“Mahindra Holidays and Resorts India Limited Q2 FY 2019 Earnings Conference Call”

October 30, 2018

MANAGEMENT: **MR. KAVINDER SINGH -- MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, MAHINDRA HOLIDAYS AND RESORTS INDIA LIMITED**
MS. AKHILA BALACHANDAR -- CHIEF FINANCIAL OFFICER, MAHINDRA HOLIDAYS AND RESORTS INDIA LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra Holidays and Resorts India Limited Q2 FY 2019 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not the guarantees of future performance and involve risks 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 after the 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 -- Managing Director and CEO of Mahindra Holidays and Resorts India Limited. Thank you and over to you, Mr. Singh.

Kavinder Singh: Good Morning, Everyone, and a warm welcome to our Earnings Conference Call for the quarter ended, 30th September, 2018. Along with me, I have, Ms. Akhila Balachandar -- she is our Chief Financial Officer.

I am sure you had an opportunity to look at our quarter 2 numbers and half yearly results as well as the Investor Presentation both of which have been circulated and uploaded on our website and stock exchanges yesterday.

As mentioned in the last quarter, Mahindra Holidays has undergone changes in the accounting standards. The accounts up to 31st March, 2018 was prepared according to the IndAS 18 where the non-refundable admission fee of 60% was accounted for as income in the year of sale and 40% which is the entitlement fee was deferred over the entire tenure of the membership.

The Government of India vide notification dated March 28th, 2018 has mandated that from April 01st, 2018 the accounts have to be prepared in accordance with IndAS 115. As per this new standard IndAS 115, the income from the vacation ownership contracts need to be recognized over the full tenure of the membership and not only that the entire contracts from the inception need to be restated in line with this contract. And only incremental costs incurred for obtaining the membership can be deferred over the tenure of the contract. Other costs have to be charged to profit and loss for the period. For the purpose of comparison of our business performance, we have shared financials as per IndAS 18 and you will be able to compare IndAS 115 only on a sequential basis.

Let me highlight the change in IndAS 115 standards will not change the fundamentals of our business. As mentioned in our investor deck, our unit economics remains the same. Our cash flows remain as robust as ever.

And now, let me move on to the quarter.

It gives me immense pleasure to announce that we have maintained our growth momentum in terms of member additions. We have added 4,145 members for the quarter ended September 2018, which is at 12% growth Y-o-Y while if you were to look at on an H1 basis, in the last 3 years to 4 years these are probably the highest ever number increases adding up to 8,722 which is up by 13% for the same period in H1, 2017.

This year, in this quarter, we have also added 3 new resorts, Darjeeling, Kalimpong and Namchi, Sikkim taking our count of resorts to 58 and our inventory now stands at 3,520 rooms. Not only that, we have also been able to do a tie up in Orlando, Florida in U.S. with 3 resorts which our members can use. And this is another addition to our international offerings. And we also see the progress on the Assonora, Goa and Ashtamudi projects which are on track.

We have submitted Rs. 500 crores of investments and we continue to review those investments. As you know, we have a 240-room resort coming in Goa, we have another 50 room in Ashtamudi and there is a third resort for which permissions are being sought for 140 rooms in Kandaghat, Himachal and that adds up to 500 units and Rs. 500 crores of capital investment.

Our strategy of focusing on higher down payment and lower EMI tenures has helped us to improve our cash position and it is now healthy at around Rs. 484 crores. If you go back in time which is there in investor deck, this number 3 years - 4 years ago used to be just about Rs. 26 crores. So, if I were to look at now the income figures as per IndAS 18, our total income in quarter 2 moved up by about 6%. This is despite the fact that our resorts in Kerala and Coorg which account for 30% of our total room inventory were hit due to floods and rains, unseasonal rains which lowered our income from resort operations by 8.4%.

Though, if you were to look at H1, our resort income grew by 3% and stands at Rs. 106.05 crores. Our occupancy due to this Kerala and Coorg effect is at 76% versus 81% in the last quarter previous year, Q2 previous year.

We have made significant improvement in various operational matrices as we can see that our half yearly growth is at about 7% profit after-tax Rs. 68.07 crores versus Rs. 64 crores, all figures are IndAS 18.

And the other interesting point that I would like to share with you is that if you were to look at the numbers as per the new accounting standard, our income is at Rs. 209.04 crores and as I told you earlier that because of the deferral of the income, the income is reduced. However, if you look at our profit after-tax on a sequential basis has grown by 5.3% despite the Kerala and Coorg related impact on our resorts.

The profit after-tax stands at about Rs. 14.50 crores. The same number in Q1 of this year was Rs. 13.07 crores. We have also generated a cumulative operating cash over the last 3.5 years at about Rs. 867 crores as seen in the investor deck. And even in this half year number that we have presented, the figure stands at about Rs. 150 crores or thereabouts. We will continue to follow the strategy of acquiring quality members so that we can enhance the lifetime value and we have discontinued as I mentioned earlier, the 10% down payment Blue Studio 48 EMI option. We continue to follow the focused market strategy to increase our customer acquisition activities in Tier-II and Tier-III towns. We believe that the customer today is wanting omni-channel support both on phone booth**.** as well as on the various digital channels. So, we are digitizing our customer facing processes and we are realizing that our booking penetration through the mobile app which we launched year and half ago is at a healthy 42%. The overall online penetration means the bookings done by members on our online channels whether it is web or app is at a healthy 88%. This figure used to be 3 years ago just at 52%.

We continue to adopt newer technologies including chat bots and artificial intelligence and various innovative strategies to provide the best experience to members at various touch points in the Club Mahindra.

