



**“Mahindra Holidays & Resorts India Limited
Q4FY14 Earnings Conference Call”**

May 07, 2014



MANAGEMENT -

MR. ARUN NANDA – CHAIRMAN, MAHINDRA HOLIDAYS

MR. VASANT KRISHNAN – CHIEF FINANCIAL OFFICER

MS. DEEPALI NAAIR – CHIEF MARKETING OFFICER

MR. ROHIT MALIK – CHIEF SALES OFFICER



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

Moderator: Ladies and gentlemen good day and welcome to the Mahindra Holidays Q4FY14 earnings conference call. We have with us today Mr. Arun Nanda – Chairman, Mr. Vasant Krishnan – Chief Financial Officer, Ms. Deepali Nair – Chief Marketing Officer and Mr. Rohit Malik – Chief Sales Officer. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Nanda. Thank you and over to you sir.

Arun Nanda: Thank you. Good afternoon ladies and gentlemen. I have some good news for you. Sales in March 2014 was the highest ever in the history of the company and we see this as a beginning of the next phase of growth. The team has done tremendous work and this is actually before most of the initiatives the teams working on, have been kicked off. This is purely by motivating employees and getting our processes right. As I said, we had the highest number of sales in the history of this company in March. April has also been satisfactory. April has been better than last April, but that is not the full story. I think we did slip up in the last 2 years on costs and productivity and my personal focus is to make sure that costs are rationalized and productivity improves, while the rest of the team looks at growth in numbers on the topline.

Both marketing and sales have prepared a game plan for this year which we will roll out now. I feel somewhat responsible for having let the costs go up to this extent and I take personal responsibility to make sure that the costs are rationalized in the next 6 to 9 months. With this, I will hand over to Vasant Krishnan, the Chief Financial Officer, to take over the presentation.

Vasant Krishnan: Thank you sir. Ladies and gentlemen, welcome to the Q4 earnings call. I will begin, as always, with the sales number for the quarter. The new net sales membership additions came in at 4,513 for the quarter against 2,120 last quarter and the Chairman has already alluded to that in his opening remarks about the March 2014 being the highest, but let me give a little more color. If you see the numbers 2,120 and 4,500 odd, they have kind of more than doubled and that was aided by two reasons both positive. One, at the gross level we had an increase and second, we had the benefit of reduced cancellations in this quarter on a delta basis and both added to that number of 4,513 on a net basis that takes the total membership to a little over 171,000 members and here I just want to add a quick housekeeping point. Some of you may recollect that we had certain short-term holidays we were selling some time ago. We have discontinued that product now and those memberships ran its course and that has been deleted from the total membership base.

The average unit realization came a little lower this particular quarter as compared to last quarter. It has come down by around 10% to Rs. 3.3 Lakhs a unit and that is a conscious decision that the



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

management took to push lower season and lower apartment types to balance our inventory with member additions.

I will now spend a moment on giving some granular details in our income figures for the quarter. Out of the total income of Rs. 224 crores, operating income was Rs. 210 crores for the quarter and that is up from Rs. 182 crores on a sequential basis which is a 15% increase, a direct consequence of the improved sales numbers that we saw for this quarter. The rest of the income lines are steady. ASF is steady at Rs. 34 crores. Resort income on a sequential basis showed a marginal decline but that is not unexpected because as you all know, Q3 is a fairly robust quarter when it comes to resorts. But if you look at it from a YoY basis, we have again improved our resort income from Rs. 24 crores last quarter of FY13 to Rs. 27 crores this quarter, aided both by F&B increase and room revenue increases. Non-operating income is down from Rs. 6.9 crores last quarter to Rs. 5 crores and you would possibly again recollect that we had mentioned in the previous call that there was a one-off on a sale of the Austrian subsidiary which we did not have this year. So we take that out of the equation.

I will quickly take you through the bank balances which is around Rs. 50 crores, including Rs. 30 crores of IPP funds that stood at Rs. 54 crores last quarter. On the expenses, let me begin with employee expenses that came in at Rs. 52 crores this quarter against Rs. 43 crores last quarter and to understand this line item, we have to factor that it has got two components, the fixed and the variable component and as you know that in this business, the variable component comprising of the commission and sales is a significant part of the total cost line as far as employees are concerned and in this quarter because of the robust sales that we saw, a lot more sales folks got into the incentive program which resulted in that line going up from Rs. 43 crores to Rs. 52 crores. The fixed line component of the employee costs, however, remained flat and we are hopeful that with our cost rationalization efforts that are just beginning to kick in, we will be able to see some positive results out of this particular line item. The cost of acquisition is another line item that we closely track and for the full year FY14, it came in at 26% and that is again lower than the FY13 average at around 29%. I do not want to talk about the sequential Q3 as far as cost of rationalization is concerned because again last year we had a one-off expenses in that line on account of certain branding expenses that we had incurred that is not there this quarter. I had also spoken about the fact that while we would be very careful in looking at our discretionary spends in marketing; we would not hesitate to spend where it is required. So our digital spends continue this quarter and we have done certain pilot projects in certain non-metro cities and those investments continue. Other expenses also came a little higher this quarter and that is on account of two reasons. First is a one-off on account of preopening and renovation expenses for certain resorts that they had opened earlier that came in at around Rs. 6-7 crores and the balance Rs. 3 crores is line items that usually see an increase like travel and certain IT spends that we did and charged off this particular quarter.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

On the resorts piece, you would have seen a decline in the number of rooms by around 23 and that is because one overseas lease resort was given up. It is part of our ongoing rationalization effort that we keep doing depending upon occupancy and therefore the corresponding rooms in that particular resort will be removed. There was also rationalization of rooms from local destinations. As far as room inventory and addition to inventory is concerned, we are on track to construct or add inventory in the range of around 500 to 600 rooms over the next 15 to 18 months with the capital outlay of around Rs. 400-500 crores and the delta spend on construction this quarter has been in the range of around Rs. 18-20 crores. So with this, I will conclude my opening remarks and I will now open it up for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Jaisinh Suchak of JM Financials. Please go ahead.

