"Mahindra Holidays & Resorts India Limited Q4 FY-18 Earnings Call"

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Moderator: Ladies and gentlemen, good day and Welcome to Mahindra Holidays & Resorts India Limited Q4 FY18 Earnings Conference Call. This conference call may contain certain forward-looking statements about the Company which are based on the beliefs, opinions, and expectations of the company as on 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. Thank you and over to you, sir.

Kavinder Singh: Good morning everyone and a warm welcome to our earnings conference call for the quarter four ended 31st March 2018. I am joined in the call by my colleague – Mrs. Akhila Balachandar. She is the Chief Financial Officer of our company. For the first time, we have the management team of Holiday Club Resorts CEO – Mr. Iiro Rossi and CFO, – Ms. Nina Norberg on the call. And, I would like to begin by sharing with you the performance of Mahindra Holidays and I will touch upon on the performance of Holiday Club Resorts as well.

I am pleased to share that Mahindra holidays added 6,321 new members this quarter. This is an increase of about 2.3% YoY and on QoQ or sequential growth of about 50.7%. Our resort occupancies were at a healthy 85%. Our resort revenues grew by 9.9%. Coupled with improvement in operational metrics and cost management actions, we have seen a growth of 21% in profit after tax to Rs. 38.5 crores as compared to Rs. 31.8 crores in Q4 of last year. We added 3 new resorts this quarter; Dwarka in Gujarat, one more resort at Dubai and Mahabaleshwar. These were the new additions to our bouquet of resorts and the net addition of 110 rooms this quarter. For the full year 2017-18, our profit after tax is at Rs. 134.3 crores which is up by 2.8% year-on-year. And our cumulative member base spans at 2,35,792 members. This is up by 8.1% year-on-year. For the year, we also added 320 rooms. These include the 110 rooms that I mentioned in the quarter four taking our total inventory count to 3,472, making us the largest leisure hospitality player in India.

I would like to also mention that in this full year we added 6 resorts; 3, I mentioned already, 3 more were added before, Naldehra came in. This is a project that was started three years ago. This is our Greenfield resort. Naldehra near Shimla that got commissioned this year; Singapore as well as Kochi. Our total resort count now stands at 55. Our sustained focus on getting quality members with higher down payment and lower tenure EMIs and sustained focus on getting our receivables back in time has helped increase our cash balance to Rs. 469 crores. This is up by Rs. 205 crores over the balance as on 31st March 2017.We have also noticed that as a result of our consistent cost management actions that are being going on for years now, we have seen an improvement in the PBT margin from 18.4% to 18.9% this year.

Now let me move on to the Holiday Club Resorts:

Very happy to share that our consolidated profit after tax together with the other comprehensive income is at Rs. 192.7 crores which is a big jump from Rs. 116.8 crores of last year. And, these are the consolidated figures. However, if you were to look at Holiday Club Resort's turnover, this would be right now what we have declared and behold 95.16% stake in this company. It's a material subsidiary. The turnover recorded was 165.5 million euros, which is Rs. 1,249.6 crores as against euro 161.5 million, a turnover of Rs. 1,185.7 crores for the same period last year. As you know, this acquisition has given us access to Finland, Sweden and Spain. We have 33 scenic resorts which are open to our members and there are of course 50,000 members which are there in the Holiday Club Resorts, they have also got added to our family. This makes Mahindra Holidays the largest vacation ownership company in the world outside of the United States.

On the business expansion front coming back to Mahindra Holidays, our ongoing investment of 500 crores will add further 500 units to our total inventory at the close of FY19. On Mahindra Holidays, I would like to once again mention that we have emphasised on providing the best holiday experiences to our members. Our in-resort activities now host an array of experiential activities including cultural shows, traditional arts and crafts workshops, coffee, tea plantation tours, beach pool activities, summer camps for children, local culinary experiences and lot more. We have also partnered with local experience providers at several destinations to further increase the scope of destination activities for our members. These include heritage tours, cycle tours, adventure sports etc. At this point of time, we are also focused on providing the best in class city in-city experiences to keep members engaged while not on a holiday, leisure experiences. During FY 2017-18, we expanded our dreamscapes project to about 30 cities. This is powered by Xoxoday the company in which we invested. We took a minority stake in this company. This is a start-up based out of Bangalore. We have now 2000 in-city experiences listed to our members across travel adventure, gourmet food, health, wellness and art and learning categories. We have also introduced curated vacations for members looking for unique vacations. These are not run-of-the mill vacations but exclusively chosen by the holiday experts of Mahindra Holidays. I must also add vacation here which actually provides our prospects the opportunity to experience our products, actually in a day.

And furthermore, in an attempt to reach out to members in their cities of residence, we have conducted several heart-to-heart events which received a positive response from the members. Our latest product bliss which is a 10-year club Mahindra membership targeted for people above 50 years or more has now been rolled out in 14 cities across India.

