"Mahindra Holidays & Resorts India Limited Q4 & FY-19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Mahindra Holidays & Resorts India Limited Q4 & FY19 Earnings Conference Call.

This conference call may contain forward-looking statements about the company which are based on the believes, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kavinder Singh – MD & CEO, Mahindra Holidays & Resorts India Limited. Thank you and over to you, sir.

Kavinder Singh: Good evening. I am joined in this call with Mrs. Akhila Balachandar - the Chief Financial Officer; Mr. Dhanraj Mulki – Company Secretary. And once again good evening everyone and a warm welcome to our earnings conference call for the quarter and for the year ending 31 March 2019.

And at the first moment, I would like to apologize for the delay in uploading our Investor Presentation as well as the Press Release. This is due to the fact that the Board meeting went on a little longer and so you may not have had an opportunity to have a good look at the Investor Deck as well as the press release, but while we speak you are most welcome to keep having a look and I will of course take you through some of the key features.

So, I am going to have little longer opening remarks, so that I take you through almost all the figures so that it becomes easier for you to ask the questions and we would be very happy to go through your questions after this. And once again my apologies for the delay in uploading and not giving you sufficient time to go through the numbers.

Let me start by saying that this year has been a year in which we moved into a new accounting standard – IndAS 115. The accounts were prepared for the full year according to IndAS 115 and the old accounting standard was IndAS 18 and we moved into the new accounting standard of IndAS 115. In Ind AS 18, 60% of the membership fee was accounted as an income in the first year and 40% was deferred over the tenure of the membership. In Ind AS 115 there is a change that the entire income from the vacation ownership contract needs to be deferred over the tenure of the membership and only incremental cost which are incurred for obtaining the membership, can be deferred over the tenure of the contract. All other costs have to be charged to the profit and loss for the period. And you have probably seen it over the three quarters what it has led to in terms of the VO income, it has reduced because of this change and costs have to be taken upfront and therefore you have seen the profit numbers lower than Ind AS 18 numbers.

Before I go into the numbers, I would like to make a very important point that with the adoption of the new revenue recognition policy in accordance with the IndAS 115, we have had to change our revenue recognition policy as mentioned earlier. Consequently, the deferred revenue and deferred costs had to be recomputed and they had to be stated as transition difference which you are probably familiar as we presented in our balance sheet earlier. I would like to mention that the company has been profitable and continues to be profitable.

We have healthy cash flows as seen from our cash position and has declared dividends every year since 2006. The company is seeking a clarification from Ministry of Corporate Affairs that this transition difference need not be considered for the purpose of declaration of dividend under the provisions of Section 123 (1) of the Companies Act. That declaration of dividend therefore if any, shall be subject to receipt of the clarification from Ministry of Corporate Affairs.

So, this is something that I wanted to start that the dividend is subject to now receipt of clarification from MCA because of the transition difference that came in as a result of the accounting standard.

As you know the transition difference has happened only due to switchover into the new accounting standard. It is actually not a true reflection of our net worth. So, that is one of the reasons that we have to seek this clarification and therefore pending the clarification the declaration of the dividend, if any, will be subject to the receipt of clarification from MCA.

Now let me move on to the results. If I were to start with Ind AS 115 results and let me start with that but though there are no comparatives available and I will talk about Ind AS-18 results also. Member additions in this quarter Q4 were at 5,671 and for the full year 18,377. The resort occupancy for this quarter is at 83.7% and the full year occupancy is at 82.9%. Quarter 4 occupancies have recovered as you know in Q2 our occupancy has dipped due to the floods in Kerala and Coorg.

After that we have seen a steady increase in occupancy particularly in Kerala and Coorg which has led us to recover our occupancies upwards of 80%. The room inventory now stands at 3,595 in 61 resorts. We added three new destinations in Quarter 4. One in Diu, another in Hampi and the third one is near Ahmedabad and this is a golf resort where we have taken inventory. Our income for the quarter stands at Rs. 252.1 crores, our profit after tax stands at Rs. 14.4 crores and for the full year the total income is at Rs. 963.4 crores and profit after tax is at Rs. 63.9 crores. Cash and cash equivalents now stand at Rs. 572 crores. All numbers are on standalone basis.

As I mentioned for these figures there are no YoY comparison so what we have done in our Investor deck is shown that we have done the investor deck is right now getting uploaded in fact as we speak and it is already done and you can have the look at the Investor deck on the website. We have given the movement between Q3 and Q4 both for IndAS 115 as well as Ind AS-18 to just let you know as to why the differences are there in the two accounting standards and what is causing this difference.

So, before I get into the differences – let me start with the Ind AS 18 numbers:

As far as the Q4 results under Ind AS 18 are concerned, we delivered an income of Rs. 327.68 crores which is 7% up, our profit after tax is at Rs. 49.41 crores which is a 28.1% increase on YoY basis. So, therefore this is a sterling performance if we were to look at it from Ind AS 18 perspective. Full year our turn over is at Rs. 1,170.36 crores and our profit after tax is highest ever at Rs. 155.75 crores.