Jaisinh Suchak: Sir, you mentioned about the member adds was at 4,513 and I think in the previous quarter, we were around about 167,838. So number would be over 172,000, but the net number is just 170,722 as per the press release. So where is this gap of more than 1,000 or 1,500 coming from?

Vasant Krishnan: As I explained in my opening comments, we were running some short-term holidays and those were for a limited period of time. So when they run its course and some of the earlier members whose membership had expired, they will be taken out from the membership base.

Jaisinh Suchak: That entire difference is on due of the retirement base.

Vasant Krishnan: That is right. We will not be seeing so much of a difference going forward. We will be seeing a little bit of this every quarter as the earlier memberships tend to expire, but they will not be this significant, but the short-term holidays is one product that we have discontinued.

Jaisinh Suchak: Sure. On the realization front, you said that it was 10% lower than the previous quarter. The previous quarter was at about 3.7 lakhs.

Vasant Krishnan: It is down to 3.3 lakhs now.

Jaisinh Suchak: It is 3.3 lakhs and what about the upgrades because last quarter, the upgrades were really relevant and had helped in realizations. So what component of this is upgrades this time?

Vasant Krishnan: So it continues to be robust and I think that is the good sign because it just reaffirmed the members' faith in the product and most of these realignments do happen onsite when they experience the product and then the family members or guests want to take on memberships. That has continued to show us robust growth, in fact there is a delta increase from last quarter.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Jaisinh Suchak:** Online reservations from members will continue to be at about 50% during this quarter?
- Deepali Naair:** We will hover around 45%-50% range over there and that is a very healthy sign given the industry because most of the other competitive numbers are lower than 25%-30%. We have a very healthy mix there.
- Jaisinh Suchak:** Sure. On the net members and also on the employee expenses, the question was that, would it not be more relevant to compare this YoY because this quarter has the advantage of being the quarter before the holiday season. So in terms of I think there was some 5,500 net numbers added last year during this quarter and I think we are at 4,500 odd this quarter. Even in terms of employee expenses, though quarter-on-quarter it would just be like last year same quarter where the sales were also high, I think there is still a 29% jump year-on-year in the employee expenses.
- Vasant Krishnan:** So there has been that expense jump but like I explained to you the character of the sale last year and the character of the sale this year is kind of different. If you also look at the income of operations, it was Rs. 187 crores last year and it is Rs. 210 crores this year. So there has been some rationalization that we have done in terms of our expenses and there has been some increase in that fixed line also. So if you look at it from a YoY basis, you will see that line has increased on account of both costs, both the fixed component and the variable component. My limited point in my opening remark was just comparing it sequentially to say that the fixed component line has remained the same whereas the variable component line has caused a difference sequentially. I think the overall employee cost has gone up on a YoY basis because of increased number of people that we have added both at the resort level as well as on corporate sales level, but like we have told you before that and other line items and costs are something that we are looking at very closely from a rationalization perspective.
- Jaisinh Suchak:** Sure. On the room inventory, you said that there was one overseas. Can you just give us the breakup of which rooms were given up in terms of the 23 odd rooms which we have reduced this quarter?
- Vasant Krishnan:** That was around 7 rooms.
- Jaisinh Suchak:** Which overseas resort like it was in Bangkok?
- Vasant Krishnan:** It was in Bangkok.
- Jaisinh Suchak:** And the other 16 rooms have been given up locally?



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Vasant Krishnan:** Yes, local. That is part of a normal rationalization whenever we feel that, especially because these are all coming out of lease resorts. If we find that the occupancy is not up to the mark, we might as well cut out costs and then we can get into a realization.
- Jaisinh Suchak:** Sure and we looking at 500-600 rooms in next 18 months, the CAPEX will run about Rs. 400 crores, is it?
- Vasant Krishnan:** That is right.
- Jaisinh Suchak:** And any like geographical expansion in terms of like areas which we are looking like earlier we were talking about Sri Lanka or is there any update or change in that or we are just..
- Vasant Krishnan:** No, no update from what we have already given you, we are all always on the lookout for newer destinations, but the 450-500 rooms that I was talking to about are all local Indian destinations.
- Jaisinh Suchak:** And just one more thing like between last year and this year, I think with the one subsidiary gone and the subsidiary losses have come down. I think last year they were around about Rs. 15-16 crores and now they around about may be Rs. 6-7 crores. How does that move going forward because the company gives the consolidated number only at the end of the year?
- Vasant Krishnan:** So you must also understand that 98%-99% of our numbers are basically from standalone. The subsidiary numbers are basically arising out of structuring where some of the resorts may be owned and therefore operated out of, but that is a very miniscule portion. So I would expect that this number would continue to be in the same range.
- Jaisinh Suchak:** I am just talking about the loss number which was actually as high as 15% last year and this year would be probably down to 6%-7%. So only on that front, I understand the revenue and all will be miniscule, but when we look at that 6-7 crores or so loss coming from subsidiary or should that reduce going further that is just the sense.
- Vasant Krishnan:** I would be little weary of give you guidance in that factor, but since you know the character of the expenditure and revenue, I can tell you that we are not having any great change from what you have been seeing up till now.
- Moderator:** Thank you. Our next question is from Anil Kini of Envision Capital. Please go ahead.
- Anil Kini:** Sir in terms of the cost rationalization you have been talking about, can you just explain what are the kind of cost rationalizations, that you are planning to do?