Before I progress further on Mahindra holidays, I would also like to add, in holiday club we have generated 12 million euros of operating cash this year and the dividend of 1.8 million euros of HCRO has been declared by the Board of Directors. So this is something that I missed in the earlier one, now I will continue for Mahindra Holidays. I would like to take this opportunity to also highlight that we are spending significant amount of money on digital presence. We have launched our mobile app to enhance our member engagement and provide customized services. In fact, we have crossed 100,000 unique downloads and about 84% of our bookings and transactions come from online platforms which is our website and our app, out of which 35% are through the mobile app. We are adding features related to EMI payment and annual fee payments. All these features are active and members can make these payments happily through the app as well as do the bookings and get to know their holiday updates including their status of the upcoming holidays. Our emphasis on social media engagement during the year has resulted in much better brand recall, much better connect with members and prospects and a much improved digital presence. We are certain that going forward FY18 and '19 will be a fruitful year as we look at positively, looking ahead we feel that the rise in domestic tourism that we have seen with all around much better connectivity and the increase in low cost airlines, we believe that our outlook on future is positive. We believe that we are in a position to continue to add new unexplored destinations and enhancing member delights in time to come.

With this, I now open the call for questions. I think the process that we have followed is that there are questions that come one after another and we will be answering all of them till about 12 noon. We have about another 45 minutes for the questions that you may have.

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

Aditya Bagul: Sir, can you share your thoughts on the growth rate on our key revenue line items - VO income, resorts income and ASF over the next two years along with probably some idea on what kind of membership growth we would be targeting. And in the same breath sir, I would like to know what is the reason for the decline in the VO income both during the quarter and FY18 and also the ASF is not growing meaningfully this year. So if you could just give us some idea there.

Kavinder Singh: So, I would request Akhila to handle some of your questions related to the financials and I will comment into as how we look ahead into the future.

Akhila Balachandar: Thanks, Aditya. So Aditya on the two questions that you have on the income from VO and income from ASF, let me take the ASF piece first. If you remember, we have been saying that over the year, last year we migrated to IndAS during '16-'17 and over the period we also tightened our provisioning norms as per the ECL methodology and during the year, at every quarter we had a fairly flat growth on the ASF, though we were pretty happy internally because we know the numbers were growing. A fair amount of the provisioning last year because it was the first year under the IndAS happened in the quarter four. And this year we have migrated over the period. So to some extent the quarters are fairly muted and if you therefore see the quarter four is pretty much looking very good, but on the annual level we are at 3.1% growth which is in line with our member addition and also for the factor for the annual ASF increases. Ours is purely an accounting requirement where the norms globally also are getting tightened on provisioning and it's not that there is a provisioning, this is not an actual incurred loss, this is the expectation of loss which we have worked based on some models and internal methodology. So if there is a provisioning, it does not necessarily mean that we expect it to be a loss. It is just that the accounting guidelines ask us to be more tight and therefore we have gone for the expected loss methodology. Second, the same goals go for also my VO income. There was a transition last year, which we did a final review during the audit and if you remember, we have done a onetime provision of Rs. 21 crores in the expense line. But in the current year, we have now made it a part of our accounting policies and it is very much disclosed in our revenue recognition policy. So while the units have grown, our revenue recognition has become far more prudent or tighter in line with the requirements of the accounting standard and therefore on a YoY basis we see some mismatches. But otherwise if you factor in, I think it's in line with the unit growth. I hope this answers your question.

Aditya Bagul: Ma'am if I may just have a follow-up on that? So, there is Rs. 21 crores of additional provisioning sitting on the income from VO, so if we add 544 plus 21, that still gives us 565 crores for the full year which is still 5% lower than the previous year's number. Now, we have 8% growth in our membership plus we had at least 5 or 6%.

Akhila Balachandar: I would request you to look at it a t the annual level, so if you add that 21 to the annual number...

Aditya Bagul: Which is what I am doing Ma'am.

Akhila Balachandar: So there is a de-growth of 3%.

Aditya Bagul: Ma'am, maybe I will check on this number again.

Akhila Balachandar: Sure.

Aditya Bagul: Ma'am, and my second question also relates to a data point, we have about Rs. 1,430 crores of receivables both in long term and in the current assets, if you can just let me know what is the proportion of those receivables which are overdue by 6 months?

Akhila Balachandar: If you see the disclosure itself, it is fairly clear, what is current is exactly what is something which we collect immediately and within the next 12 months and the non-current is the portion which is due only after the period of 12 months.

Aditya Bagul: Sir, if you could just help me with understanding what our long term thought process is?