Our new product Bliss has gained momentum and now is being sold in 14 cities. As I mentioned, it is targeted at 50 years plus couples, who are possibly empty nesters and who would like to enjoy the Club Mahindra proposition. This product is for 10 years and we do not sell this product unless the incoming member pays a minimum of 30% down payment. We continue to drive our building of experience ecosystem, curated experiences and in-city experiences and the brand dreamscapes are available to our members on our website as a part of strategy of bringing the overall experience ecosystem.

We have also now under our new member exchange program, tied-up with 25 international hotels at 15 destinations and 42 domestic hotels at 38 locations which are there with the very respectable, very-very well-known international hotel and resort chains. Our members can enjoy and go into these locations by banking their room nights and paying us a small exchange fee and this program is also ensuring that the members have far more choice than what we are able to offer to 58 resorts.

I think, I would also like to make a statement that after the Kerala and Coorg resorts occupancy issues we are noticing as you know, we opened our booking 4-months in advance, we are seeing the occupancy picking-up and we are already noticing the momentum in the occupancies for the Q3. Q3 is typically a good quarter in terms of the occupancies. And this is something that I wanted to say that our resort team has done an exceptionally good job in getting the resorts back on track and members are once again coming to Kerala and Coorg resorts to ensure that the Club

Mahindra proposition enjoyed with them. And we do not see occupancy issues in Q3 as we look ahead.

As I mentioned, about the fact that our liquidity position is extremely healthy with Rs. 484 crores, we continue to look at opportunities to acquire resorts or resort companies in India and South East Asia that is our current focus area. And we believe that our inventory pipeline is healthy. Also, our work on land bank creation is moving at a fairly good pace and as we end up some of the resorts that we are building right now has become closer to completing them. You will definitely hear from us the new Greenfield resorts that we will be starting to build as well as of course the opportunities are being explored for existing resorts and our leasing and inventory pipeline looks healthy as we look ahead.

So, with this, I would like to conclude my speech and we will open the floor for questions and answers. Thank you very much.

Moderator: Sure, thank you very much. We will now begin the Question-and-Answer Session. We have the first question from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, first question is what explains the sequential decline on VO in the new accounting standards?

Kavinder Singh: There has been a disturbance in the line. Could you once again repeat your question please?

Ritesh Poladia: What explains the sequential decline on the VO under new accounting system?

Kavinder Singh: Akhila, Would you like to answer?

Akhila Balachandar: Yes, Good Morning, Ritesh.

Ritesh Poladia: Good Morning, ma'am.

Akhila Balachandar: So, we have now done the new accounting standard for the 2 quarters and basically there have been some inter segmental adjustments basically within the same income line. And therefore, there are some movements up and down. As you know, we started this accounting standard last quarter which is the first time and it has been a big change as far as we are concerned because it has called for complete re-statement of member accounts right from the date of inception. So, this is an ongoing process and we have now kind of stabilized our internal recasting and I would urge you to look at the H1 figures which are far more indicative in nature.

Ritesh Poladia: Okay. So, this is more like a system adjustments on a temporary basis?

Akhila Balachandar: Within the income lines.

Ritesh Poladia: On the income lines, okay. Second, if you can guide us, what was CAPEX done till date ? And what would be for the H2?

Kavinder Singh: So, in the CAPEX while the absolute numbers Akhila will give. I just wanted to give you an overview that our plan of Rs. 500 crores, 500 units is on track, 240 rooms in Goa, about 50-odd rooms in Ashtamudi, Kerala and as I mentioned 140-odd rooms more which would come from the permissions that we are seeking in Kandaghat, in Himachal. So, in terms of most of the capitalization happens after the capital work in progress works moves into the capitalization bucket. So, as since this is work in progress, a large part of the figure that you will see in CAPEX may not be representative, I just thought I will mention that and over to you Akhila.

Akhila Balachandar: So, Ritesh you have the balance sheet available and CAPEX would have been close to Rs. 50 crores - Rs. 70 crores that we have spent in the first half year.

Ritesh Poladia: Okay. And what would be in H2?

Akhila Balachandar: We are as we said completing the balance projects. So, maybe another Rs. 50 crores - Rs. 70 crores in the same order depending on the work pending and the requirements to finish. So, this is more of an indicative figure and just sharing with you

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Ma'am, just taking the first question on the member addition of VO incomes. So, even if we compare annually, we see that the VO income has grown by 5% whereas the member addition was in the tune of 12% to 13%. So, is that primarily attributable to the new product coming in and that having lower realization?

Akhila Balachandar: So, Nihal, if you know historically our VO income comprises itself for new member additions, a mix of products, it also includes realignments that happened, upgrades that we do, it also includes some amounts of ECL provisioning as mandated by the accounting standard. So, it becomes a complex mixture of various factors and cannot be simply attributed to one single fact. So, this is where we would be.

Nihal Jham: Okay. But generally comparing for this 6 months of growth between the traditional Club Mahindra Holiday product and Bliss, it had been similar, would you say that starting Bliss has been much better?

Kavinder Singh: So, talking about growth in Bliss. Bliss is growing at a much higher rate than the traditional product part of the reason is of the lower base and therefore, growth figures are not indicative but even today it remains a very-very small portion of the total number. So, it is not that it has become a very dominant and as a result of which the AUR has become less that is not the case.

