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Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst

Ladies and gentlemen, good day, and welcome to the Mahindra Holidays & Resorts India Limited Q3 FY '19 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as of the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Kavinder Singh, Managing Director of Mahindra Holidays & Resorts India Limited. Thank you, and over to you, sir?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [2]

Good evening, everyone, and a warm welcome to our earnings conference call for the quarter and for the year ended 31, December 2018. Along with me, I have Mrs. Akhila Balachandar, our CFO on the call. I'm sure, by now, you would have got the opportunity to look at Q3 FY '19 investor presentation. As you know, under Ind AS 115, our profits after tax for the quarter now stand at INR 21.2 crores, which is a 47% sequential Q-on-Q growth.

Total income for the quarter stands at INR 246.8 crores, which is a sequential growth of 11% Q-on-Q. Member additions were at 3,984 for quarter 3, and year-to-date member additions stand at 12,706 Y-o-Y growth of 7%. Cumulative member count stands at 247,716 as on December 18.

The new product, Bliss, what made Bliss has gained momentum and now, we are selling it in many more cities. As I mentioned, it is targeted at 50-year-plus families, who are perhaps empty nesters and who would like to enjoy the club Mahindra proposition at anytime of the year. This product is an extremely flexible product point based product, and its a 10-year duration product.

We continue to improve our value proposition by building an unparalleled expedient ecosystem, in resort experiences, as you know, we have adventure unique dining experiences, be nice, happy helpful kids and a very successful host program now running at our resorts. Cumulative experiences into the experiences under the brand dreamscapes are available to our members on our website as a part of strategy of creating a broader experience ecosystem.

Let me know take you through the resort performance, we have been launching remarkable initiatives to dial up the resort experiences, whether it is new FNB concepts, happy hub for kids et cetera, which is about activities designed for kids. This has helped us to improve our resort performance. Our resort income has grown at 37% sequentially, at INR 58.3 crores. This is commendable considering the fact that in Q2, we had suffered from the Kerala and Coorg floods and by the way, even in Q3, we saw the aftereffects of that in October and also, we have noticed that there were unseasonal rains in Himachal, which affected our resort occupancies. Having said that, our resort occupancies have significantly improved to

82% this quarter on a sequential basis. The previous quarter was 76%, so this is again, an improvement despite the fact that I outlined above.

Our cash position has improved further and now stands at INR 521 crores as of December 18. Our focus on digitalization, customer analytics to enhance customer lifetime value is part of a broader strategy, which includes acquiring members with higher down payment and lower EMI tenures and smoothening customer journey from presales to onboarding to omnichannel servicing to creating magical moments at our 59 exotic resorts.

This is actually the essence of our strategy, which I just outlined now. 85% of our bookings happen online, talking about digitization, both web and app. This has helped us to achieve a seamless booking experience. And now, we have enabled pre-booking of holiday activities and pre-check-ins. Our mobile app continues to be a source of delight for our members. And now, almost half of our online bookings come through the mobile app, including ASF and EMI payments.

We believe that this has been the single biggest intervention that is helping us serve our customers better. In fact, we have been awarded by American Society of Quality the sector award in hospitality for our member loyalty project. Our overall net promoter scores are improving quarter-on-quarter and it stand at 57% now. And by the way, these Net Promoter Scores may there be scores at all touch points, whether it be the digital touch point, whether it be the presales, whether it be the resorts and this number is considered an extremely good number if you were to benchmark with the other hospitality companies.

As I mentioned, our liquidity position is extremely healthy with INR 521 crores cash, and our capital expenditure is on track. Our phase 1 of the Goa project will get completed in the next financial year, maybe in the first half, while Ashtamudi expansion will also be completed in the first quarter of FY '20. This will cumulatively add approximately 200 rooms. We continue to follow the strategy of taking resorts on lease, as well inventory arrangements to augment the inventory. I must say that we have recently had some great successes in acquiring land parcels in various parts of the country through the help of various state governments, and we have access to land parcels, which will keep us going for many more years into the future.