Kavinder Singh: I just wanted to bring one more perspective that while these issues of IndAS which Akhila was talking about, these are now already built in into this year's performance, so you can obviously understand what I am trying to say that this transition impact is only limited to 17-18 right. The impact of ASF income was because we took a call to do a tighter provisioning than what we have been doing and VO is a function of the IndAS as she explained clearly. Now as far as the business goes, you have already seen that member additions in Jan, Feb, March quarter is typically good and we have been able to sustain the momentum that we had last year and sequentially if you look at it, we are 50%up. Now looking ahead, what we are doing is to strengthen our proposition even more than what we have already. We have created lot of activities which I talked about and we are also using these on sales pitch, the fact that the families have a good time, the families will be able to bond, the core pitch is being further strengthened. As far as the digital and referral way of picking up leads is concerned, the referral program is also being accelerated and our digital presence as I was mentioning and one of the reasons why we are present in a big way in digital is that we get significant percentage of our leads through the digital route. So our focus on digital referrals and alliances with the brands which gives us high quality data points for us to reach out to our target prospects along with the fact that we have now even the ability to reach out to people through an extremely targeted way including the various channels that are available through the digital route which I have mentioned through the referrals and because we are using analytics which I had mentioned last time around. So analytics coupled with the fact that we are using digital referrals and alliances are giving us reasonably high quality data in being able to reach out to the prospects in a meaningful way. We are finding our overall conversions are improving, our cost of acquisitions are in control and one thing that we are trying to do which has not probably allowed us to increase our member additions this year is our focus on higher down payment and lower tenure EMIs because we are going after higher quality members. Therefore, the higher down payment and lower tenure EMI is something that is now becoming basic for us when we reach out to a prospect customer which we believe is one of the biggest reasons for our cash balance to move up from Rs. 264 crores to Rs. 469 crores, an increase of about Rs. 205 crores in just one year. If you go back one more year, it was Rs. 84 crores, it moved to Rs. 264 crores. So what we are doing is we are trying to reach out to members where they have the capacity to pay, they pay higher down payment, they immediately start enjoying the holiday, they have a much better experience, therefore their payments on both EMI and ASF will be regular which we believe will lead us to lower provisioning in time to come and these are the measures that we are taking and therefore we transitioned from a stage where we would be happy to sell at a down payment of 10 or 15% but that is something we are significantly reducing and we are encouraging people to go to 30% down payment, 50% down payment, full year payment and this is what is helping them to experience the product early and therefore stay with the product which will help us to get much better collection, which will help us to continue our journey on building the cash balance that we have built up. So this is the strategy that we will follow to tackle this whole issue of growth but higher quality members growth parallely improving our cash balance. This is what in nutshell is our strategy that we played out in '17-'18 and we continue to do that. Of course, we will become much sharper in getting much higher quality data as we move ahead.

Aditya Bagul: Sure sir. So would this take away the accurate, post all these provisioning and IndAS impact. Going forward our revenue growth would be ahead of our membership additions? Would that be a fair thinking?

Kavinder Singh: So normally I have made this point earlier with you that I think at a thumb rule level if we are growing in member additions at a single digit level, definitely our PBT would grow in the early double digit level, partly because of the annuity income and that is how it should play out because as you notice in this year ASF income got impacted, even though in quarter four you have seen early signs of recovery but definitely for the full year ASF income got impacted because of the tighter provisioning norms. Now that they are built into the base, we believe that the annuity income growth, the resort income growth and the interest income growth, interest is of course the EMI related thing, they are obviously moving in line with their past patterns. But the fact that the member addition growth gives the kicker to it because there is accumulation effect that happens and that is what will lead into the journey forward and I want to also give you one good news if you really look at it our resort additions earlier were lagging behind. If you notice that despite our lease income, lease rentals growing dramatically much higher than what they were last year, we have been able to maintain our profits for the full year. And the lease rentals are something that they are as a result of the fact that we added 5 new resorts and what it does to us is that we create the inventory for people to enjoy holidays which means better stickiness with us, which means lower provisioning going forward, which means better resort revenues. So it is a vicious cycle, what we have to do is to do the right things. The right things to do in our business is to continuously add experiences and resorts, continuously target higher quality members who have the capacity to spend and ensure that we are moving all metrics simultaneously not just the P&L, but the P&L, the balance sheet as well as the cash position needs to be moving together which is what this business is all about.

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

Nihal Jham: So just confirming the point that Akhila Ma'am made was that Rs. 21 crore number that was mentioned taken away from VO income was all in this Q4 quarter?

Akhila Balachandar: In last year, yes, we had done a onetime provision in last year which was taken in the Q4 of last year.

Nihal Jham: And what was the number in Q4 FY18?

Akhila Balachandar: So Nihal basically now we have made it part of the revenue recognition policy and therefore it is adjusted in my revenue itself.

Nihal Jham: So that would explain the divergence specific for Q4 where our member growth has been flat and the VO income has fallen by 11%.

Akhila Balachandar: That's correct.

Nihal Jham: Just second point on data some points, what was the sales and marketing spend for this quarter in the comparative figure last quarter?