In fact, when we were looking at the AUR we have not seen any major movement in AUR as a result of Bliss because we continuously keep improving the mix also of the CMH 25 product. And so, what we do is if there is an adverse impact of AUR as a result of the Bliss coming in, but there is a positive effect that each coming as a result of the improvement in the mix and therefore they can kind of tend to cancel out and therefore the mix does not remain a dominant reason for this kind of a gap that you ask. And as Akhila rightly pointed out, there are upgrade incomes which go up and down and there is an ECL provisioning that needs to be done. So, therefore, VO income is not in line with the member additions but the good news is that when we have this kind of strong member additions, our cash position continues to improve and as I told that Bliss is only sold for 30% down payment so we like the members who pay upfront because it improves our cash position and therefore makes us stronger in terms of our balance sheet and our ability to source new resorts and therefore create availability the moment we create supply and availability we believe it will lead to further additions and members at a brisk pace. So, the other good news remains that our ASF income growth remains robust, our interest income which is the EMI interest income growth remains fairly robust. And the only kink in this quarter is of the resort income which went down which was because of Kerala and Coorg as I mentioned, 30% of our inventory is in Kerala and Coorg but very smartly I believe we have recovered in the late September last few days and early October and then we believe that the momentum will be back in terms of occupancies and therefore spend in resorts. So, you may have also noticed that our PBT margins if you were to look at accounting standards 18 is at 19%, which is fairly robust given the conditions that we were in our resorts during in this quarter.

Nihal Jham: Sure, sure, absolutely. Just one last question, what is the average pricing of Bliss product right now?

Kavinder Singh: So, Bliss product is currently priced at about Rs. 1.9 lakhs and this is a 10-year product, on a per room night basis, this is a more expensive product than the 25-year product. And the reason we are finding good traction is it is a points-based product. It is an extremely flexible product, you can add points and you can move up-down the season as well as you can go sideways in terms of going into resorts which are in demand because they have to spend more points. So, it is a new generation product which is extremely efficient on a per night basis but of course, if you have to look at AUR it brings lesser AUR but it brings in a lot of cash up front. And in the IndAS regime, it definitely gives a higher income because you recognize 4%, in this case, you recognize 10% of the income over 10 year period versus the 4% that you recognize over the 25 year period in the case of CMH 25. Having said that, I want to make it very clear, we are not moving towards short duration product. We still believe that CMH 25 is our core and that is what will bring in the cash for us to continuously build more and more resorts.

Nihal Jham: Absolutely. Sir, just one last question on this change in accounting. Now ideally, when we should book 60% upfront we had the levy of getting a strong sales and marketing spend which used to be around Rs. 1 lakh per member you used to spend. Now with the new accounting coming in does it in any way first of all impact our cash sales and marketing spend and in case, we continue the same how will it impact going forward?

Kavinder Singh: Yes, it is a very good question. It has been occupying our mind space and I must tell you one thing, we are realizing that this is one trigger which will also make us more efficient in our marketing spends and we believe that our teams are already tightening their belts without impacting the growth in member additions that is the challenge which we have and we have done reasonably well in quarter 2 even in quarter 1 in the IndAS regime. And I think, this will, in fact, make us more efficient and our spends will be far more smarter in marketing and therefore eventually we believe that this new accounting standard will do 2 things to us. Not only it will make us cost-efficient, but it will also give us very high predictability of revenues. And as we have mentioned in our investor deck that 95% of the revenues would be predictable as you can see our deferred income pool has already grown up to since we have released the balance sheet to around Rs. 5,000 crores and this income as you know has come in because of re-statement of all contracts since inception and we will definitely get income from the deferred income pool from the balance sheet into the P&L at no additional cost. And this will definitely be a kicker in terms of our profits going forward.

Nihal Jham: Sure. So, this spend in sales and marketing in the first-half is like the new base for what you planned to build on spending. Is it the right way to look at it?

Kavinder Singh: Yes. I mean, because we believe that our sales and marketing costs can be always improved I am a firm believer of that. We have to always find new ways of getting the right lead and getting conversions going at a lower cost and what we have done in the past. We have steadily improved, our PBT margins have gone up over the years from 15% - 16% to about 19%. Of course, it is a combination of various factors, not just the cost of acquisition. But having said that, I still believe there is an opportunity to save costs and continue the momentum in member additions and of course, resort additions we are lucky to have good cash in hand for us to be able to buy or even lease resorts because our P&L as well as balance sheet has, in fact, is even strong and now much better because of the deferred income and the things that you are able to see in balance sheet. So, I feel that we are on a stronger footing than ever before.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Sir, my first question is on the AUR just taking Nihal's point a little forward. Our AUR's have remained broadly stable and I understand this is a combination of our 25-year product and our Bliss. But can you share the AUR separately for both of these products and if you can share going forward, what is the kind of growth in the AUR's that we could see over the next 2 years - 3 years - 5 years period?

Kavinder Singh: So, while Akhila will answer your question, Aditya, I just thought I just come in. I wanted to share that we believe now the time has come for us to leverage our market position and increase prices. So, in October, I think in the 3rd week or 4th week, we have taken a decision to increase prices in some of our 25-year old, actually, we have increased prices everywhere, but the prices in the range of about 6% to 7%, will it be weighted average Akhila?

Akhila Balachandar: Yes.

Kavinder Singh: So, there is a price increase that we have announced. It is there in the market now about 6% or 7% price increase for the memberships that are being sold from the last week of October. So, we believe that time has come for us to take advantage of our strong brand position that we enjoy. And more importantly, we believe that our proposition is strong and therefore, it should be priced appropriately. Coming back to your question on the AUR's for the Bliss and the 25-year product Akhila, can give you the exact numbers but I did hint or rather say 1.9 lakhs or something of that order is there for the Bliss and a weighted average of 3.3lakhs. As I mentioned, Bliss does not get dominant in the mix and I believe it is a nice portfolio strategy that we are now employing where we have a short duration product for the right segment which will give us obviously growth. As well as obviously a kicker in our incomes because this income will get recognized over 10 years. However, we will also generate upfront cash because we are not selling less than 30% down payment but as you know that in our business model, it is extremely important to continue to source 25 year members because the cash amount that we will get a result of sourcing 25 year member will actually help us build resorts and it will help us build create variety. So, over to Akhila if you want to add to answer Aditya's question.