The full year income grew by 7% and our profit after tax is up by 16%. If you look at the profit before tax, for this quarter under Ind AS 18 it is at the highest ever at 20.61 and our EBITDA margin which has been in the last two years has been at 24% this year has smartly recovered to 25%. In fact, our quarter EBIT margin is at around 27.1%. So, these are in terms of the profitability in terms of the growth these are the best ever numbers that we have seen. In fact, our profit before tax for the full year stands at around Rs. 241.21 crores.

The key point that I wanted to highlight is that both on margins as well as on profitability under the old accounting standard, we have delivered extremely good numbers and part of the reason why we have been able to deliver good numbers is the control on both sales and marketing cost and all our other overheads. Apart from the fact that we have still been able to grow our revenue at around 7% despite the fact that our member additions for the full year are grown up by only 0.8% and when you will see the investor deck you will see the reasons why our income is up by 7%.

There is an ASF income growth of about 10.9% for the full year, resort income is up by 5%. Our interest income is up by 16.3%, this is the EMI interest and that has led to a total income growth of about 7% and the profit margins being what they are since there is an improvement in the profit margin, we have seen this kind of results and these are very, very satisfying results from the point of view on profitable growth as well as the revenue growth.

Let me turn my attention to the sequential performance which is also mentioned in our Investor Deck and I know you have not been given time and my apologies once again. But let me just take you through the numbers:

If you were to look at the Q3 to Q4 movement in the income, In Q3 we reported an income of Rs. 246.87 crores, it moved up to Rs. 252.13 crores as per Ind AS 115 and if you were to look at Ind AS-18, Rs. 282.92 was our income in Q3 moved up to Rs. 327.68 crores in Q4.

You would appreciate that the big difference is in the vacation ownership income largely and that comes in because we do not recognize 60% now, we recognize 4%. So, you will notice that the income from vacation ownership moves only from Rs. 76.8 crores to Rs. 85.09 crores while if you were to look at in the same period under Ind AS-18 it moved up from Rs. 123.64 crores to Rs. 166.75 crores.

If you were to look at our full year's performance the same situation is applicable if you were to look at that but having said that let me stay with the quarter only. And from the quarter income numbers that I gave you now, I will give you the profit numbers so that there is a comparison. Q3 we had a profit of Rs. 37.63 crores under Ind AS 18. It moved up to Rs. 49.41 crores. This under Ind AS 115 last quarter Q3 we had Rs. 21.25 crores profit. It has come down to Rs. 14.42 crores.

And the reason you will be able to see clearly is due to the fact that the profitability while in Ind AS-18 has improved very, very dramatically because we have controlled our sales and marketing expenses. Despite controlling the sales and marketing expenses, we are noticing that since we recognize the period cost upfront, and the income does not move when you do larger member additions in line with the member additions because you only recognize 4%.

Therefore, the effect on profit is not the way it should be under Ind AS-18. So, that is why you see the effect on profit in the sequential growth of profit is 31% while here in the Q3 versus Q4 in Ind AS 115, you see lower profits. So, I just want to make it clear to the investor and analyst community that this IndAS 115 particularly when we deliver very high numbers, as you can see sequentially we have grown by 42% in member additions will lead to upfronting of the cost particularly sales and marketing and that is something that we are not able to defer and that leads to lower profit.

But I do not think we should worry because if you look at our cash position, because while we go for growth in numbers and that is why we will continue to follow the strategy of running the business the way we have been running earlier. It is going to lead to higher deferred revenue when we have higher members added and that deferred revenue ultimately is profit in hand coming over the years. And you know that deferred revenue pool is now upwards of Rs. 5,200 odd crores and that is something we are adding to the deferred pool, the more members we add more money we add to the deferred pool and that deferred pool income will flow into our profit and loss account as we move forward.

So, in this particular investor deck, we have also given information on movement of deferred revenue. We have also given how revenue visibility particularly in vacation ownership will accrue, so this will make your task very easy to see what will be the next year income that we will get from the deferred revenue pool. In fact, we have stated that in the Investor deck.

At this point of time I will begin to move into the member additions particularly if you were to look at our cumulative performance. Our cumulative member are at around 243,574. So, you would notice that the last year rather the full year cumulative member additions were at 235,000 approximately and you have noticed that we have added 18,377 how come we are at 243,574. That is because we have taken a one time; there has been a onetime cancellation of the overdue members which we have undertaken and that number is 9,556, this is a one-off over-due members.

As you know that we continuously look at our situation of members and if there is an overdue member, and beyond a certain point, we take a call whether this is recoverable or not. But the good news I want to share with you is that while we have cancelled 9,556 members and there have been 1,039 members which have retired because they were probably the Zest members they were three years members.

The good news is that there is not even a rupee impact on our P&L because these members who were overdue were fully provided for as we have maintained in the past so therefore the change is P&L neutral. The only change you will see is in the balance sheet, where the receivable and the deferred income will go down by about Rs. 221 crores. So, that is the change that you will see in the balance sheet both on the deferred revenue side as well as on the receivable side both on assets and liabilities side, so that will match but there is no P&L change and this is one thing that I wanted to make a point that we have taken a conscious call.

And I think it is fair because if we are not able to collect, we should show the members that we are able to collect money from and therefore this is a onetime decision that we have taken to come to a cumulative base of 243,574.