Akhila Balachandar: Current quarter we have spent Rs. 74 crores vis-à-vis Rs. 63 crores last year for the same quarter.

Nihal Jham: Sure. If I had to look at the other expenses whereas most of our saving happened which has led to this margin expansion for us if because I see that the sales and marketing expenses are obviously have seen a good growth on a YoY basis?

Akhila Balachandar: So Nihal, basically the margin improvement has happened in the YTD figures also. In terms of sales and marketing spend, traditionally also our best quarter is always Q4 and we ramp up all our sales marketing spend in order to gear up for that. So to some extent, it's also about timing of our expenses when we do a brand promo, when we do a marketing spend, how we want to time out our initiatives and also take advantage of the same in the April-May of the next year. So this is an ongoing activity initiative. But obviously Q4 is our best quarter, but on an overall level if you see for the year our sales and marketing spends have been very well controlled and we have actually reduced the cost of acquisition in this year compared to last year which is what we have been sharing over the quarters. So coming to your second point on how we have managed to improve the operating margin. This is not just related to sales and marketing, this is a complete drive on cost optimization across resorts, across overall spends, our IT spends, optimizing the breadth and scale of the group's initiative sometimes. And this really have been something we have been not doing, not just this year but over the last 7-8 quarters which is yielding results to us and that is where I think we really got some of our kickers.

Nihal Jham: Just the fact that we have the HCR management and we have seen that there has been a sharp improvement in profitability in HCR for this year. So just wanted your comments on what has led to that and in the past, what is the kind of peak profitability that the business has seen and how do you plan to take it ahead?

Kavinder Singh: So Nihal, you may want to break your questions into 1, 2, 3 because our Finnish friends may not be able to answer 3 questions loaded into 1. So my suggestion is just break the question 1 and question 2 and question 3, definitely Iiro and Nina are here to answer your questions.

Nihal Jham: Absolutely. So my first question on HCR is that what has led to the improvement in profitability for this year where we have seen more than a 2x jump in profitability?

Kavinder Singh: Yes, I would request Mr. Iiro Rossi or Nina to take this question.

Iiro Rossi: Thank you, Kavinder. It indeed was very nice improvement altogether. I am glad to say that it came from several, or I would say all the fronts, we did some cost optimizing, we renegotiated all the contracts; rental contracts for a couple of hotels, units, headquarters, rental agreements, all the service contracts. So it was smartly cost based, but from the business units point of view, I think it is spread over. We are working at the hotel business separately and then fractional timeshare business separately and from our point of view, the international business mainly Sweden and Spain. And the improvement was spread all over those three or four units. So if it's both cost based and business units better efficiencies in all the business.

Kavinder Singh: Nihal, you have any other question other than this one?

Nihal Jham: Yes, just two more on HCR. Secondly in the past what is the kind of peak profitability that this business has seen because as I understand over the last 3-4 years, the performance has taken a downturn.

Kavinder Singh: So Iiro, you may want to go back little bit in the past to share with them what was the peak profitability or the profitability that was probably the best profitability that you have seen in the past years.

Iiro Rossi: I think when we go back few years, we took over the hotel business, bought the hotel units back in 2011 and after that acquisition, it has been constantly improving and in that record in the hotel business, it has been better every year, so this in a way is at its peak.

Kavinder Singh: So this is the peak and part of the reason might be that you know you also acquired the Spanish asset as well as the Sweden assets over a period of time. So you may not get a like-to-like comparison.

Iiro Rossi: Exactly. You are right, Kavinder.

Moderator: Thank you. The next question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad: If you could provide us with the revenue, the EBITDA and profits for HCR separately?s

Akhila Balachandar: Sure. What we will do is, I think once the final audits are close, the annual accounts will be out, but it will take some more time to release those because we have not currently put it in the public domain.

Chirag Setalvad: Yes is it possible ma'am to just provide the profit?

Akhila Balachandar: But if you see this time, we have published the segment results and they have done a profit of Rs. 67 crores as a group vis-à-vis Rs. 23 crores last year.

Chirag Setalvad: Ma'am I was a little confused about this exchange difference, if you could explain that to us because when we look at your results on consolidated basis you have a Rs. 133 crores of profit after tax and then after that you have a foreign exchange item of Rs. 60 crores. So, I was a little confused what the foreign exchange item relates to. If you could just explain the nature of that?