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Vasant Krishnan:** It will be across all our lines. Like I said, you have to look at two or three of our big line items which is essentially, what is it that we can do with our costs in terms of cost of acquisition just to give you one example and what is it that we can do to be able to do better as far as our lead management is concerned. What is it that we can do to get more out of our conversions, what is it that we can do to improve our brand spending so as to get a direct result on our topline, what is it that we can do to improve productivity, what is it that we can do to use technology more effectively and efficiently. So there are number of initiatives that we can take and these will figure and feature in two big line items. One is of course the cost of acquisition is a very big piece. Second is on the resort piece. There are several levers that we can push. What is it that we can do in terms of again using technology to rationalize the way we work, to be able to do better in terms of better customer service with few of people, what is it that we can do in terms of having better support, but not spending so much. So I think there are number of opportunities that we can, number of levers that I keep saying that we can push, it is going to take a little bit of time. I think there has been a complete identification of all the areas. Some results you are beginning to see this quarter. These are all initiatives that will take a little bit of time before they find its way into the P&L, but I can tell you that we are already in the process of not only completing the identification process, we have also started taking action on some of these line items.
- Anil Kini:** So when you are saying it is going to take some time, can you actually give some kind of a timeline like it will take 2 years, 3 years time to all this to percolate down to your numbers.
- Vasant Krishnan:** It is not a 2-year or 3-year program. 2-3 years program if then technology will completely become obsolete what we have been talking about. This will happen on a quarter-on-quarter basis, but it will fully play out in the 4 to 6 quarters.
- Anil Kini:** It should play out in 4 to 6 quarters.
- Vasant Krishnan:** Sure.
- Anil Kini:** Sir you hit a run rate of nearly 4,000 odd member addition in this quarter. Do you think you will be able to sustain this and take it up to nearly 20,000 members a year net addition?
- Vasant Krishnan:** I am going to pass this question to Rohit, our Chief Sales Officer.
- Rohit Malik:** Good afternoon, this is Rohit. On the numbers, we recognize clearly a result of some inputs that has gone right for the business and those are the kind of initiatives we would have started working about 6-9 months ago. So whatever is coming out of that is essentially sustainable, but as we realized, in sales while the internal inputs are sustainable, there is dynamic external environment which changes and kind of impacts as we keep saying discretionary spend items.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

So to that extent one cannot predict, but internally as far as initiatives are concerned, there are couple of them which are beginning to sustain itself and therefore giving a predictable output.

Anil Kini: And is it possible for you to share the initiatives that you took from last quarter to this quarter that the numbers have changed so drastically, what has really happened?

Rohit Malik: Two or three things one can clearly talk about. One is that conversion rates have improved significantly for us. Being a direct sales business, that is one number you kind of try and track internally from our sales effectiveness standpoint. So for every x number of meetings, how many people are buying. So that has improved significantly based on a sales tool that we had rolled out end of last quarter. So that is one. I think we have repeated the importance of member get members, so we started work on that some 3-4 quarters ago. That is gathering some momentum. Thirdly, Digital as a mode of acquisition started bearing some fruits for us lately. So I think between these three falling together in the same quarter and then some of the other stuff that Mr. Nanda was alluding towards are more tactical in nature. I think so that all kind of brought the whole puzzle of piece together to give us the kind of numbers that we have gotten.

Anil Kini: Sir you also said that you will be adding another 500-600 rooms for the capital cost of nearly Rs. 400 to 500 crores that really translates to nearly Rs. 80 lakhs to one crore per room CAPEX which used to be nearly Rs. 55-65 lakhs per room. So what has changed so drastically that the number has gone up?

Vasant Krishnan: I think the cost per room has been coming at around Rs. 65-70 lakhs per room and it is something that we have to now recognize as the new norm going forward, but you must also understand that when we were talking about the kind of numbers that you were talking about, it should also factor in as to what kind of prices we were selling our memberships at. So all these cost increases are also getting reflected in membership sale also going up. So yes, there are again when I spoke about rationalization, this is not only rationalization on the OpEx lines, this is also rationalization in terms of more innovative ways of construction or more different experiences that we can give to members which can look at all of these factors and also look at the costs, but you are right when coming at around Rs. 70-75 or 80 lakhs rooms at the upper end. That is the kind of CAPEX that we have budgeted for and we would be incurring over the next 15-18 months for the 550-600 rooms the accretion that I was speaking about.