. Let me start with one more thing that in member additions we are continuously following the strategy of higher down payments and lower EMI tenures. I must make this statement that over the years that we are tracking this there is a significant improvement in higher down payment, lower EMI tenures which is leading us to an obviously much better receivable management that we have done.

We have actually done a receivable transformation program with the help of a consulting firm also and that has helped us to move up our cash and cash balance to Rs. 572 crores and this is despite the fact that we have our projects which I mentioned earlier in Goa as well as Ashtamudi which are going on in full swing and much higher capital outflow is happening and despite that we have landed up with a cash position of Rs. 572 crores.

In fact, if you were to look at our investor deck, you will also notice that in the last four years, we have been able to generate at an operating level a cumulative operating cash of Rs. 1,000 crores. In fact, the number is now Rs. 1,005 crores. This year we generated an operating cash of about Rs. 291 crores and other cash flows related to projects we now have a very comfortable cash position of about Rs. 572 crores.

So, to us this gives us great confidence that we are getting in members with higher down payment, lower EMIs, better collections and also doing the right thing in terms of building the business brick by brick and that is helping us to ensure that and that can be also substantiated that despite cancellation of 9,556 members we did not have a single rupee movement in the P&L.

I would also like to draw your attention to one of the presentations that we have done regarding our track record over the last five years particularly on the PBT and PAT. If you were to look at our profitability, we have grown our profits. In FY15 we are at Rs. 105 crores, this year we are closing at Rs. 241 odd crores, this is a 23% CAGR on profit before tax over the last five years.

If you were to look at our profit after tax we were at Rs. 79 crores this year we are closing at Rs. 156 crores, this is 19% CAGR to the profit after tax growth and mind you, during this period we are still zero debt and we have cash position of Rs. 572 crores. During the same period if you were to look our cash used to be just about Rs. 26 crores in the last five years.

This Rs. 26 crores have grown up to Rs. 572 crores. So, this is an extremely healthy balance sheet, extremely healthy P&L that we have been able to build over the last four years and I would now highlight a little bit about the market and what is happening in the member additions area, what is happening in our resorts.

Let me start with the resorts. There is a significant improvement that we are able to do in our resorts in terms of engaging with members. We have been able to engage with members both in terms of holiday activities, food and beverage despite reduction in our occupancy as well as the fact that we had Kerala and Coorg issue in Quarter 2.

You will notice that on a year level, we have been able to move up our resort revenues by 5% and that to me is a great achievement plus very, very smart cost controls in resorts has led us to a very, very good resort profitability as well which has flown through into the total profit numbers. So, resorts experience whether it is our post holiday feedback scores, whether it is our member feedback, we are doing extremely well we did a very big innovation in our booking experience.

Now we follow a logic which is an open sales stores logic like Netflix users where members are recommended resorts based on their preference as well as availability and that is also helping us grow member's engagement leading us to continue to grow our referral as well as digital. Our member engagement has also given us a very, very big benefit. This year our upgrades are possibly the highest ever.

We have seen a very significant growth in upgrades which is included in the vacation ownership income. So, we are finding that our upgrades are on an upswing. It is much higher than the previous year and at an overall level the member addition driven by higher down payment, lower EMI with higher upgrades even though while the member addition is only 0.8% on a cumulative basis, we are still growing at 6%, 7%. We are able to build a business which is solid and looking into the future with lot of confidence.

I would like to also now mention that we have restructured the way we work particularly in terms of our sales force. We have been able to reorganize our sales force to look into these new realities of getting higher down payment, lower EMI paying customers better lead generation, referral, digital, and also getting into markets which are going to be highly productive into the future whether it is Tier-2, Tier-3 markets and that is something that it is a very detailed thing that I can take up with you whenever there is a meeting that happens with you all. So, there is lot of work happening on the sales and marketing and parallelly, we are controlling our cost in the sales and marketing area like never before.

So, at an overall level, very, very satisfying quarter in terms of profitability and the margins and the occupancies as well. A very, very satisfying year in terms of the growth in profits as well as the growth in revenues.

I would like to spend a few minutes on the Holiday Club Resorts as you know that we have published simultaneously the performance of Holiday Club Resorts. Holiday Club Resorts recorded a turnover of €161.1 million as against €165.5 million last year. There is a dip in the turnover and I will talk about that. The profit after tax is also down at €0.5 million versus €4.7 million for the same period last year.

The performance of the Holiday Club Resorts was affected by an extended summer in Finland. Finland has never experienced the summer that they experienced this year in July, August, September and part of the reason for the lower performance is that during the time, the activities which happen particularly in resorts; people were out because Finland people love the fact that the summer is extended and they would like to spend time outside the resort and that affected our performance of the Spa Hotels.

Parallelly, as you know that we get our customers, our prospects into the Spa Hotels from where they see the time shared unit as well as the fractional units which we call them as villas.

Since they were not in the hotel, it was difficult to get the time shared sales;. Parallely the holiday activities in Spa Hotels and the food and beverage related income did not happen and that led to the drop.

