market is willing to adopt this kind of a vacation ownership model. So it is only time that will tell whether some of these things will play out the way we are thinking. But we believe that our base of 225,000 members and by the way almost half of these members in fact, a little more than half of these members have just come in the last six years or seven years. So we have seen significant acceleration in terms of the member additions in Club Mahindra. Coming back to the segment growth, it is anybody's guess there are people who are quoting, 12% - 14%, 18% growth it re-grew last year by 14.5% prior to that we grew by 26%. I would say that around anything in early double-digits could be the possibly the growth of the segment. But mind you we are the highest priced player in the segment. All our competitors are priced lower than us. So, if we were to look at price segment wise then probably we are the only player in the market.

Anuj Gupta: And sir, regarding the organized and unorganized any comment on that?

Kavinder Singh: In this business there is really no unorganized because if someone has to do unorganized time share sales then if you ask me, he will be probably in trouble because at the end of the day you need to be able to deliver what you are promising, and I would say that you need to look at competition a little broader in our segment. In my view, if you look at share of the wallet, whether it is a package tour company, whether it is any resort, technically speaking they are competing for the same wallet that we are competing. It is just that our scheme allows them to have affordable family vacations on a regular basis for 25 years, 7 nights, 8 days and I did mention there is various things that we are trying to do to engage with member. So there is a benefit that we provide which any player, if he has to come in this space would need to provide to remain to be called a reasonably creditable vacation ownership player. So in my view there is really no unorganized but there is a wider gamut of travel offerings which compete against us in the vacation ownership business.

Anuj Gupta: And sir, any global player you see and how is the industry shaping up?

Kavinder Singh: So globally, Wyndham, Marriot, Diamond Resorts, Westgate, these are the big players in the business. None of them are in India, I believe Marriot does some level of selling but probably nothing to talk about in terms of numbers, their pricing also would be I guess fairly high, and it is more about international holidays than India. So really speaking, as far as the global competition is concerned, they also have a different model, most of them sell weeks they do not sell any option to holiday in their network of resorts. They sell a particular location and a particular week and then you have to go and tie-up with some affiliate like Interval International, or RCI to do your exchange of holiday. So that model is completely different from our model where within our club people can holiday in 53 resorts without going through RCI.

Moderator: Thank you. We will take the next question from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: I had couple of questions. Number one, what has been the impact of GST if any and what do you see its impact going forward in the long-term?

Kavinder Singh: So, GST as far as member additions are concerned, the GST of 18% rate is applicable on the membership fee as well as in the annual fe. As far as the resort fees is concerned since most of our resorts will have AC restaurants, the rate is around 18%, so it is obviously higher than what we used to pay earlier in the restaurant. But I must say that despite GST our resort revenues have grown at 17%. So, in the resort side we have not seen any impact. I will not be in a position to guess that this 3% increase in GST could have impacted our member additions, I would not like to believe that. I believe that our focus on getting the right quality of members through the initiatives that I outline probably may have contributed to the reduction in the member additions. So at an overall level, our customers do suffer higher GST whether it is through the membership additions or annual fee payments or even at resorts when they holiday in our resorts particularly in the F&B side.

Ankit Kanodia: Okay. And sir, my next question is, since you have already mentioned in the call that we are focusing on improving the cash position, do we believe that for the next year or so our internal accrual would be enough for the CAPEX required for inventory addition or we might still need to take up debt at the later stage?

Kavinder Singh: So, we have never needed debt to grow our business. In fact, we use to securitize when we did not have this kind of cash. We have receivables of about Rs. 1,400 crores which we can securitize. So, there is that opportunity even today that exists. But in addition, we have Rs. 350 odd crores. So, we have technically Rs. 1,750 crores available to us without actually taking recourse to banks, if you call securitization taking recourse to banks may be but that is truly not taking recourse to banks. So, we have opportunity to go for about Rs. 1,800 crores if needed but Rs. 350 crores is clearly available with us. So, we do not feel that there is a need to go to any sources of funding for growth in the foreseeable future.