Akhila Balachandar: Yes. So, basically, the average AUR for the Bliss is around 1.8 - 1.9, like Kavinder said and for the CMH 25 product is around 3.3 - 3.4. I hope that answers your question?

Aditya Bagul: Yes, ma'am. I just wanted the trends going forward I mean, this number for our 25-year product has remained more or less stable for quite a bit of time while there has been some amount of mix impact. Just wanted to know whether our clear strategy now is to take it further in the direction of maybe Rs. 4 lakhs or Rs. 4.5 lakhs over a period?

Kavinder Singh: It is a very good question Aditya and I think you are making us think harder. But I must say the 6% or 7% price increase that we have taken should reflect at least partly in this quarter Q3. And we normally keep an eye on the rates, we benchmark our ARR's. As you know, in the hotel industry the ARRs in the last 3 years - 4 years were pretty static, so, therefore, we also remain little conservative on pricing but as we move forward if the ARR's continue to pick up in the hospitality industry, our membership pricing will get priced suitably and therefore, we must increase the AUR's going forward. That would be definitely our stated intention.

Aditya Bagul: Great, sir, that is quite helpful. Sir, just secondly on the deferred tax impact. Can you help us understand the deferred tax implications of the new accounting policy because the revenue which was recognized earlier would have had a tax implication? But that revenue which is now been reversed I just wanted to know how will you look at the tax impact of this, because there is a sense that this could be possibly be taxed twice.

Kavinder Singh: Akhila?

Akhila Balachandar: Yes, so let me first assure you it will not be taxed twice. In the earlier accounting method, we were already accounting 60% upfront which means that my profit offered for taxation was higher, right? And therefore, I have already paid the tax on it. The new accounting standards I am recognizing lower income and thereby having a lower profit and therefore, there is no way that I can be taxed again. What you are saying would have been correct had it been the reverse case. But in this case, it is absolutely clear that we cannot be taxed once again. Now since I have already paid the tax, I am creating a deferred tax asset in my books because that is something I have already paid up for the past periods and offered to taxation and my returns are assessed, so, therefore, the question of being taxed again does not arise.

Aditya Bagul: Okay. So, as I understand, the revenue which was derecognized will be obviously taken over a period of 25 years.

Akhila Balachandar: Correct.

Aditya Bagul: But the following tax implication on that revenue would not fall short?

Akhila Balachandar: Okay. Now, let me understand your question better. So, let me again reiterate. We have already offered this for taxation and therefore, this will not come for taxation again. Now going forward, we will be doing our tax computation under 60-40 and offering it for the taxation purpose. We will not be offering for tax on the basis of our new accounting standards. There are certain options available and we are exploring them with the tax consultant, but this will definitely take time. We will have to make some representations and how we move forward. But all those are next steps and work in progress but as far as is basis there is no way that my income or profits will be taxed twice. And as far as the tax position is concerned, till we are able to get far more clarity from the department we will create another set of books of accounts under 60-40 and continue to offer that for taxation.

Aditya Bagul: Sure, ma'am, that is quite helpful. Any further development if you could just highlight to us it would be helpful

Akhila Balachandar: Sure. As and when something happens, we will definitely keep you posted.

Aditya Bagul: Perfect, ma'am. And just one last bookkeeping question, ma'am. If you could just share the ECL provision sitting on the balance sheet?

Akhila Balachandar: So, if you see the balance sheet, there was an ECL provision which we created like from 1st of April, 2016, okay? And this is something we have been doing on a consistent basis on some parameters which is signed up by our audit committee, the tax auditors, the internal auditors, and the board and under 115, large chunk of that provision is no longer required and therefore, if you see the balance sheet there is a relief of almost Rs. 280 crores of the provision that we have created in the past.

Moderator: Thank you. The next question is from the line of Rahil Jasani from ICICI Securities. Please go ahead.

Rahil Jasani: So, I just wanted to follow-up on the previous question based on the deferred tax you said that going forward the taxation will be under the 60-40 basis. So, in any case, IndAS 115 reduces our income and it will also lead to higher taxes. So, will the profit be much more depressed?

Akhila Balachandar: If you see the concept of deferred taxation basically we will create deferred tax asset going forward. So, from a P&L perspective under the new accounting standards, I will still have an effective tax rate of 35.5 which is my effective tax rate even under 60-40. So, that will remain similar. The differencing portion will keep on adding to my deferred tax asset till we have more clarity and way forward with the department. From a P&L perspective under 115, I will not have any additional impact.

Rahil Jasani: Got it, understood. Secondly, on the balance sheet trend again there is a new recording of contract cost and asset. So, I just wanted to get some clarity on that?

Akhila Balachandar: So, in the earlier standard, this was called before revenue since this is a restatement of the contract this has now been reclassified or re-nomenclature as contract liability deferred revenue. It is the same thing.

Rahil Jasani: It is the same thing, okay, got it. And lastly, again, I was looking at the presentation and on the last slide, you have mentioned that there is a land asset which was re-valued and then our standard Rs. 1,129 crores. So, is this re-evaluation under IndAS 115 or was it done earlier itself?

Akhila Balachandar: So, basically the accounting standards allow us to revalue our land and that is the policy decision of the board and it is applicable not only to us but also to our entire set of companies. And this is a decision we took midway during the year and have implemented with the end of this quarter.

Moderator: Thank you. The next question is from the line of Ekta Bhalja from Karma Capital. Please go ahead.