The other reason for the drop is that there was a construction project of villas going on in Sweden and we have mentioned this in our investor deck also that there is approximately €2.9 million impact as a result of delay in construction caused by the contractor, and we had to organize new contractors to rework and that led to a clear loss that we have been able to it is a one-off loss of about €2.9 million.

So, if I were to take these two reasons of exceptionally warm summer in Finland as well as in Europe affected the performance of Spa Hotels and time shared sales. Challenges in the construction project in Sweden which I mentioned which resulted in a one-off loss of €2.9 million on account of rework and bringing new contractors to complete the work. So, that has been the reason for the Holiday Club Resorts. I would also like to highlight that there has been a change in Holiday Club Resorts.

We have a new CEO who has joined. Her name is Ms. Maisa Romanainen. She comes from a very, very checkered background in the consumer sector and she was in the retail industry in Stockmann which is the number one retailer in Finland and she has also taken Stockmann beyond the Finland geographies which is what we will look at her in the case of Holiday Club resorts also and she has also worked in Finnish Railways and turned that business around and Finnish Railways is a highly profitable business and there is a lot of F&B income that they derive.

So, there is a very strong leader that we have who will join in from 1st July and we believe that the Holiday Club Resorts as a company is heading for a turnaround after the new CEO joining and I have been personally involved in her recruitment and I have met her and I have spent some time with her and she is beginning to get into the business as we speak.

So, at an overall level even Holiday Club Resorts going forward should do much better and of course the only thing is we are definitely watching the summer in July, August, September which is from all indications that we have it is not going to be as severe as it was last time. In Spain, in Grand Canneries we have restructured our business models and instead of time share sales we are focusing on rentals and that has helped us in profitability increase by about €0.7 million compared to the prior year. So, that is good news coming in from Spain which is a part of the Holiday Club Resorts.

So, I think at an overall level a very satisfying year looking forward into the future with lot of confidence and very happy to take your questions and once again apologies for not being able to give you sufficient time to share the data in advance.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: A couple of questions from my end. One is on in our room based, so we have added about 120-odd rooms in FY19. Just wanted to understand what proportion of this would come from leased rooms and how much have we done organically or gone Greenfield in doing so? And in the same breadth is there a change in our thought process because earlier we used to think about it as 65% owned rooms and 35% lease. Is there a change in the thought process there?

Kavinder Singh: Okay your first question let me answer that out of these 123-odd rooms that have come in FY19 how many have come through the Greenfield how many have come through the leased route. All the rooms that have happened this year have happened through the leasing route. We have been able to add lot of destinations. As I mentioned in Q4 we added three destinations. Prior to that we added another 3 destinations so total about six resorts came in during this year.

We have been able to add increase our presence in North East, we have had now Darjeeling, Kalimpong, Namchi these were the three locations that we added. We added Sri Lanka, we added Ahmedabad, we added Diu and we added Hampi, so as a result of which we are now far more widespread. However, I agree with you that this year we did not add anything Greenfield part of the reason is that the projects of Goa and Ashtamudi the Ashtamudi project was supposed to come in March.

I had gone on record saying that it will be up and running in March. The good news is it was ready on 31st March and I went and saw it. It is an amazing property development that we have done about a 56 rooms and the project is complete but we could not get it going in the last quarter and therefore as we speak, we should be in a position to in Q1 open up those 56 units which are there in Ashtamudi because they are complete.

As we also speak in Goa, we have a 200 room resort under construction approximately. 150 of those rooms should get open sometime in the third or early fourth quarter of this year. There are number of times we want to improve facilities and sometimes we have to go back to regulatory authorities for changes and that sometimes delays the approval process. But as far as our construction is concerned, the good news is since capital is not an issue, so our projects never get delayed because of capital not being available.

So, however, this year Akhila will give you the numbers. We have definitely spent much more money in projects i.e. Rs 150 crores compared to what we have done in the past. All of it is obviously not capitalized, it is the capital work in progress. So, our philosophy which is your key question that has our change in philosophy??, the answer is NO. We are quite happy and satisfied to be between 60% and 70% owned and about 30% to 40% lease but remember one thing, even in lease we do spend money on the resort.

We actually refurbish it and we run it. There are very few properties where the owner is running it when the keys are very small that the owner runs it but again, he has to comply with our standards and therefore we are quite mindful that our brand standards should not be compromised. Lease is not a problem because we run the property and we are in full control and we anyway invest money; we do long term leases which is as good as our own property.

So, when I say 60:40 I think we should not worry because all that 40 is controlled by us. There is not a chance for anyone to be able to run the property in any other way that we want to run. So, as far as the customer experience is concerned that is something, we are very mindful about. Yes, certain locations, I think I mentioned earlier, it is not possible to buy land and construct because of environmental considerations because some of the locations, leisure destinations government is not keen to allow permission, so there we have to use the leasing route to build the thing.

And I must give you one more perspective here, while we look at 3,595 please do and we do not generally talk much about it but we are running a very, very interesting experiment and it is yielding huge results. We are running an inventory exchange program, there what we are seeing is we have tied up with about 70 to 80 hotels in India and abroad in some of the finest destinations, I mean you name a destination we are there okay. And just to give you an example Agra, Mysore, Koh Samui, Phuket; you name a place we are there.