Akhila Balachandar: Sure. So, let me just run through the segment results that will help me clarify this. So we have separately shared the MHRIL results and the HCRO results and post that what we do have, the borrowings that we have taken for the acquisition of the finnish entity lies in one of our holding companies abroad. These borrowings are in Euro and assets if you understand us also in Euro which is the finnish entity itself. But when we do a translation because the Euro has appreciated, one leg of my translation goes into the P&L and the other leg, these are the accounting guidelines and norms under IFRS which we are now following, the other leg of the translation on an investment goes into the reserves directly. So, I have two legs of the translation which really do not knock off against each other in the P&L or in the results, but in different parts of my overall annual financial statements. The last portion which is currently sitting, Rs. 41.40 crores is what we have incurred in the translation difference which comes into my P&L and there is a Rs. 61.94 crores appreciation which we see on the underlying assets which gets correctly transferred to the reserves. That is why we have tried to give a little elaborate explanation to it even in the regulations that we have filed. The way I would look at it as the management therefore is the segment results before translation difference which was Rs. 212 crores last year vis-à-vis Rs. 258 crores this year, which is a 21% jump.

Chirag Setalvad: So just to understand there was a Rs. 41 crores loss to the P&L and Rs. 60 odd crore gain to the balance sheet.

Akhila Balachandar: That's correct.

Chirag Setalvad: And the profit of HCR was Rs. 67 crores this year versus Rs. 23 crores last year.

Akhila Balachandar: That's correct.

Chirag Setalvad: And in the opinion of management, is this Rs. 67 crores number broadly sustainable?

Kavinder Singh: Iiro, the question to you is that the profits of Rs. 67 crores that we have declared in our segment results are they sustainable and how do you see them ahead? Normally we do not give guidance, but I think the question is more directional question that how do you see the operations and therefore do you see that this is like a one-off or this is likely to sort of continue depending on the situation that you see over there in the overall macroeconomic factors that you see in business environment there. Over to you, Iiro.

Iiro Rossi: Thank you. Sustainable, definitely. The economy is looking good but the growth is not the same that in India, but the consumer confidence is high all over Europe and particularly in Finland and there would be growth in the economy in Finland, Sweden and Spain and we will continue to grow further. Outlook is very positive and of course we are personally looking at acquisitions, acquisition opportunities particularly in Spain and there might be construction opportunities in Sweden. In Finland, we have plenty of land to develop our own existing resource. And so I am very positive.

Chirag Setalvad: And the last question is if you could give a breakup of HCR revenues between hotel revenues and time share?

Kavinder Singh: Akhila, do we have these figures of hotel and time share revenues? Iiro, I think we need to just check because if they are not yet out in the public domain, then I think Akhila will have to answer this.

Akhila Balachandar: Chirag, what we can do is, maybe in a couple of days we can share this because then we would like to share it with all the investors jointly. We currently would not like to make it part by part disclosures.

Chirag Setalvad: Sure. So I think what would be helpful ma'am is HCR if you could give us a breakup between hotel and non-hotel in terms of revenues and hotels and non-hotels in terms of profitability?

Akhila Balachandar: Sure, we will do that

Moderator: Thank you. The next question is from the line of Arjun Khanna from Kotak Asset Management. Please go ahead.

Arjun Khanna: So, EBIT as you have said in the segmental numbers for FY18 HCR is Rs. 67.09 and for FY17 was Rs. 23.07. Our finance costs for FY17 was Rs. 19.71 and for FY18 was Rs. 63.7 including the readjustment of our Forex.

Akhila Balachandar: That's correct.

Arjun Khanna: So the net impact is that on a PBT level assuming that if we collapse the structure, the PBT is flat year-on-year. That's a fair understanding right because all the debt would be only for HCR?

Akhila Balachandar: That's correct.

Arjun Khanna: My second question is given that the euro or the rupee has depreciated further against the euro, we have close to 80 now and last year we would have ended at on an average, roughly 77.5 so we are looking at this year also a potential Forex charge assuming a debt level similar at Rs. 713 odd crores. Next year also it is not likely that we would see any substantial PAT. Is that a fair reading?

Akhila Balachandar: Arjun, what I would like to reiterate and explain again is this Mahindra holiday as a group has taken borrowings in Euro for investment in the finnish entity. So I have got loans which are denominated in euro and I have got an investment denominated in euro which is as you have seen has been performing fairly well this year. The euro obviously has appreciated giving rights to translation difference. Now the translation has to work both on the liability and the assets. Now the way the accounting guidelines are structured, one leg goes into the P&L and the other leg moves into the reserves. Now if for example the euro changes trend, I could have a gain next year any point in time in the P&L and on adjustment in the reserves next year. From an entity perspective at the consolidated level, I really do not have a real Forex loss happening because my underlying assets and underlying borrowing are both in Euro. On translation, I will keep having these adjustments in my consolidated financial statements.

Arjun Khanna: Fair. I just wanted to understand on the assets side? Now on the assets side have our inventories moved up because we have created more hotel units or fractional ownership or have they moved up because of the translation impact? Is it possible to break that up?

Akhila Balachandar: So it's a mixture of both. As we said the operating entity has generated 12 million of cash on their own like we have generated cash in the Indian operations. These have been used continuously for their own business purposes as well as payout of dividend. Now as far as HCR goes, the business model is such that they will keep on investing, building new resorts and therefore inventory will keep moving up and down. That's the kind of raw material for their business. Inventory going up is not necessarily a concern because without the inventory there will not be any sale. But this growth in the inventory that you are seeing is a mixture of both, the translation as well as increase in the overall inventory position.