Ekta Bhalja: Hi, sir. Can you share the profit number for the first-half of HCR?

Akhila Balachandar: So, Ekta, we have not yet released the consolidated number. We should be releasing it sometime next week and maybe then that will be clear.

Ekta Bhalja: Okay. And just one clarification, your deferred revenue pool that was about more than Rs. 5,000 crores. Now, going forward the VO income for the full year would be more or less 4% of that, right?

Akhila Balachandar: Okay, so let me explain it to you. If you go through the Investor Presentation we have tried to explain far more in granularity. So, Rs. 5,000 crores is basically a kind of WDV so it is not correct to apply 4% on it directly, right? All of the contract value of 100, year 1, I will recognize 4%; year 2 4%, so what comes remained in the balance sheet will only be a kind of a WDV, that is far more explanatory. So, Rs. 5,000 crores is the deferred pool remaining in the balance sheet. To apply 4% on it would not be correct.

Moderator: Thank you. The next question is from the line of Depan Mehata from Elixir Capital.

Depan Mehata: Sir, we have been the longtime follower of your company and I just wanted to understand that when I was looking at the 10-year compound annual growth rate of the company it is disappointing at just 5%. 5-year compound annual growth of profit also is around 5% or so. So, should we be assuming that 5% our bottom-line growth is basically a sustainable intrinsic growth that a consumption-oriented franchise business like you should generate?

Kavinder Singh: It is an important question and I think in our investor deck, we have given slightly more recent trends and those trends are obviously showing our income growth at about 11%. And if you look at our margins moving up and we have also shared our new income, resort income, ASF income related trends including the EBITDA margins. The idea of giving this kind of information was to let you know that there are strategies in place to grow the business at the obviously much faster rate. And you probably may have also noticed that in the last 3.5 years we have generated Rs. 867 crores of cumulative operating cash. And even now, we are at about Rs. 484 crores of cash net of our capital expenditures that are going on. So, the point here is, in our business we need to generate capacity. And to some extent, to generate capacity means resorts, so you need to generate capacity in terms of focusing on new resorts additions. And ensuring that members get the experience and therefore, there is enough pool in the brand. Therefore, you can manage your cost of acquisitions. So, as you know, our key costs are the cost of acquisition, cost of resort operations, but the business model is predicated on the fact that we do not borrow to build resorts, number one. Therefore, those costs or that kind of overhangs do not exist on our balance sheet or in P&L and I am sure these figures are available with you on our return on capital employed and return on equity and those returns have been in high second digits, two-digits, upwards of 20% if I remember correctly. So, we believe that we are in some manner a cash-generating business. We definitely have a strong brand franchise and we definitely are experimenting with products like Bliss to build even more momentum. And more importantly, resort diversity, which I talked about whether it is new resorts in India or abroad. So, broadly speaking and what has happened as a result of this new accounting standards, you may see the profit after tax number lower but you should also look at the cash that we are generating. So, I think, the metrics that should be more relevant for our business would be that whenever we take in a new number, we start multiple series of annuity income streams and those are fairly predictable. And in fact now in the new accounting standard, 95% of our revenues are going to be predictable. So, as I see it we have been in the last 3 years to 4 years able to generate both momentum in member additions as well as resort additions. And with this new accounting standard, it is even more clearer that the revenue visibility will be significantly higher. And most importantly, even though the bad or good times, the vacation ownership businesses worldwide tend to be extremely resilient. Yes, they do not grow at 30% - 40% - 50% like some of the businesses but definitely, the fact that there is a clarity on annuity income that there is clarity on the resort additions. And as you know that our CAPEX plans are robust and even announced more capital expenditure because we believe that resort diversity and resort additions is a clear way for us to improve our brand proposition. And newer products like Bliss and maybe some more innovation that we will do going forward should help us to one, grow member additions, add resorts and therefore, flow more and more profits to the bottom-line. And I just want to add one more point here which may answer part of your question if not fully, the deferred income pool that we have of Rs. 5,000 crores which will come in every year the best part of this accounting standard that we believe is since we recognize only 4% and put 96% in the deferred income pool and the balance sheet you know that we have been adding higher member additions than what we did in the past. So, since the entire deferred income that you see there of Rs. 5,000 crores is of the past period including the current period. So, in the past, obviously, our member additions were lower and therefore the deferred income is what it is, our member additions are now higher. So, therefore, what I am pulling out of the deferred income pool in the balance sheet is much less than what I am putting in. So, therefore, as we move forward, you will see higher and higher income deferred income coming into the top-line. And that will definitely improve profitability going into the future because that income will come without any additional cost. Obviously, the key thing is to maintain execution excellence both in sales and marketing expenses and resort additions and member additions. So, this is a very broad answer to your very specific question. And I would definitely request you to look at the investor deck that we have uploaded on our website which gives a little more recent trends than the trends that you mentioned.

Moderator: Thank you. The next question is from the line of Sarthak Mukherjee from Stewart & Mackertich. Please go ahead.

Sarthak Mukherjee: Sir, as you have mentioned around 16% of your portfolio and 30% of its portfolio combine Kerala and Coorg was impacted due to the Kerala flood. So, I would like to know the exact occupancy rate at those both regions?

Kavinder Singh: So, the occupancy of the entire company fell from 81% to 76%. Specific to the resorts, we do not release occupancy figures for competition reasons. But suffice it is to say that for almost 25 days - 30 days, the entire resorts in Kerala and Coorg was shut. And that is how the occupancy drop then all India level goes down to 5% and the fact that 30% of our occupancy of the resorts room night are present in these regions created this kind of a big effect of 5% drop in the overall occupancy at the India level.