We have tied up with some marquee hotel properties and what we have done is because we are an institutional customer, we have been able to get very, very sweet rates from those places. We do not commit any inventory therefore there is no P&L impact. What we do is we only showcase those properties to our members if they want to go into a destination beyond Club Mahindra and they enthusiastically will bank their room nights we will take their room nights and there will be an exchange fee because we cannot be P&L negative and we ensure that the members are able to go at least 70 more destinations beyond our 61 destinations.

So, this has also helped us to manage particularly in peak times the requirement and it is not very significant in terms of room nights but what it does is a sense of choice and this is not to say that our inventory movement rather increase should be slowed down because we have an inventory exchange program, that is not the message I am giving you.

We will remain committed to growing our inventory in line and little ahead of member additions, however these are external arrangement that we do just to create a choice and this is not very significant today in our business for us to get into the details. But it is a very consumer friendly initiative that we have done member friendly initiative we have done.

Aditya Bagul: So, as I understand we had a pipeline of about 580 odd rooms. Would it be safe to say that would be coming on stream somewhere in FY20?

Kavinder Singh: So, out of the 500 if you recall, 115 of Naldehra already came in last year, so that made us go to 385. Out of that 150 of Assonora I mentioned will come this year plus 54 of Ashtamudi, so another 204 should come this year which is the FY19-20. We are definitely looking at 200 units coming through that. So, that takes away about 315 units of that and we are left with about 185 units. The balance 185 units were coming through two projects; one is a project in Theog which is 40 units another 140 units was supposed to come out of Kandaghat.

Now Kandaghat there have been some developments on the regulatory side and as a result of which we could not, but as we speak there are some positive developments happening. So, the moment we get the regulatory approvals we will go ahead with that 140 expansion. The Theog project also as we speak we are breaking the ground and we are moving ahead with another 40 units so that will take us to the full 500 units program.

While we speak, I must make a point that we have sufficient land banks available and as we speak at least we are planning to break ground in at least two more Greenfield locations which I will be able to share with you in some time once we are able to get a clarity from within. So, and that would obviously add to 500 number which will be even more.

So, as far as we are concerned, we have committed to capital expenditure which is required for building our business. we are also committed to acquiring resorts if we can get good quality within India, abroad and the last but not the least we are very, very happy to increase through leasing route also if the resort is of great quality and we can invest money, get long term lease and we invest serious money in that to bring the experience up to the level. So, we will use all the strategies to keep growing our room additions in line with our member additions or maybe even more actually.

Aditya Bagul: And if I may just squeeze in one question. We have got a one-off cancellation of about 9,500 members. If I recollect correctly the last time, we took part in such an exercise it was 2014 and I just wanted to understand that whether there are still a set of members which are non compliant because of which we could see some kind of cancellations going forward as well? So, over and above the regular run rate that we have?

Kavinder Singh: Yes, so one thing I wanted to tell you Aditya the way it works is that we anyway whatever number we give you these are net of cancellations which are happening as the expense so they are like-to-like. The one time cancellation, if I recall in 2014 was not of this order and I do not think there was any members which were cancelled. So, what I remember is there were some accounting adjustments that were done and that was highlighted properly.

We can go back and maybe spent offline some time with you. but I can tell you from the time I have in my memory this is the first time we are doing this because we realized that after we ran this transformation program with this consulting firm we realized that these members who were overdue beyond a certain period are not likely to pay and the good news was that because we have very prudent provisioning policies, because we have as you know our corporate governance norms are extremely high so we are suitably provided for and if you notice despite these cancellations there is no single rupee impact in P&L.

For me I think that is what you should really look at as to if the company is providing for expected credit loss which is the methodology that has been there in the past and going forward also. That if we are suitably providing for our debtors who are not likely to pay and there is a methodology we follow and that methodology fortunately has worn out in the last three, four years and it is played out well.

For the fact that when we canceled these numbers there was not a single rupee movement in P&L. To me that is very, very satisfying and in a business where we have 240,000 odd members, I mean this translates to only 3%, 3.5% of our total base. And I am pretty comfortable with that and I think that is the right thing to do.

Aditya Bagul: But just Akhila madam if I could ask one question. Would there be a significant cash flow impact because of this because most of the members would have already had paid their EMIs or ASF component so just wanted to understand what would be the cash flow impact for these 9,500 members?

Akhila Balachandar: Are you talking of a cash flow positive impact or a cash flow negative impact?

Aditya Bagul: Cash flow negative impact.

Akhila Balachandar: Okay. So, what we have done is as Kavinder mentioned we have done a fairly detailed assessment before conducting such an exercise and we have been fully provided. So, in terms of a cash flow impact we will not have any cash flow impact because all these people have not been paying us and we are very well governed with the rules and we have been following up with them, we have sent them reminders, notices and all so we will not be having any cash flow impact on account of this.

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

Nihal Jham: My first question was just to start off with the quarter, I know in the opening remarks you made the comment that we are looking at moderating our sales force plan for this quarter. But if I look at the other expenses, they have sequentially gone up from Rs. 138 crores to more like a Rs. 150

crore kind of a number in Q4. So, just wanted to understand whereas what is the reason for that increase?