Anil Kini: And one last question, it will be a small portion of your revenue. The resort income which has been absolutely flat for several quarters, now it is somewhere nearly 20 odd crores, it has been giving you that for a very long time. Do you actually see that moving up in some way and what are the kind of initiatives that you are taking to do that?



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

Vasant Krishnan: I can answer this question in two parts. Part A is what is it that we can do to increase the member spend and there are number of factors that go into this. If you look at it essentially spend of a member a large component of that and there are two views around this is whether they want to spend so much on F&B or whether they rather do home cooking or whether they rather want different experiences. Can we do something to increase the F&B experience of a member there and remember one thing that as management we always have to balance the expectation of a member here and the possibility of increasing that revenue vis-à-vis the cost that I may have to incur in terms of providing that kind of specialty restaurants etc. The other part of this puzzle is can I do something to increase his holiday spends, his other activities which will all add to that particular piece there. Therefore it's reflecting in the fact if you look at our F&B revenue last year on YoY basis, it is Rs. 15 crores and now it is Rs. 18 crores. What you do not see is of course that F&B revenue comes in around 70% in terms of the EBITDA line. The other piece that we can do is look at how best we can optimize and I use the word optimize our inventory because we have a clear member first policy but there are resorts where we have earmarked rooms for non-members. We just need to work on that piece better. We need to be able to market that a little better. ARR, however, as you know, the hotel piece that environment has not been very buoyant over the last several quarters now. So that is another reason why the FITs have been also remained soft, but also consciously a decision taken by the management that this is really a member first product. So I will rather have the member experience that may not necessarily translate into monetary terms because it is very critical for our brand to take center stage here.

Moderator: Thank you. We will take next question from Sumant Kumar of Elara Securities. Please go ahead.

Sumant Kumar: My question is regarding strategy for the company to acquire customers. We have seen the customer acquisition in Q3FY14 was 2,100 and now it is in the range of 4,000. So what is the change in strategy which has helped the company to increase the customer acquisition?

Rohit Malik: Possibly I may repeat some of the things that I said about 5 minutes ago. Now to quickly respond to your question, one of the reasons why it was low for us in Q3 was also to do with a temporary setback that we had due to the TRAI regulations that we had referred to in the last investor call. That has affected our model, threw it off-track for about 4 months. So we went down from what our rate of acquisition used to be before that. So since then, we obviously worked hard to find a way around and that is how we have been able to come back on track and then beyond that as I just mentioned a better conversion rate and possibly little more in both member-get-member and digital acquisitions. So I think between these four lies the reason for the movement in the numbers.

Sumant Kumar: But we have decreased our realization also. You were telling that 10% decrease in realization YoY.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Rohit Malik:** So that essentially has happened due to conscious internal management decision taken which was done to balance our room inventory. So we realized that we possibly have a little more inventory to sell as far as our lower seasons are concerned and therefore we focused more on selling those.
- Sumant Kumar:** So we are going to continue with this realization for next couple of quarters?
- Rohit Malik:** One would not want to predict that, but at this point in time as it keeps emerging, it is an asset liability match for us as far as season inventory available and therefore how much we should be selling of which season and that is something we keep reviewing month in, month out. So depending upon how that situation emerges, we will keep kind of refocusing and rebalancing ourselves.
- Sumant Kumar:** Considering the current economic scenario if it is going to persist, so for increasing our membership addition quarter wise, we can keep this realization at this level?
- Rohit Malik:** I think more or less that is where it will be.
- Sumant Kumar:** But what was the Q4FY13 membership addition, gross and net addition? Q4FY13, it was 4,100 net additions?
- Sumant Kumar:** And realization also.
- Vasant Krishnan:** The total additions in FY14 were 12,100.
- Sumant Kumar:** No, I am talking about Q4FY13.
- Vasant Krishnan:** It was 5,500.
- Sumant Kumar:** Net addition?
- Vasant Krishnan:** Yes, like-to-like.
- Sumant Kumar:** And this time 4,100.
- Vasant Krishnan:** 4,500.
- Sumant Kumar:** This is gross addition?
- Vasant Krishnan:** No, these are all net.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Sumant Kumar:** And what was the realization?
- Vasant Krishnan:** Little over 3 lakhs. So we have got a 10% increase on YoY basis. My point was on the quarter decline.
- Sumant Kumar:** Decline in quarter-on-quarter.
- Vasant Krishnan:** Yes, not a YoY decline.
- Sumant Kumar:** YoY up 10%.
- Vasant Krishnan:** Yes.
- Moderator:** Thank you. Our next question is from Nimit Shah of ICICI Securities. Please go ahead.
- Nimit Shah:** Sir are we planning to take any price hikes in the membership fees?
- Vasant Krishnan:** At this particular stage, we are keeping our options open whether we should take a price hike or not. I think we are matching the macro environment. When things are going up like this, we want to keep the momentum up. I think that is more important, but if we do get an opportunity like I told you once momentum builds up, we will look at the possibility of a price hike going forward.
- Nimit Shah:** And sir any reason for significant increase in the debtors? Debtors has increased from Rs. 955 crores to 1,230 crores.
- Vasant Krishnan:** It is a combination of, again if you look at it, the sales that we have done in the last month, last quarter that all come back and debtors grew. To understand that better, you have to understand it in terms of what is due and not due and then all of this has gone to the not due, but yes there has been some increases in the current debtors. We are looking at that entire collection missionary fresh and seeing whether we can look at those processes to be able to bring down.
- Nimit Shah:** Because the member additions has come down from 17,500 to 12,000.
- Vasant Krishnan:** This number that we give you is net of securitization. So last time, we had securitization and this time we did not have a securitization. So you have to look at it from a delta perspective and the delta securitization was around Rs. 200 crores.
- Nimit Shah:** Last year in FY13, we did a securitization of Rs. 200 crores. In FY14, there is nil.
- Vasant Krishnan:** There is a marginal securitization. So there are multiple factors that go into that also on that number.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Nimit Shah:** And sir how do we plan to fund this CAPEX of Rs. 400 to 500 crores.
- Vasant Krishnan:** Securitization is the option that is always available to me.
- Vasant Krishnan:** And there is also cash that is there, I already told you in the beginning of the call.
- Nimit Shah:** And sir any work on the ground has started for 450-500 resorts?
- Vasant Krishnan:** Yes. When I told you about the CAPEX of Rs. 450 crores, I am talking about those projects where construction is on full swing. I only talked about Rs. 18-20 crores of spend.
- Nimit Shah:** So there is no chances of delays because of any regulatory hurdles for this 450-500 rooms coming in the next 18-20 months.
- Vasant Krishnan:** I cannot give you a forward looking comment on approvals and whether there will be any delays. We are constructing in an environment where we had experience in the past projects that were started and then had to be stopped because of litigation, not litigation from a land perspective, litigation from a Supreme Court perspective on environment and other things like that. So I would be very wary of saying that nothing will happen, but subject to all of those what we call force majeure events, we should be on track to be able to deliver what I just told you.
- Nimit Shah:** And sir a member per room share, I know you cannot look at on a closing number basis, but that has increased from 65 days to 71 days. So where do you see this number going ahead because earlier the number whenever it went above 70, we had I think issues related to member room request not getting fulfilled. So where do you see this settling going ahead?
- Vasant Krishnan:** No, I am not too sure as to how you have arrived at this number.
- Nimit Shah:** Member per room ratio is 170,000 members which we have and 2,400 rooms which we have.
- Vasant Krishnan:** So that may not be the most appropriate way to look at it.
- Nimit Shah:** I understand, but if you see last year that number was 65. Now it has moved to 71.
- Vasant Krishnan:** So there are two or three factors that you should take. One is that when you add towards the end, you will always find that thing getting skewed. So you should take that out of the equation. The second is the comparison is always on the basis of eligibility and from an eligibility perspective and Rohit has also talked about the fact that the balancing of the member with the inventory is something that we consciously do. So while I would not want to give you a particular ratio, all I can tell you is that our member addition and our room addition is something that we closely track