Arjun Khanna: Ma'am because we don't have much clarity on HCR would it be possible to publish their numbers in terms of the format which we have for Mahindra holidays, I mean for distribution to the wider public as and when possible including the inventory numbers in addition to those details asked earlier of hotel and time share?

Akhila Balachandar: Sure. We can do that.

Arjun Khanna: Sure. Just on the domestic piece, in terms of the number of keys addition Mr. Kavinder indicated you are looking at 500 keys in FY19. Did I hear that correctly?

Kavinder Singh: That's right, by FY19. Let me explain so that probably the question will get answered. So what we are saying is that we have ongoing projects in 3 locations and they will add up to about 500 units and that Rs. 500 crore CAPEX now because now Naldehra came through, which is about Rs. 100 crores odd came through out of the Rs. 600 crores that we had announced. As we speak in this financial year, we are definitely expecting two of the projects to finish their phase I which will add certain number of units and the balance will come in '19-'20, that's why I said FY19 close, we should see this 500 units coming in and the capital expenditure program completing of the Rs. 500 crores. That's what I said.

Moderator: Thank you. The next question is from the line of Bharat Subramanium from Sundaram Mutual Fund. Please go ahead.

Bharat Subramanium: Just wanted to check in terms of domestic piece, we have added member close to 6000 plus, so could you break it between how many would have come in through the new product that we had launched for the senior citizens if you can?

Kavinder Singh: We haven't done that because as far as we are concerned, it is the same vacation ownership product, it just got a different tenure. So this is really something that we haven't yet put it out in the public domain, but I can only tell you that it is gaining momentum and that is why we are going ahead and launching it in the other cities. It is to tap in adjacent segments. It's a lower tenure point based flexible product and we believe that, that's another product that we are banking on to grow. And maybe at some point of time, once we have gained sufficient scale, we may start disclosing the numbers, but really speaking this is like product wise breakup. It's probably may not be even required because at the end of the day it is the same construct of a vacation ownership product.

Bharat Subramanium: Put it the other way in terms of incremental member addition, do we see a skew towards this particular product while the tenure is lower?

Kavinder Singh: No, I don't think that people would end mass move to this product because the key thing really is that this is a mistaken notion that people want a lower tenure product because the real value of our proposition is the long term, ability to holiday long term which means over 25 years and that's where the benefits accrue to the members as well as to the organization because there is a lifetime value that we are internally calculating and we actually keep an eye on what is the members lifetime value and couple it with the acquisition cost that we incur upfront. It makes sense for members to stay longer with us to enjoy their family vacations over a longer period of time because the families undergo, I mean from a pure marketing point of view, if I were to say that people go through their different life stages, the holiday needs change, the upgrade and we also make upgrade revenues, the F&B revenues change when they travel with friends and relatives. So there is this whole concept of member lifecycle value which gets enhanced over a longer period of time. The idea of this 10-year product was to actually tap the adjacent segment that seniors are now beginning to travel alone and if they have not been with us and if they have not taken a 25-year membership and if they are at 50-55 years of age, our selling proposition was becoming weaker to them because at 55 someone is probably not thinking of 25-year product. Though life expectancies are rising, but we still believe that, that actually filled that gap. So we don't believe that becoming the skew of member additions moving towards that product because our core target audience still remains 35 plus family and this will be an adjacent product. It is just that we are filling a gap which we should fill because as the number one player in this category, we should look at all segments holistically. So that's the objective of this product.

Bharat Subramanium: And my other question is in terms of the member to room inventory metrics that we typically track, so despite the 500-key addition, would you think the metric would still remain a bit tight given the last 2-year turns of member addition that we have seen. Adding 500 keys would just meet whatever we would be adding in terms of member gone for FY19. So looking into the year down the line beyond FY19, how are we planning our room inventory?

Kavinder Singh: So I think the way we handle our room inventory if you notice even in this year, only one third of our room inventory came through our own project which is Naldehra and two thirds came through leasing route. But if you look at an overall level, we have about 65% own inventory and about 35% is leased. So the idea here is that we use this mix strategy to accelerate our resort additions while obviously accelerating member additions. And obviously in some of the areas you don't get permission to actually create a new resort because of the environmental constraints. So we do sometimes for example the property that we took in Mahabaleshwar is our second property, it is on lease. The idea here is that you can't easily construct something in Mahabaleshwar so there is a demand, so you actually go out and lease. So we have this asset light strategy bundled into our overall model, and when I say 500 units, it doesn't mean that we will add only 500. As you can see this year itself we added 320 and if I have to split 500 over 2 years, it would mean only 250 units. We definitely need to lease over and above the average rate of 250 units that could come potentially through our own projects. And as we go ahead, we will keep announcing the newer projects because the land acquisition process is constantly on. We have land banks. So our rate of inventory addition has to be in line or ahead of member additions. That is the strategy that we are pursuing. So 500 does not mean that we will add only 500, we will definitely add more than 500 units because the leasing route is always open to us and that we have pursued in the past as you have seen.