Moderator: Thank you. We will take the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Sir, a couple of questions from my end. Apart from the low member additions that we saw during this quarter, would you attribute any other reasons for VO income decline? And if you could help us with the AUR number and what is the price hikes taken during the last 12 months?

Akhila Balachandar: Aditya, the decline in the VO income is primarily in line with the unit decline and as far as AUR goes we have been fairly constant at around Rs. 3.3 - 3.4 L over the last four quarters to six quarters and I think, that is where we currently trending. So, I hope that answers your question.

Aditya Bagul: Right, ma'am. What my understanding was that with some constraints on Blue members addition, I would presume that over the next six months, let us say in the second-half of the year, the AUR would improve significantly. Would my understanding be correct?

Kavinder Singh: So AUR increase, I mean, it can happen if the Blue percentage reduces. But while we reduce the Blue 48 EMI, we have not seen reduction in Blue members per se and must say that we have also started selling Bliss even though it is extremely small. The Bliss AUR is about 1.8 lakhs or 1.9 lakhs. We are committed to getting the right profile of the member and growing our member base. I mean, if we have to sell more of Bliss and there is a right target or audience which is willing to buy it because at the end of the day in our business more than AUR it is the life time value of the customer. If I get a Bliss customer also who will travel to my resorts for 10 years, he will contribute significantly to our bottom-line. If you see, our Investor Deck Presentation, our VO income as a percentage of total income is now at about 49%. As you can see, we have mentioned earlier also that as our member base increases the flywheel effect of member is beginning to play out whether it is ASF, whether it is interest income, whether it is F&B and the resort income, they are all contributing now almost 50%. So, it is important for us to get members who continue to holiday with us to spend at our resorts. Even though they come at a low AUR because one thing that is very-very interesting in our business is that we constantly upgrade our members. So, in the VO income that you see we have an upgrade income also. And if I get Blue today, he is potential White tomorrow. If I get White today, he is a potential Red tomorrow. We get significant amount of our quarterly and annual income through the upgrades as well. So, I am actually not too worried even if my AUR went up by 0.1 or 0.2 up-down. Because at the end of the day, getting a good quality member who has done higher down payment and who is willing to upgrade and who is willing to holiday and spend in resorts is the game that we are playing.

Aditya Bagul: Right, sir. That is quite helpful. Sir, second question is can you talk a little about the competitive intensity especially over the last 1 year - 1.5 year with the revival of Sterling Holiday so to say?

Kavinder Singh: To be honest, you know it is good that the vacation ownership business pie will grow. If they decide to continue focusing on the business, all I am aware of is that they have a significant portion of their business which is the hotel part and the vacation ownership business is a part of that overall business. So as far as we are concerned, we remained focused on VO business as you have seen and we are a pure play vacation ownership company. We are not into doing 30% or 40% of our inventory into FIT business. So, we do not much of FIT, you know it probably. So, our focus on vacation ownership business continues to be through the unique experiences that we are creating as I mentioned in my opening remarks also, whether it is international, whether it is in-city experiences, whether it is adding three more resorts that we added. So, we remained focused on our path and we are quite happy that other players in this industry, if they continue to grow the pie because at the end of the day more and more people understand this concept it is actually good for. So that is how we are looking at it. I would not say that competitive intensity has affected our performance in any way in the recent past.

Aditya Bagul: Okay. That is quite helpful, sir. Can you share some qualitative or quantitative comment on the number of Club Mahindra members using the Giftxoxo platform?