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

and the kind of focus that we have given over the last 2 or 3 years with our policies and ensuring that look, we do not want to do any FIT business and some of that lines you are seeing coming down. We ensuring that the whole member experience is given top priority and I am sure that most of you all would agree with me that over the last two years, a lot of work has been done on this front.

Nimit Shah: And sir last thing, can you provide us the breakup of this vacation ownership income of Rs. 482 crores for the full year.

Vasant Krishnan: What breakup is required? There is membership income, there is ASF income, and there is interest income.

Nimit Shah: No, ASF has shown separately. The vacation ownership has two components.

Vasant Krishnan: It has 60% and 40% component as you know that's our revenue recognition policy. We do not normally get into the granularity of disclosing that split, but I can tell you from a revenue recognition perspective that any new member that is sold, we recognize 60% of the sale value in the year of sale and then 40% is amortized over the period of membership.

Nimit Shah: Sir because if you take Rs. 330,000 or 340,000 as your average realization for the full year and if you multiply that by the number of members which we did 12,100.

Vasant Krishnan: You would also have to factor the cancellation income.

Nimit Shah: Correct. So I wanted that what will be the cancellation income in this Rs. 482 crores.

Vasant Krishnan: We do not get into that level of granularity, but I can tell you in principal what we do is that it is 60% plus 40%, minus de-recognition of the income that we would have recognized on members that have been cancelled, but against that we also get a cancellation income. The whole thing gets into this pool.

Moderator: Thank you. We will take next question from Tejas Sheth of Emkay Global. Please go ahead.

Tejas Sheth: Just I would want to dwell on two points. In this slide which you had given on the new member addition back to pre TRAI level, the first one was this new processes acceptable to TRAI. Can you just dwell more upon that.

Rohit Malik: Sure. Tejas, so basically I will quickly and possibly brief you and try to explain that. There was new stringent norms which were circulated by TRAI which meant it onerous on us to essentially try and ensure that all calls, sales call related to Mahindra Holidays in matter where it emanated



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

from. As long as they were meeting the requirement it was fine, otherwise TRAI would come back and through the service providers shut all the telephone lines first. So we essentially work on primary data which means that we get in touch with people, get them to respond to us and then based on that response we go back and fix up appointments and for that one needs to have a very stringent internal compliance whereby if by chance you have made a wrong call to somebody who had not filled up a response coupon to you and you were asked to prove that, you should be in a position to relate the two. So that is in line with something that was possibly not as compliant as you would want it to be. So therefore during the 3 to 4 months phase, we worked on internally ensuring there are process safeguards. We had all the proofs and if required those could be provided in a day's time and once that thing was achieved, we have therefore gone back to kind of doing what as a primary data generator we were doing, but it is far more compliant processes to give us that comfort that we were on the right side of facts.