Sarthak Mukherjee: Okay. Sir, my second question is, what is the percentage of the membership retention after the study of existing membership?

Kavinder Singh: Okay. First of all, the existing memberships have not expired because we started our company 22 years ago. So, the expiry has not happened. Early on, we sold 33-year memberships. Now we are selling 25-year memberships. So, definitely, there is no expiry but the good news is that in about 7 years' time from now there will be expiry happening. And that point of time, we will have a lot of inventory getting freed up for our member additions where we can do member additions without necessarily building inventory for them because we would have members coming off every year from expiry. And coming back to renewals, we definitely would encourage our members to renew. But that situation has not arisen as yet.

Moderator: Thank you. The next question is from the line of Chockalingam Narayanan from BNP Mutual Fund. Please go ahead.

Chockalingam Narayanan: With the restatement as per the new accounting standards what is the retained earnings?

Kavinder Singh: Akhila? Akhila, will answer this question.

Chockalingam Narayanan: Sure.

Akhila Balachandar: Our entire equity is now at Rs. 254 crores of which Rs. 132 crores is the equity share capital and other equity is Rs. 121 crores, this also includes the impact of the land revaluation that we did in this quarter.

Chockalingam Narayanan: No. So, the reason I am asking this question is with regard to your dividend. When can you start paying dividends given that retail earning I am assuming because of a revaluation will be negatives?

Akhila Balachandar: This is something we have not yet got into and we are exploring certain options and we have a dividend declaration policy which is already put up on our website, there are rules for dividend declaration obviously, under the Companies Act and another statute. So, we will need to examine this in far more detail when we come back to you.

Chockalingam Narayanan: Okay. And what is the figure as far as retail earnings is concerned?

Akhila Balachandar: Let me get back to you. I do not have it offhand.

Chockalingam Narayanan: Okay. And two, on a cash flow basis on tax if I look at all the deferred tax liability and deferred tax assets are concerned there seems to be a provision to the extent of almost Rs. 440 crores. How should we understand this?

Akhila Balachandar: I am not getting the question. Can you repeat?

Chockalingam Narayanan: There are obviously, entries on deferred tax liabilities and deferred tax assets. The movement versus the year-end and now the increase on deferred tax assets is almost about Rs. 650 odd crores and on the other side, deferred tax liability you have about Rs. 230 odd crores. So, basically because of this statement, there seems to be at Rs. 440 crores. So, this is the tax that you have already prepaid in advance, is that the way to understand it on the account of all these accounting changes?

Akhila Balachandar: Sure. Thanks for raising this question. Let me clarify. So, there are two components to the deferred tax asset. On the deferred revenue that we have restated, since we have already paid tax on it, we have created a deferred tax asset which we will be able to utilize over the period of time. Now on the land revaluation, this is basically a separate class of asset and not similar to the deferred revenue. And in future, if we are say, for example, selling assets like land, that will be treated as a capital gain tax. So, from a taxation perspective, these are different classes of assets. And therefore, we have to create a separate deferred tax liability for the land revaluation that we have done. And therefore, you see 2 different line items in the balance sheet rather than one single net figure.

Chockalingam Narayanan: Okay. Understood. And the other question was with regards to your deferred revenue other non-current what is there on the liability side on non-current and current. The number seems to be one-tenth of the non-current number.

Akhila Balachandar: Yes.

Chockalingam Narayanan: How should we understand this aspect?

Akhila Balachandar: So, basically, it should be looked at in totality. And in totality, we have a contract liability deferred revenue of Rs. 5,259 crores and based on the current and non-current classification, this would keep moving at various points in time which is a half year and full year. But the way to look at it and the way we also look at it from a not an accounting perspective but from a business perspective would be to look at Rs. 5,259 crores of deferred revenue sitting on the books.

Chockalingam Narayanan: Okay. And what is the contra entry on the asset side, which is the contract cost is it?

Akhila Balachandar: That is right. What we have also said is there are some direct cost which are directly linked to the contracts, which can get deferred. For example, the incentives that we pay to our salespeople, there are some offers that get made to the members. Something which is directly attributable to the acquisition of the contract that can be deferred that has been classified as contract cost on the asset side.

Moderator: Thank you. Due to time constraints, we will be able to take one last question. We take the last question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: This is Ayaz. I have a few quick questions and one sort of growth outlook question. There is a term in your presentation which says entitlement fee in VO. I have not seen this term earlier. Can you please explain what is entitlement fee?

Akhila Balachandar: Okay. I mean, this is not particularly accounting. Now if you see our membership our membership fees are straight into two parts admission fee and entitlement fee. Admission fee is 60% of the membership fee and 40% is the entitlement fee of the membership fee. Basically, we offer a membership to a person for him to enjoy holidays with us for 25 years. 60% of the fee we treat as upfront, non-refundable. So, even after a few years or at some point in his membership life cycle, he decides that he does not want to continue with us, the admission fee is something, which will not be refundable. And these are all part of our membership contract. 40% is what? Is an entitlement fee and allows him to enjoy with us over the period of 25 years. So, in the earlier accounting standards, it permitted us since this is a non-refundable admission fee to recognize the 60% upfront at the time of joining whereas the 40% was spread over the period of 25 years.

Ayaz Motiwala: So, in the new...

Akhila Balachandar: answered your question or do you want more clarity?

Ayaz Motiwala: Yes. No. I think so in the new accounting standards with like 100 by 4 or also 25-year membership 4% accounting these two would be together...

Akhila Balachandar: So, what happens is the new accounting

Ayaz Motiwala: Whereas from a technical consumer point of view or consumer buying a 3.5 lakh membership today will still be treated by Club Mahindra in the same way which is that if the person were to withdraw from the club in a 3-year perspective that 60% will not be refunded. Is that a change in the terms or no?