Kavinder Singh: You are looking at the sequential numbers in Ind AS-18?

Nihal Jham: Ind AS 115 the one as they have been reported this quarter as well as last quarter?

Kavinder Singh: Q4 versus Q3?

Nihal Jham: Yes.

Kavinder Singh: 138 crs going up to 155 crs you are referring to the sales and marketing expenses?

Nihal Jham: Yes, the total other expenses?

Akhila Balachandar: Yes, so Nihal again apologies for the delayed uploading of the data. So, what you are seeing possibly is the regulation 33 upload format. We have also uploaded the investor deck and we have split it up into the components the other expenses where we have given the details of sales and marketing, rent and other expenses. So, what really has gone up in the other expenses is the component of sales and marketing cost which again if you compare to IndAS 18 in the same sequence it would be higher but definitely gives us far more in terms of the profitability. If you see all other expenses have been either flat or fairly well contained on a quarter-on-quarter basis.

Kavinder Singh: So, I will just add one more point Nihal to this. Since the movement is only in sales and marketing expenses, even if you were to do a last year comparison on IndAS 18 we had seen a movement and that is what we have done in the investor uploads

Akhila Balachandar: What you can do Nihal is you can possibly refer to Slide 33 of the investor deck.

Kavinder Singh: And that has an answer to your question and it is very clearly co-related to 42% increase on a sequential basis of member additions, directly co-related.

Nihal Jham: Now just coming to our member addition I know that we have sequentially seen an improvement but generally Q4 as an addition has always been much higher than Q3. And even if I look at it on a yearly basis the point is that there has been a de-growth in the member addition.

And even if I look at the last three years which is 2017, 2018 and 2019 the annual run rate of addition has been around the 18,000 rate. So, I just wanted to understand your thoughts on the growth aspect of members and what do you think could be the reason for this?

Kavinder Singh: Yes, so two, three points I want to make. If you look at Q1 and Q2 we were growing, we were growing in double-digits. In Q3 we were down by 5% and Q4 on a YoY basis we are down by 10%. We have definitely faced headwinds in Q3 and Q4 in terms of member additions. Part of the reason is that we are continuing to focus our strategy of higher down payment, lower EMI. We are not letting that part go. And we are very, very clear that that is one thing that is sacrosanct, we will drive that and we will not get into a situation where by reducing the down payment we can show a higher number. So, that is one thing.

Second, having said that in terms of sales and marketing we have had to restructure some of our sales and marketing operations as a result of this challenge of growing from 18,000 and beyond. I only want to make a point that four years ago we used to do 12,000 we moved up to 16,000 and then we moved up to 18,000 rather too fast. When we look at our systems, processes, capabilities probably we needed some time to consolidate and when I say sometime to consolidate, consolidate what.

We are consolidating on the right type of member additions which is higher down payment, lower EMIs, better collections, people who will eventually pay us in time which is what has led us to a significant improvement in our cash position, which is what has led us to a significant improvement even in our profitability because we have been also parallely controlling sales and marketing cost.

We have been driving sales and marketing cost containment, we have been driving cash collections, we have been driving the right type of members and you can see that that whether it is our PBT growth on a CAGR basis of 23% and on a PAT growth of about 19%. That is all happening because whether it is our ASF collection, whether it is our delinquency, whether it is our usage of our membership we are driving consumption of our existing members in resorts, we are driving holidays, we are driving, getting the members who can pay the right down payment and a lower EMI.

We used to have many members at 48 EMIs. We have shifted that 48 EMIs a large percentage of them into 36 EMIs. So, we are doing constantly as I say business process re-engineering to get members who are going to be with us, stay and enjoy. So, the improvement over the last two years if I may say 2017-18 and 2018-19 is in this area.

And that has led us to the performance that I have talked about because delivering PBT at a 23% CAGR over five years and PAT at the rate of about 19% over the five years could not have been possible had we not been doing the right things both on member additions and cost containment and resort experience. So, it is a simultaneous act which is going on everywhere and simultaneously increasing our inventory from 2,800 to about 3,500. So, as I see it ours is a long-term business, we see things not necessarily quarter-on-quarter.

We are looking at how we are adding cumulatively to our member base, and how much are we collecting out of them and how much are we ensuring that they are holidaying at our place. So, we are constantly focused on those metrics definitely we would like to grow our members beyond 18,000 and that is something that we have to look forward in this coming year.

Nihal Jham: Sir, would you say that the addition of the new membership category that we started this year that could add to any growth in the coming year?

Kavinder Singh: You are talking about the Bliss product?

Nihal Jham: Bliss product, yes?

Kavinder Singh: Now this product is small today. It is as you know a ten-year product. It is a points-based product targeted for senior citizens. When I say senior citizens, I mean above 50, so no offence to anyone who is above 50, because I am also above 50. But having said that we are trying to see whether this product is getting accepted and we are finding there is not only good acceptance a very good behavior in payments also. Around 50% of the members taking this product are paying in full upfront.

There is no EMI okay, and not only are they coming upfront the balance are coming at maybe 12 months program where there is anyway no interest discharge. So, it is a free interest 12 months EMI. So, we are finding that 90%, 95% of the members are able to pay this upfront it is a very and probably affordable at that level of income bracket and that level of age bracket. So, we are seeing momentum but let me be honest.