Tejas Sheth:

And the third point on the sales via alliances now. Which are these alliances?

Rohit Malik:

Mostly these are tactical alliances where you would kind of try and identify similar target groups and target groups of buyers. So to give an example, we would tie up with somebody like in HyperCity and looking at people who are purchasing more than certain volume at a grocery. Women's day, we did a tie up with Spice Jet to essentially reach out to the women flyers. Crossword, for example they were doing this small thing around travel enthusiast and therefore offers and discounts on travel books. So typically our kind of customers again. So a tie up with Crossword for that period of month and a half. So those are the kind of alliances we will do. The benefit that we are looking at is we are reaching out to far more precise target group. We believe far highly dispose to our kind of product and therefore looking at far higher success ratio of sales with such people.

Tejas Sheth:

And what is our state of this Tier-2 cities which we are planning to enter as well as our marketing in Dubai as well as London. What state we are right now on that?

Rohit Malik:

So Tier-2 cities, we have made some headway over last 9 months. We are in almost about 10 new markets that we were present and these 10 new markets when I am saying I am talking about our own presence. While we did adapt the BSA route to reach out to some of these towns year before and with these given markets, we are seeing very favorable response given that we are an aspirational product in those markets and secondly the disposable income are obviously far higher compared to some of the bigger cities and I think thirdly what is benefiting us a lot is that the rapid movement towards higher propensity to travel is really kind of giving us the fillip when it comes to being able to sell in those markets.

Tejas Sheth:

Have these new markets added any meaningful contribution to your Q4 performance?



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Rohit Malik:** See to a large base that we already operate at it may not, but the fact that there are 10 markets and those 10 markets are meeting our requirements in terms of what we expect, I think is heartening for us in directional sense and therefore I think we will continue to move in that direction.
- Tejas Sheth:** Just last question. On this room addition thing, sorry to dwell more upon that because last year we have not added any room, added 12,000 new members. Till what new members can we go before we see a red signal on the member to room acceptable ratio?
- Vasant Krishnan:** I think at this particular point of time, there are no alarm bells, but I can tell you that for the next quarter, I do not want to again make any forward-looking statement but we are in very advanced stages. Remember one thing that it is not construction. There are possibilities of acquisition. We are quite comfortable.
- Tejas Sheth:** So you are seeing for next 2 quarters, okay putting aside acquisition which may happen, may not happen. If next two quarters, we run this kind of run rate of 4,000-4,500 members a quarter. You do not see any issues with that.
- Vasant Krishnan:** I am saying that the acquisition of room inventory will balance any member accretion and we are not seeing any challenges there.
- Moderator:** Thank you. Our next question is from Anil Wala of JHP Securities. Please go ahead.
- Anil Wala:** What is our current mix of the membership base like into salaried and self-employed.
- Rohit Malik:** So pretty much very similar, not significant trends there.
- Anil Wala:** What is the past trend also, I just wanted a fair idea.
- Vasant Krishnan:** We may not like to get into that level of granularity because that is getting into our database.
- Moderator:** Thank you. Our next question is from Kirti Dalvi of Enam Asset Management. Please go ahead.
- Kirti Dalvi:** Three questions. First would be on these member addition you mentioned that certain members are getting retired or that short holiday membership you have stopped. Is it related to Zest so this member at.
- Vasant Krishnan:** No, that is not related to Zest. That was a 10-year product that was rolled out for some time and that is over and done with.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

Kirti Dalvi: So incrementally sir on a blend wise, your average realization should move up right because these were on a lower realization basis and since these old members are getting rolled....

Vasant Krishnan: Our realization is purely on the sales that we have done for the quarter with the realizations that we have got. Nothing to do with that.

Kirti Dalvi: And this room additions which you mentioned if I remember right, sir in FY13 annual report also we spoke about adding some 400-500 rooms in next couple of years, but this year if you see the room inventory has actually on a net basis has gone down. So just wanted to check do you see the environment good enough to add these kind of rooms going ahead?

Vasant Krishnan: So when I am talking now, I think I have answered this question, but again at the risk of sounding repetitive subject to any unforeseen circumstances that might always happen in terms of approvals in the kind of environment that we all operate in, I think we are on track to have those room accretions of around 450-500 that I was speaking with you about for the next 15 to 18 months.

Kirti Dalvi: And what will be our rooms on lease currently?

Vasant Krishnan: Out of the 2,400 rooms we have, I will give you that. I will ask my IR to give you that breakup offline.

Kirti Dalvi: And in terms of our margins, I understand that there are lot of cost rationalizations which are happening, but where do you see going forward sir probably say in next couple of years the margins moving to?

Vasant Krishnan: Well as I said, levers and cost levers are something that management consciously look for and keep pushing. If all of them happened to be successful, you will start seeing upticks in EBITDA levels. You all know the numbers that we had many years ago. So yes, we have been doing various things and I think the trick lies in ensuring that whatever we do, we get bang for the buck and we do not cut off arteries like I keep saying we need to cut off extensions that are more in the nature of investment. So it is a very delicate operation that we have to perform. We will do that. We are conscious of what needs to be done and we are hopeful that if we push all those levers the way we intend to push them, we will see results in the EBITDA margin going up.