Kavinder Singh: So, number of Club Mahindra member who visit the site to look for these experiences is extremely high, I mean we do not put it out in the public domain. But it is in thousands. But as far as consumption of experience is concerned, we are also noticing that there also the average realization of a Club Mahindra member is far higher than the Giftxoxo prospects when they go directly to Giftxoxo. So, we are finding our members spending much more money, much more visits and much more variety of experiences in the city and we are pleasantly surprised by that. It is not giving us any revenue worth talking about, but it is telling a lot about the future of the leisure behavior of consumers in the Indian market. So to us, it presents us an opportunity to learn more and more about the consuming habits and I would just share with you something very interesting, once we realize that this is something that is working we actually created this opportunity for our members to go and experience the Rann of Kutch Festival. The Rann of Kutch Festival we got obviously an amazing pricing, we put it up and we found huge response from our members. So what Giftxoxo or the Xoxoday has done to us is that we now know what people like and we are sourcing these experiences from various high-quality vendor and we are putting it up in addition to Giftxoxo. And that to us is a big learning and we are finding there is a huge response and most importantly, it is helping our members understand the true concept of club because we are a club. We are not just about 7 nights-8 days and we want to give people experience far beyond our resorts. And that strategy is playing out as we speak. And the Western Europe inventory that I was talking about which is not truly an inventory, but an arrangement is also a part of that learning that we got.

Aditya Bagul: Right. Sir, just one small clarification, I do not believe that we have a revenue sharing agreement with Giftxoxo, is that correct?

Kavinder Singh: Rohit Malik who is my colleague who handles Giftxoxo will answer.

Rohit Malik: I will respond to that question by picking up on what Kavinder just said. As he mentioned, this is not a revenue generation opportunity for us. So, there is no question of any revenue sharing with Xoxoday. From our standalone it is essentially effort on two directions – One, is having a far better understanding of the consumption pattern of our members which we can then deploy it to create many more monetization opportunities for us. Secondly, it is also about us essentially trying to create this whole engagement ecosystem and getting them to believe that they are part of our club. So therefore, again answering your question, there is not revenue or margin to be generated and therefore to be shared with Xoxoday on this.

Aditya Bagul: Okay, thank you so much. Akhila, ma'am if I just butt in for one more question, can you please quantify the amount of ECL that has been hit to our P&L in this quarter?

Akhila Balachandar: This is something we have not been putting in the public domain and it is part of our routine provisioning and cancellation policy.

Aditya Bagul: Ma'am, if you could just give some qualitative understanding, has it been more or less than what we saw in the previous year?

Akhila Balachandar: We are almost stable on that in terms of our standard policy and we follow the policy. So, it is in line with that. We are fairly stable in terms of what we have been doing.

Moderator: Thank you. We will take the next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: Okay. We have been clocking highest membership addition in the recent past. So, because of the new initiative we have taken it has been gone down. So, when we will see the similar run rate with the lag of quarter two or even more?

Kavinder Singh: So difficult to say. See, there are multiple things that change at any given point of time. We do multiple initiatives whether it is innovation and lead generation, whether it is reduction in cost, whether it is digital, whether it is referral, whether it is improvement in the down payment, you would understand that all these levers we have to play in the market to get what we want and parallelly let us not forget the role of advertising, we do advertise our brand far more than what we use to advertise and we do a lots of initiatives to ensure that prospects get to knowthat Club Mahindra concept is affordable and valuable to them. So, it is a combination which leads to the outcome, it is very difficult to say that if we stop this, this will increase or if we do this, it will come down. I had to mention the two or three things which I mentioned earlier which have contributed to the reduction in the growth. On an overall, absolute basis 3,700 units are not less by any stretch of imagination particularly in this quarter as you know, you can see from the past results also. So, we believe that we need to do the right things. Number is an outcome and it will happen, and we continue to think like that and we will continue to work like that because we believe, we need to get the right inventories in, we need to get the right profile of members in, we need to create amazing experiences that is the fundamental job. And in that process sometimes things may go up and down, but we are quite comfortable because our path is very-very clear and well set. So that is how we think internally here.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Kavinder Singh: I would like to thank on behalf of Mahindra Holidays and my colleagues to all the participants of this conference call and we are very happy with the participation and the level of questions that were asked. Of course, every interaction like this makes us think and we will continue to improve our thinking process and our performance as we go forward. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Mahindra Holidays & Resorts India Limited, that concludes this Conference Call for today. Thank you for joining us and you may now disconnect your lines.