We are not going all out and trying to grow that for the simple reason we believe that our core 25-year product is a significant cash generator. We do not want a very significant cannibalization to happen as a result of Bliss into our core 25-year product, because we are keeping a very sharp eye on our operating cash generation. And for us that is also as important as adding members in terms of numeric count.

Nihal Jham: You mentioned about the profit growing at 40%, if I look at the annual operating cash flow that is fallen from Rs. 330 crores to Rs. 290 crores. So, I do not think you have given the details in the presentation but could you explain as to why the Operating Cash flow has fallen for the year?

Akhila Balachandar: That is right. So, basically there are a couple of things in this. We have done some additional investments into our resort renovations. We have done more on CAPEX and stuff like that and therefore if you see the cash position has grown from Rs. 265 crores to Rs. 470 crores and has moved Rs. 572 crores this is on account of as I said two three things, more renovations in couple of our resorts, adding to things like our CAPEX has also grown at Rs. 150 crores plus there are certain investments that we have been doing on softer stuff, improvement in our IT systems.

So, all these, I think, have little slowed the from Rs. 332 crores to Rs. 291 crores. However, Rs. 291 crores itself is a very good number.

Nihal Jham: Yes, CAPEX would be something that would not be counted in this Rs. 290 crores I guess?

Akhila Balachandar: Sure, I agree with that. The CAPEX will not be counted and I also therefore refer to my cash position moving from Rs. 265 crores to Rs. 470 crores and moving from Rs. 470 crores to Rs. 572 crores this year. So, it is a result of a multiple thing which includes obviously a CAPEX and also other thing. Coming back to Rs. 291 crores I think that is also fairly good healthy number given the fact I mean if you look at our PBT for the year Rs. 242 crores for this year. It is almost more than the PBT that we have done.

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

Chockalingam Narayanan: Two questions from my end. One on the balance sheet front there is a transmission reserve which has been created. Does that mean that we can start paying out dividends or you have not declared any dividend this year? So, if you can throw light on that. And related question is, it is related to the accounting changes there is a deferred tax liability of about Rs. 240 crores which has come up in the balance sheet from zero. So, if you can highlight what is the reason behind this? And secondly, you have also mentioned on member additions on the underlying business front things will be reasonably stable.

One point that you mentioned on member addition is there is 1,039 members who kind of retired. Now have they come back into the system, have they renewed their membership because having been in the system for so long them renewing will it is also testament to your product. So, if you can highlight these facets that will be really helpful?

Kavinder Singh: I will handle the first question. Then second question Akhila will handle and the third question I will come again on the members 1,039.

The first question that you have asked is about the dividend. I think in my opening remarks what I have done is I have tried to explain and this is also there in our press release. With the adoption of the new revenue recognition policy as per the standard which is Ind AS 115 we realize, and it is obvious that the deferred revenue and deferred cost had to be recomputed. And when you compute right from the beginning of the business because our contracts are still in force and this standard is applicable to, all the contracts which are open as on 1 April 2018. Since ours is a long tenure product all the contracts that we had signed with the members are subjected to this.

Now when you restate them there is a transition difference that will get created which is of the order of about Rs. 1,210.45 crores. The moment you do that what it does is that it actually creates a situation under Section 123(1) of the Companies Act which probably does not realize that such a situation can happen as a result of transition in to a new accounting standard. When you transit into a new accounting standard and when you have a transition difference of Rs. 1,210 crores and if your reserves are lesser than that, you are in a situation where you are not allowed to declare the dividend.

What we are clearly seeing is that this company has been regularly declaring dividends every year since 2006. We not only generated profit in the past we have also generated profit this year even after moving into the new standard and we have healthy cash flows as are evident therefore this transition difference number should not ideally impact us our desire to give dividend because we are in a position to give dividend, we have made profits and as per our dividend distribution policy we would definitely want to give dividend.

Only unfortunate part is that if you were to go by the literal reading of the Section 123(1) of the Companies Act it does not allow us to declare dividend unless we seek clarifications from Ministry of Corporate Affairs which we intent seeking we will have to keep this decision pending till we are able to get clarifications.

So, that to my mind explains the dividend issues. I would urge Akhila to explain you the question of this Rs. 240 crores deferred tax point which has been raised.

Akhila Balachandar: The deferred tax basically there are two parts to the deferred tax. So, one of the things of the transition was to re-compute the deferred revenue from inception. So, when my deferred revenue got increased, we had to create corresponding deferred tax asset in our books as per the accounting and tax laws. We also have revalued our land during the year as part of the change in accounting policy. This again give rise to a revaluation gain for which we had to create a corresponding deferred tax liability.

Generally, the deferred tax assets and liabilities can be netted off but according to the rules and regulations the liability created on account of the revaluation of gains cannot be netted off because there are different classes of assets and tax liabilities. So, therefore in our balance sheet we have two-line items deferred tax asset as well as deferred tax liability. But in our investor presentation for ease of reference we have clubbed it together under the head deferred tax asset.

I hope that clarifies your question?