Kirti Dalvi: And sir the last question on debtors side. You have already given the explanation because of probably increased number of addition your debtors must have moved up, but is there any risk of any debtors turning bad?



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Vasant Krishnan:** Let me again explain about this whole concept of debtors turning bad. We do not sell a product right that we have to provide for it. We believe that every time that a customer who is paid money, but who might not have been paying us for some whatever reason and that is not a very significant number. If you were to just get him to holiday, most of these members do get regularized. A proportion of these members for various reasons again, when we believe that there is no hope of getting him back on track, we do what is called a cancellation. Upon cancellation, what happens is that depending upon at what stage he is cancelled and the rules of cancellation, the amount that he pays gets recognized as cancellation income and any revenue that we would have recognized out of that member gets derecognized and that is the consistent policy that this company has been following since inception.
- Kirti Dalvi:** So there is a risk of sir that revenue reversal to that extent as and when.
- Vasant Krishnan:** There is some risk of revenue reversal because if we believe that any portion of that debtors in our judgments is not good or recoverable, we would have cancelled it. You had wanted the breakup between leased and owned, it is 800 lease and 1,600 owned.
- Moderator:** Thank you. Our next question is from Priya Pandya of Cogencis. Please go ahead.
- Priya Pandya:** My question was you had mentioned about 450 to 500 room additions in next 18 months, am I correct in that because in the opening remarks you said 500 to 600 rooms.
- Vasant Krishnan:** Yes, I said 500 to 600 rooms, so what is the question, sorry I missed it.
- Priya Pandya:** So your final number is 500 to 600 room additions.
- Vasant Krishnan:** That is right.
- Priya Pandya:** Over the next 18 months.
- Vasant Krishnan:** 15 to 18 months is an outlay of 450 to 500 rooms.
- Priya Pandya:** And my question was how many resorts would that be like how big would be like those resorts?
- Vasant Krishnan:** We are spreading that across 6 resorts, but all of them may not be accretion to resorts because it is also the expansions to existing resorts.
- Priya Pandya:** So that will be expansion to existing resorts.
- Vasant Krishnan:** A combination of expansion to existing resorts and newer properties.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Priya Pandya:** How would we like to divide in terms of rooms? Out of 450-500, how much would be the expansion and how much would be the new resorts?
- Vasant Krishnan:** No, when I give you a CAPEX outlay, it is for room. It has got nothing to do whether it is an expansion or it is new resorts. I am nearly saying that out of the 450 rooms, some of them will be expansion to existing resorts. Some of them will also be new resorts where you will have to also have a land purchase.
- Priya Pandya:** Which is 6 resorts as of now.
- Vasant Krishnan:** Over 6 resorts.
- Priya Pandya:** So what places are there like where you already have one property or new, absolutely new resort, new locations.
- Vasant Krishnan:** It is a combination of both. In Kerala, for example we already have an existing resort, so that is an expansion. In Coorg, we have an expansion, it is somewhere going. In certain areas, we may have one property, you may go in for an expansion. It is part of our destination strategy.
- Priya Pandya:** So can you name some locations like you said about Kerala and Coorg.
- Vasant Krishnan:** It is in Munnar and Kanha and places like that, but wherever we feel that wherever we would expand, we would expand only where we are convinced that there is occupancy and there is 365 days a year these resorts would work.
- Priya Pandya:** That is obvious, but just wanted to know the places where you would like to expand.
- Vasant Krishnan:** I have given you, across the South, West, and North.
- Moderator:** Thank you. Our next question is from Manav Choksi of MAP Investment Advisors. Please go ahead.
- Manav Choksi:** If possible, could you tell me what will be the total members of timeshare industry in India, the total member base?
- Rohit Malik:** About +300,000 is the number.
- Manav Choksi:** And if I go back a couple of quarters, I believe in quarter 2 FY14, you said that the company is planning to add about 1,000 rooms. So what makes you scale down to about 500 odd?



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

Vasant Krishnan: So that number which that the CEO had talked about was over a period of 2-2.5 years. When I am giving you a number of 500 to 600 rooms, I am not talking about plans that we would have in terms of Greenfield acquisitions, etc. We are talking about rooms that are under construction where land has been purchased. If I were to add those imponderables into the equation that number would be higher. I am only sticking to what we are actually doing now.

Moderator: Thank you. Our next question is from Pooja Swami of Span Capital. Please go ahead.

Pooja Swami: Sir basically more than a question, this is just a concern like when we see towards your forward revenues and profits, there are just two concerns like majority of your revenue is depending on the occasional ownership revenue and that depends on the member addition. What if the member addition is reducing like we have seen it coming down from 20,000 to 12,000 right now and even if it is going down to 10,000, it is hampering your profits to a great extent and other concern would be your accounting treatment like 60%-40% even if there is some change in this ratio that would also make a big effect. So my question is just how would you address this concern?

Vasant Krishnan: I am taking the second question first and leaving the first question to Rohit to answer. As far as 60-40 is concerned and it is from an accounting perspective, I think the important thing for us to see is that the accounting treatment is consistent. So on a delta basis, the performance can be accurately measured and as you know that this 60-40 slice of the revenue is something to this company has been consistently following for a number of years now. So there is no question of any risk as you see it or any concern. We do not see any concern. As far as the issue of member additions, the fact that member additions may not be as robust. I am just leaving it to Rohit to answer.