Akhila Balachandar: Okay. So, as I have said, that is not accounting, it is part of our contract with the membership member and part of the membership document and therefore, that does not change. What the new accounting standards prescribe is that though it is a nonrefundable admission fee that also needs to be deferred over the lifetime of the membership. And therefore, there is an accounting change. But from the business model, the membership contract, nothing changes.

Ayaz Motiwala: Okay. So, yes, that is helpful then. So, again back to accounting standards and presentation of the P&L from an accounting point of view versus cash flow in the business model.

Akhila Balachandar: Absolutely.

Ayaz Motiwala: Right. Second quick question is how is the ARR computed? You have these number 3,800 - 4,100, etc. What is the basis of this number? How should we understand these numbers? Especially in the context of how you mentioned in relation to the hotel business. If you could link into that and the point you made in passing about the Bliss effective rate is actually higher than the 25 year Club Mahindra membership. If you could put these 3 points together that would be very helpful to understand ARR.

Akhila Balachandar: Okay. So, let me first tell you that these three points are not together, okay? So, when we say ARR, it is an indicative figure that we share. Let me explain to you. Basically, in our resorts, we also do a small portion of non-member room nights. This we do for various reasons; one, we give it to prospects to help them to evaluate the product and convert at the resort. We also get last minute cancellation sometimes and the rooms are unoccupied. We offer them only to non-members so that occupancy remains steady. So, this is a mixture of things. And when we are present and at the resorts we are, this is a mixture of the average ARR that we are able to command for the limited inventory which is very small and that we release into the market for non-members. And therefore, whether it is really compatible with the hotel industry for example, if you were to compare this with the ARR of Taj or an Oberoi I think that might not be the correct thing to do. It is just an indicative figure or informative figure that we are sharing about our own financial comparing it with the industry with the competition may not be perfectly ideal.

Ayaz Motiwala: Sure. Well, my confusion ma'am was that...

Akhila Balachandar: This linked to the internal rooms that we are giving to a non-member and therefore, it is not really linked the Bliss product and therefore, I would not connect all the three questions.

Ayaz Motiwala: No. I think it was mentioned that Bliss on a room rate effective was higher because while the duration is shorter and the absolute prices also lower, the effective rate is higher. I started getting into a thought on the value of the membership and the ASF that you pay and you blend some number and gives this ARR. So, it is obviously more of a reference to this thing.

Kavinder Singh: Yes. I think she explained but I will once again like to clarify so that there is no confusion. See the ARR you mentioned is for the average room rate for the room nights that were offered to non-members which is 5% - 6% of our inventory best case and we need to make them experience Club Mahindra preposition and eventually buy Club Mahindra. The Bliss was a very different context. Bliss is a 10-year product, bundled product. You cannot buy it in room nights. You have to buy it as a package and when you buy the Bliss membership on a per room night basis when I said that typically if it is a 10 year product versus a 25 year product it should cost you 40% because 10 on 25 is 40% so it is not 40%; it is higher than 40%. That is what I meant when I said that the Bliss is not proportionately of the same pricing. So, that was one point that I was making. So, Bliss members also benefit like 25% discount in our food and beverage and holiday activity offerings when they come to our resorts while a typical non-member will not enjoy any of those benefits. And by the way, as she rightly mentioned this ARR is not to be seen so we are not a pure play hospitality company. We are more a membership vacation ownership company and therefore, for us, the key thing is the membership fee, the key thing is the spends at the resort on F&B and the holiday activities and the spa, etc. These are our typical sources of revenue apart from the fact that we also have an annual fee and the fact that we have some interest income coming because people do buy on EMI's and there is an interest bundle in there.

Ayaz Motiwala: Sure. In the context of the time very quickly on one accounting question again, there was a question a lady had asked earlier on the sort of the deferred pool of Rs. 5,000 crores. There must be a blended number of the revenue already recognized. If you could give some sort of seasoning or some number to give a sense of this 95% visibility that you talked about.

Akhila Balachandar: Can you repeat the question?

Ayaz Motiwala: You have this big deferred pool now of revenues which have been restated and with 4% accounting, right?

Akhila Balachandar: Right.

Ayaz Motiwala: So, is there you know because you know the historical sort of membership accretion and at what price these were done? What is the blended recognized number versus not? If you could give some sense on that. Meaning a question was asked where, should we take 4% of Rs. 5,000 crores as a sense of visibility and you said that is not the right way to understand?

Kavinder Singh: Just explain that part one.

Akhila Balachandar: So, the blended AUR again would not be a right reference. We have gone through some of this internally because a membership is over a period of time and again what happens is suppose members had joined us 10 years back. Over a period of time, there are people who have upgraded seasons. They have upgraded their type of unit, for example, moments on the studio to 1 BR it is a mixture and a blended AUR really does not make sense because some of the earlier memberships were sold at far different price points.

Ayaz Motiwala: Sure. Okay, I understand the difficulty of it I was trying to get a number to understand it. One question to the management generally to both of you is the growth aspect on the business and just looking ahead. So, you talk about digital and the positive effects of that there is obviously challenges where one of them is people think there is inventory all over the place with search engines, etc. and so there is a shorter planning cycle versus perception that in vacation clubs such as yours you need to do a little bit of planning. So, there is a challenge in that on the kind of customers who are looking at that apart from supplying in the form of homestays and all of that being tech support to come up online across various sort of platforms. How are you encountering this challenge and finding people or getting people to do more shorter vacations and creating that sort of things because the resort utilization on the other side is very high? So, if you could talk about the growth prospects on a medium-term basis with the challenges of prospective customers. And if I could slip in one final point on how would you link that to your desire to improve maximize the lifetime value of customer and customers who are comings 30-year-old guys who are now in the 40' or mid-40's their needs have changed. So, if you could blend tech and needs changing and trying to improve lifetime value, we could get some more idea on your business, please.