Chockalingam Narayanan: Sure ma'am. So, effectively what you are saying is we need to pay the effective tax will still remain 33%?

Akhila Balachandar: So, as per the accounting norms the tax calculation as per the books will be at there will be a current tax and a deferred tax and therefore effective rate of tax on the book profit will be different from what is the actual tax under the income tax calculation. Now in our case it is not as simple as that. This differed tax asset has arisen because I have recomputed my deferred revenue right from the past and this is that revenue on which I have already paid my tax liabilities and therefore I end up creating a deferred tax asset because I will get the benefit of that going forward.

Kavinder Singh: Okay now I will come to the answer on the question regarding 1,039 members retired. What we do is that we constantly look at members who are on the verge of retirement and we do create offers for them to continue. What happens typically is that there are people who are based on their life stage may have grown out of the product, some of them have moved out of the country as well.

Having said that I want to mention, since you mentioned that it also reflects on the strength of the product proposition. Our strength of the product proposition comes through the fact that we have a very significant part of our members upgrading and we believe that the huge momentum that we have in upgrades is a clear testimony to the fact that our proposition is intact.

And these 1,039 members have chosen to retire and we are constantly in dialogue to see whether they may want to upgrade. But some of these members came into a product called Zest which was a 3-year product and for the low-value product. So, they were anyway probably not the members who could graduate in to the 25-year product because we no longer sell that Zest product which was a 3-year product.

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

Ritesh Poladia: My question is on the deferred revenues Slide #35 where you have mentioned less than one year is Rs. 341 crores as on March 2019. So, this Rs. 341 crores would be the to be booked and this is the minimum amount in FY20 for VO. Is my understanding correct?

Akhila Balachandar: Yes, your understanding is correct. So, what we have done to explain this much better is that the entire deferred revenue pool because this has been some of the questions from the investor community in lot of our past meetings as to what is the membership profile and how does it pan out. We thought it will be better to give this kind of an information as it will help you in modeling the whole P&L better.

So, this Rs. 5,100 crores which is sitting on my books today will spread over my 243,000 plus members and how I will be able to book this revenue going forward is what we have tried to depict. So, in the next one year we would be booking Rs. 341 crores and going forward for this existing member base rest of the amount is what will come in.

Ritesh Poladia: And this is getting reduced by from one to two years to two to three years mainly because there would be a retirement going forward?

Akhila Balachandar: That is correct. So, this is on the basis of the pool, so there will be people who will retire and what you are saying is perfectly right and therefore it will keep coming down. Again, there could be a mix of the members between various scenarios there could be a mix of people who purchase at various points in time, upgraded at various points in time. So, this factors the whole host of those things.

Ritesh Poladia: Next question is on HCR. Will HCR require any funding from MHRIL in next one to two years?

Kavinder Singh: So, as we see going forward, we work very closely with HCR going to see that such a situation does not arise. They seem to be in a position to manage their own cash flows fairly well. It depends on a strategy if they were to go aggressively into newer markets we will have to see. But fortunately, their relationships with the banks in Finland are extremely good and banks are quite satisfied in lending them money which is in line with their working capital needs.

I also believe that the fact that their dividend covers our interest costs as we have mentioned earlier. So, as you know that we did not borrow, we had only given corporate guarantees and though on consolidated level you do see the debt on our books but these are guarantees and these dividends for all these interest loans have been paid out of the surplus generated by Holiday Club.

Ritesh Poladia: One last if I can. Out of year 240,000 members how many would be paying their ASF on time or within say some credit period? If you can give some idea on that?

Kavinder Singh: So, normally we do not share what is the status of ASF being paid or not because the way it works is there are times when people do not pay ASF if they are not planning to holiday. But eventually our policy is very clear that they cannot holiday unless they have cleared all ASF dues of the past. So, the good news for us is that there are times when we get members paying three ASFs one shot and sometimes there are members who have not paid the first ASF but they will pay the second and then they will come back and they would have to obviously pay the first also.

So, what happens is there is a movement that happens up and down both in terms of the over dues that are there in the ASF area. Again, here we have very, very strong provisioning policies which are in place which are approved by our auditors and our board. There we continuously see this if there were to be people who would not be paying the ASF over a longer period of time.

By the way a very simple way to look at this is if you can see the growth in the ASF income that is a fairly good surrogate of how we are able to ensure the over dues at a certain level because if the over dues were higher it will lead to provisioning and the income would get impacted.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that will be the last question. I now hand the conference over to Mr. Kavinder Singh for closing comments. Thank you and over to you, sir.

Kavinder Singh: I would like to thank all of you who came in for this conference call. It is unfortunate that we could not stick to our time which was originally at 6:00 pm and we started at 6:45. And the entire apologies from our side as a team. We would endeavor to do better. This has never happened in the last four years that we have been. Unfortunately the board meeting ran little over in terms of time and therefore the uploads happened little late.

And I am extremely happy that all the relevant questions related to our business were asked and we look forward to these interactions because they are a huge learning opportunities for us.

With that I would like to sign out and say thanks to all of you from the entire team here which includes Mrs. Akhila Balachandar and Dhanraj Mulki who is our company secretary. Thank you very much.

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