Rohit Malik: So couple of things there before I get into possibly responding to that. While the member additions may have come down from closer to 17,000-12,000, at the topline revenue, the topline revenue only has grown. So the point there one is trying to make is that and I think I had said that sometime back some of these phenomena are temporary in nature given the economic situation, the discretionary spend category and of a certain value, one would run into these challenges, but has got established in the previous year that really does not impact our topline because the fact that the member is there with us to stay for next 25 years gives us an opportunity to do upsell, cross-sell, do revenues out of resort spends and so on and so forth. So I think to summarize, you are right, there may be vagaries because of which the member addition may kind of go through peaks and troughs, but that really should not matter so much going ahead. In fact the more the member base that we have on a cumulative basis, the lesser would be our dependency on that as a revenue driver for us.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

Pooja Swami: So still at present we are majorly depending on the income from sale of vacation ownerships right. So cumulatively even if you are saying the cross-sell might help, but that will make major difference, right ?

Vasant Krishnan: I think the point that he was making is that unlike other businesses where a macro environment change, affects your topline which definitely impacts the bottomline. We got a natural hedge in the form of 170 odd thousand members who will continue to vacation in our properties unless of course one takes the assumption that vacationing itself will stop. So there is a resort income fees that is like almost like an annuity. There is an annual subscription fee which comes in around 35 crores which is almost like an annuity. That I think is the beauty of this business model that you have got a situation where we are not entirely dependent. Yes of course if the membership does not grow as fast as we budget, there would be corresponding flow through to our EBITDAs and our P&Ls, but that is true of every business, but which other business has got a natural hedge like we have.

Moderator: Thank you. We will take our last two questions. Next is from Sachin Varma, an individual investor. Please go ahead.

Sachin Varma: My questions may be they have already been asked in the earlier investor call. So my first question is related to change in top management. We are seeing top management changing over last 2-3 years, there have been two changes at the designation of CEO and a very recent change in terms of CFO.

Vasant Krishnan: So what is the question?

Sachin Varma: My question is what is the reason that there has been two changes in terms of CEO?

Vasant Krishnan: I think the last CEO had spent last three years and then he decided to move on. I think we have already articulated the reasons and the steps that the management is taking to find replacement that has been explained in the last management call. I am sure you also are aware that we are extremely fortunate to have Mr. Nanda mentor and guide us and he has been the pioneer of this business. He set up this business and ran this business for 15 years before he took a nonexecutive position and he has explained that he would personally mentor and guide this management team and he took the call last time and he opened the call this particular time. So that is the first point and I think the large part of the impact that you see in March is not only on account of his tactical and strategic moves that our sales team has so effectively done. I think it is equally attributable to the softer aspects of morale and motivation that the Chairman brought to the table in terms of assuaging any fears and concerns that people might have on account of the changes in this manner. So this is bound to be there in any business, but I think we are again extremely fortunate that it is so well cushioned.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

- Sachin Varma:** Sir so does that mean we will not be looking for any CEO.
- Vasant Krishnan:** No, I did not say that. I only said that we are fortunate that we have been mentored by a Chairman who has been in this business for 15 years and he runs very successful businesses. The hunt for a CEO is on and as soon as any news comes on this front, it will be put out in the public domain.
- Sachin Varma:** Thank you. Sir my second and last question is again may be the question was asked in earlier call as well. I am sorry for that since I am attending the call for the first time. So we raised some fresh equity during the first quarter, did we raise into fund our CAPEX or was it for some reason?
- Vasant Krishnan:** If you are talking about the IPP program, we raised around Rs. 100 crores and it was partly to fund our project, it was partly for general corporate expenses, but if you look at the deployment pattern, a large part of them has gone into construction of project. This is an addition to what we can always do in terms of securitization of our debtors.
- Sachin Varma:** So my question is that when we had leverage, we had room for leveraging our balance sheet because we are almost zero debt company. So what was the reason that we did not go for debt and instead of we diluted our capital?
- Vasant Krishnan:** You possibly are aware that there was also a SEBI requirement that we have to get our shareholding below 75%. That is also one of the triggers that influenced this position.
- Moderator:** Thank you. We will take our last question from Tejas Sheth of Emkay Global. Please go ahead.
- Tejas Sheth:** Sir just one clarification. This lower realization of 3.3 lakhs is predominantly due to product mix change rather any freebies provided in this quarter right?
- Vasant Krishnan:** Yes.
- Tejas Sheth:** There is no sales boost.
- Vasant Krishnan:** No, the price realization is based on the total money that we received. Anything else goes separately under the expenses.
- Moderator:** Thank you. I would now like to hand the floor back to Mr. Vasant Krishnan for closing comments.



*Mahindra Holidays & Resorts India Ltd
May 7, 2014*

Vasant Krishnan: Thank you very much for participating in this call. I think we had a very interactive and very useful session. Like the Chairman mentioned in his opening remarks, this quarter has definitely seen some very positive and good outcome that encourages the entire management team. Having said that, a lot more work needs to be done on several fronts. The macro environment continues to be challenging and soft and marketing and sales teams will continue to work together to see how best and how more innovative we can get in terms of better lead returns, our family referral programs and of course our cost rationalizations going forward should be the trend that we should all be looking forward in the quarters to come. Thank you very much for your attention and time.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Mahindra Holidays that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(The document has been edited to improve readability).