Moderator: Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.

Manish Poddar just wanted to get a sense that I believe you have launched another type of membership which is for a 3-year tenure. Is that right and which is offering the same benefits let's say of a 25-year tenure just the payments and the terms are a little different. But what is the rationale, and do we intend to scale it up or what is the rationale for this?

Kavinder Singh: So again from a consumer standpoint, as we speak we are test marketing this product called "Go Zest" This is the product for millennials, you know that we tap members in the age bracket of 35 plus who have families with children. We believe that this segment of 25 to 32 because when we generate leads particularly through the digital route, we do get leads, which are in this age bracket. So we have thought of creating a starter product, it is truly a starter product, it is not the main course, if I were to use the food terminology. The idea here is that you sample what we have to offer. It's a 3-year product, it's still being test marketed therefore we have not gone on record but since you asked me I had to sort of to tell you that this is more an experiment going on to see can we create a funnel. See the idea is that when you like the first 3 years of experience, you may want to join the 25 years because your life stage will move if you join this at around 28-29 young, newly married or even a single. Over 2-3 years, you may have experienced this product and as you reach that particular age and you have children or even otherwise, you may want to sign up for 25. It is a very standard practice worldwide to look at starter products. We never had a startup product, so we believe that this could tomorrow funnel growth for our core member additions. Therefore, this experiment is going on. This is not really even test launched yet. There is some minor test marketing happening and so it is not that we have sold any units and they are not accounted. Definitely in the financial year '17-'18, as we speak the test marketing is going on internally. So we are wanting to test the propositions and see whether it works or not.

Manish Poddar: I was just confused that if the sales person from your end has to sell one of the 2 products, he would let's say because of incentives or some other stuff, if he starts selling the 3-year product and you are making resorts with a 25-year view in the place, so…

Kavinder Singh: So we are very careful. We definitely ensure that the incentive structures are aligned. And second thing is the core club Mahindra product. People who are selling 25 years product they will never sell this product. We have separate salesforce which sells Bliss which is the 10-year product and if this product takes off, we will think about how do we want to create the salesforce delineation because we really do not want any cannibalization happening from our co-product. So we are very mindful of that, really appreciate your question.

Manish Poddar: And just 2 more small ones if I can? Hasn't any 'like-to-like' increase in the membership cost, let's say this year or are we building any number for this year?

Kavinder Singh: In the quarter four, Akhila you may want to talk about that

Akhila Balachandar: Manish, like I explained earlier, if you see on an annual basis, our cost of acquisition and sales and marketing expenses have been under control and we have in fact reduced our overall cost of acquisition. In the quarter four, we have gone and done a lot more branding and digital acquisition initiatives. To some extent there has been an increase in the sales and marketing expense.

Manish Poddar: And just one small thing if I heard it right, you all have not given any room addition let us say for FY20. We are just in the planning stage as of now.

Kavinder Singh: See we normally do not talk of room addition plans, but we have obviously Greenfield additions that we are doing. That 500 units which I have talked about which will come in '18-'19 and '19-'20, that is because these are the projects which are going on. Therefore, it's our normal business to create resorts and we do share what's happening so that you have an idea of the capital expenditure, the number of units that will come. But how much units we will lease, how much units more we will add, we constantly calibrate because you would understand that we don't want to run too much ahead, and we don't want to be lagging behind and therefore we do not give out in the public domain as to what is our total room addition plan for this year or the next year. But you have seen our pattern and you have seen how much we have been adding. If you go back 3 years, we were at about 2,400 odd units and now we are at about 3,472. So on an average if you were to look at it, in the last 3 years we added about 1000 odd units, but capital expenditure of this kind wasn't there, so there is some acceleration that we are definitely seeing looking ahead.

Manish Poddar: So effectively that 9% odd growth run rate which you are looking at?

Kavinder Singh: No, we don't want to say this because we don't want to commit to just 9%. Because we are seeing opportunities beyond 9% definitely, that's why we are investing Rs. 500 crores and as we speak, we have landbanks and we are planning newer projects which we are obviously not right now putting it out because there is some work happening over there. So we are definitely not wedded to this 9% number, we would definitely like to accelerate our inventory additions.

Moderator: Thank you. The next question is from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Sir if I see, you said cost of customer acquisition have come down, but I see in the last 3 years our sales mix by source of lead from digital and referral sales have come down by 5% points. So that is a conscious strategy or what it is?