Kavinder Singh: So, if I answer this question in big detail then probably you will have to miss your lunch. But I would try to be very brief. So, therefore, if you feel that the question has not been answered completely then it is only because of the paucity of time not because I did not want to. So, I thought I will make that clear. You have asked very-very fundamental strategic question and therefore, let me give a very high-level strategic response to this which is like this, so we have been observing these changes. It is our job to keep an eye on what is happening and what is the share of the wallet that the consumer is willing to pay for this kind of products like ours because as you mentioned, they are a club, there is a commitment, etc. Now, one thing we have realized, we have been constantly seeing that people who go on various online travel aggregators or who want to go suddenly on a holiday and they do not plan invariably there is a cost that they incur and the value that they get is not matching. So, they end up paying very high rates because they are trying to go a weekend, but they have not planned so they pay much higher rates for very-very average accommodation and more importantly a marred experience. We believe that our brand is the exact opposite of that. If you plan, you go to our resorts, the experience that you are guaranteed is something that you will cherish as a part of you building your family memories as well as the time that you are having together. So, our entire proposition is you know we write it also that it is about good living and happy families and good living is all about having great experiences. So, we are building an experience ecosystem which is not about just experiences in the resorts but around the resorts and also in the cities. And we are also offering members opportunities to tap into various lifestyle actions like, as I said, that there are 58 resorts of ours. But we also have a very unique model where we have a member exchange program. We have 70 other destinations where we are tied-up with these hotel chains where they can bank their room nights with us and in a small exchange fee, they can go to these places. And more importantly in each of our resorts, we have studio 1-bedroom, 2-bedroom apartments. When you go on a typical booking site, you do not get apartments. You get only hotel rooms and the family cannot stay together and the experience is little unknown because you only see pictures when you land you find that you have not been given the room that you thought you saw on the pictures. In our case, what you see is what you get and therefore, the branded experience of Mahindra Group, it is in the form of Club Mahindra and the food and the beverage offerings and the Happy Hub, we have this fun zone or Happy Hub which is a kids zone where kids can have whale of a time where you feel safe, secure as well as lots of activity that has happened in our resorts where our resort members in the daytime. They could be stewards, in the evening they could be walking on the ramp or playing the guitar or entertaining you in the evening. So, there is a lot of that which has bundled in which is never known to the people who are not members of Club Mahindra. So, the proposition is to build a memorable experience and that is something neither home stays gives you, neither these online travel executives give you. They only solve your problem of stay and that too if you have not planned, the rates are extremely high and you end up paying much higher rates. So, in our case, there is, of course, the advantage of once you have paid your membership fee, you have to pay only one-year annual fee. With that, you are getting more and more choice and as the choice increases, you are not paying anything extra for it. So, the proposition is different and therefore, we need to amplify the proposition by building on this experience ecosystem which is about unique experiences and bonding with your family and more importantly, a branded, consistent experience. And that is how we tend to differentiate ourselves. I just want to share with you that Michael Porter who as you know is an authority on competitive strategy for the last 2 years we have been winning Porter Prize for following a very uniquely distinctive strategy in our business. And as you know in our business, very rare to find a hospitality or hotel business where you have debt and occupancy problems resolved simultaneously. In our business, both the occupancy and debt problems are being resolved which is reflected in our balance sheet in terms of the cash on hand. So, the whole idea here is that build on this platform that we have created by creating more experiences by ensuring that the Indian family would like those experiences would want those experiences and yearn for those experiences and they may want to go again and again. And this is something it comes of course, at a slight cost one is obviously in the beginning membership fee. There is an annual fee and more importantly, some amount of planning because some of our resorts obviously, are in great demand in certain peak seasons. But if you have a peak season membership even then you need to plan a bit. The whole idea here is that you have a choice. If you do not go to one, you could go to the other one. And you could actually switch the locations to enjoy the same experience which you are which you become used to as you start holidaying with Club Mahindra. We have found that members enjoy spending anniversaries and birthdays together because of the simple reason that they can opt for multiple apartments. They bring their extended family and therefore it helps them to spend the time with the extended family together and that is something that we find as a very unique feature. We are also working on a community, kind of a portal, virtual community where people can connect with each other on lifestyle, travel and food and photography, etc.. These are things that we are building as we move forward. So, we believe that our proposition in this matter is extremely unique and it is something unique that is not found elsewhere. And therefore, we believe there will be enough demand for this kind of a proposition. We will, of course, add products like Bliss which will give an opportunity for us even slightly people to look at the 10 year product and that is the whole idea that is the whole premise and because we are going to be cash surplus because of the way the business model that is constructed we will be able to keep our resorts spick and span and also continuously build on experiences and also add more diversity to the resorts. This is as short an answer that it gets in the time that is available.

Ayaz Motiwala: Sure. No, I think it is very helpful and if you have more thoughts in questions I would reach out to you and your colleagues and we will try and meet up, please. Thank you very much

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Kavinder Singh: I, along with Akhila, would like to thank all of you for coming for this conference call. We value your suggestions, we value your questions and this helps us to think even harder and take our company to even greater heights. I would like to wish festive greetings on the occasion of Diwali which is coming and wishing you great and good business and happy living ahead. Thank you very much.

Akhila Balachandar: Thank you.

Moderator: Thank you very much. On behalf of Mahindra Holidays and Resorts India Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.