Kavinder Singh: So really speaking, we obviously go all out in the market to drive digital and referral sales. But I must tell you at this point of time that digital sales are not cheap. They are expensive because as you know that digital targeting happens on Facebook, Google and Yahoo etc. and these people continuously raise the rates for advertising on their websites. So it is not something that the digital brings down the cost. Digital hasn't yet brought down our cost. On the other hand, referral does bring down our cost. So our aim is to drive these, but we cannot be off digital because there are a lot of people today who search and find out about products on digital and therefore digital presence is a must. So as far as our drive is concerned, we continue to drive digital referrals, but the other sources are now, we are getting into alliances as I was telling you with various brands and the whole idea is that you are able to tap them the people who are likely to buy, therefore improve hopefully your conversions and bring down your cost of acquisition. So it's a constant mix which keeps changing. But we have been fairly good in maintaining our cost of acquisition if you were to take a slightly longer-term trend. In fact, this year we are lower than the last year. So the movement which you talked about specifically about digital referral going down by 5% points, if you ask me directionally that is not a very big change. We are in the order of about 50%, sometimes we do 53%, some months we do 48%, but we are hovering at around 50%, which is a good mix as of now. We definitely would like to scale up this, but this requires obviously more investments in digital because referrals, we are anyway going all out. And we have been a little bit careful in putting money in digital because as I mentioned to you that while we generate leads digitally, but conversion happens offline therefore the cost tends to be slightly higher. But of course the conversions are better digital. So it's a kind of fine balance that we are trying to arrive at, so therefore you will see this number for some time I think at about 48%-50%.

Moderator: Thank you. We have the next question from the line of Sarthak Mukherjee from Stewart and Mackertich. Please go ahead.

Sarthak Mukherjee: My question regarding the provision has already been answered. My second question is more into the business aspect. The sector generally earns around 50% of its revenue from the corporate client and we have also recently seen that corporate tariff has gone up in the sector. Now sir our model is more focused on the membership mainly on the retail level. So I wanted to know what is the exposure to the corporate client if any, and is there any planning to exploit the revenue through corporate membership

Kavinder Singh: It's a very good question. You know our business is retail as you rightly put it and we believe that we are a truly B2C business. And actually, if you were to look at it, we are B2C2B. The business approach, the customer and when the customer joins us, then the customer is dealing with the business for a lifetime of 25 years or a longer period of 25 years. So our is a very unique B2C2B model and when you look at the corporate product B2B, we do have corporate clients of the past. This year, we haven't got much success in the corporate business and that is because of the organization's restructuring that we have done. Definitely, we would like to expand this business and part of the reasons that this business is not expanded is as I mentioned because of some organizational restructuring that we did inside. But I fully agree with you that the corporate business is a business that we should go after. However, I must say that our business will fundamentally remain retail, corporate business will certainly be a small portion of our business. We do not see corporate business becoming dominant in the years to come.

Moderator: Thank you. Ladies and gentlemen due to time constraints, we will take our two last questions that is from the line of Rohit Seksaria from Sundaram Mutual Fund. Please go ahead.

Rohit Seksaria: I have one question on provisioning for ECL in vacation ownership income. Last year our provisioning was around Rs. 21 crores. This year, apparently the number seems to be higher. So do we expect a similar kind of numbers going ahead every year?

Akhila Balachandar: Rohit, let me re-explain the whole concept. Last year that is the financial year '16-'17, we migrated to IndAS and over the years, there was a different policy basically incurred loss as and when we believe that a member is not good we used to do the provisioning and activation of those things. What IndAs requires us to do basically is to estimate an expectation of loss and build it into the provisioning requirement. We did this assessment last year in the Q4 and we did a onetime provisioning of Rs. 21 crores. This year if you see my revenue recognition policy when last year we have stated that we have moved to a revenue recognition which is net of expectation of any losses. This year, we have already provided as per the norms agreed with the auditors and there is no additional provisioning requirement that has come up. So I hope that answers your question.

Moderator: Thank you. The next question is from the line of Nimish Shah from Emkay Investment Managers. Please go ahead.

Nimish Shah: Yes sir, I just have one question, so in the last 4 years we have added around 1000 units, so can you tell me how much are the owned from that 1000?

Kavinder Singh: So, I think offhand we do not have this figure. Definitely I remember Naldehra coming in as a part of this 1000. I definitely remember Munnar, we added some units. We have added some units in Coorg. We can definitely get you these figures from our internal archives. Offhand, we will not be able to answer this question but our overall ratio as I mentioned remains at about 65 owned and 35 leased.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to Mr. Kavinder Singh for closing comments. Thank you and over to you, sir.

Kavinder Singh: Right. I would like to thank my colleagues Iiro Rossi, Nina as well as Akhila for being with us during this quarter four earnings call. And I would like to thank all the analysts, investors who are there on this call and we are very happy to take questions offline as we normally do and we hope that we were able to answer the questions to the best of our ability.

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.