Our focus on adding new destinations is gathering momentum as seen through our arrangements in Orlando, U.S., Sri Lanka and now, Bhutan, and we are conscious of the desire of our members who travel outbound and visit our destinations line with this aspiration.

I would like now to conclude my address, and we will not open the floor for questions and answers, thank you very much.

Operator [3]

(Operator Instructions)The first question is from the line of Nihal Jham from Edelweiss.

Nihal Mahesh Jham, Edelweiss Securities Ltd., Research Division - Research Analyst [4]

So my first question is on the member addition growth. As I see that in FY '18, we did implement a scheme of increasing the down payments and maybe we focused more on getting quality members as we speaking of. In the first half, we saw that there was good traction in member addition coming and plus, the introduction of Bliss has also helped us. So just wanted to understand that in this quarter, why are we seeing a big growth in our member addition if I disregard Q3 FY '19, on accumulated number?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director
[5]

Yes. So there is a degrowth of 5%, it's not -- it's marginal and the way to look at customer additions is that we actually are quite mindful of the fact that we need to add members not only of higher down payment and lower EMI, but also at the cost of acquisition, which is viable. If you -- you may have noticed that our cost of acquisition has also significantly dropped down. You may have also noticed that, that has had a positive effect on our profits before tax. So what we are trying to do is that we are trying to optimize spends on customer acquisition, we are trying to get customers with higher down payments and lower EMI. It's a combination, in fact, that has led to a 5% decline. I don't consider that as a, really, some sign at all. I see is that we are trying to, every quarter, we are trying to transform ourselves, which the -- and the effects of that are any invisible. Let me explain you, when we are talking of higher down payment and lower EMI members, the internal data that we have shows a significant improvement year-on-year and more importantly, we are also seeing that the FNB spend of the members are going up on per capita basis as well as the holiday activities. So we are acquiring members who are spending more and we believe this is the right direction to get, maximize the customer lifetime value as we see rather than acquire members who would come in with much lower down payment and who may not even stick with us and therefore, we are building this company in a manner which is sustainable and as you can see, eventually, the cast is another indicator that you must see. And we believe the cash position is improving, it's also because our down payment and lower EMI tenures and better collections are helping us to do that. So we have to probably see our business at a overall level where we see that are all the metrics are improving rather than just one metric of member additions.

Nihal Mahesh Jham, Edelweiss Securities Ltd., Research Division - Research Analyst [6]

Absolutely. So but just -- we've been implementing this strategy since the start of this year, and we saw that first half, we did see growth but anything specifically this quarter that why we've not been able to report a growth?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director
[7]

Not really. I would say, the cost of acquisition, you must have seen, there is a significant improvement in this quarter. And the other thing that we are seeing improvement is in the higher down payments and lower EMI tenures, which are even more stock internally available to us for Q2 as if Q3 even on a sequential basis. So I'm not saying that the growth could not have come, but the fact is that we go all out to achieve our strategy of higher down payment, lower EMIs, better cost of acquisition, and this is an outcome. So we will have to, obviously, land from this outcome and become better as we move along.

Nihal Mahesh Jham, Edelweiss Securities Ltd., Research Division - Research Analyst [8]

So going forward, are we going to be calibrating the marketing spends? And maybe, in the future, our expectation of growth will be lower because of this?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [9]

So my view is that we should look at our business just strictly on Y-o-Y it's the way market looks at it, but you should also look at on a cumulative basis because you may have noticed that even though our income growth is what it is, which I mentioned, the profit growth is much, much higher. Part of that is happening as a result of being prudent about spending money and also getting the right members, which are helping us in our resort income but because that we are getting. So I am not saying that we want to be prudent in adding members. If we can, get members who are willing to pay higher down payment than lower EMI tenures, we will take them in. So it's a question of how smart we are in building our marketing infrastructure to acquire members at a lower cost, what likely to spend money over a period of time. It is something that we haven't done well in the past and we are very cognizant of. And I would say that numbers will be an outcome of the strategy. So I am not saying that we are trying to not drive numbers, of course, we drive numbers. We are driving inventory additions. We are driving numbers. We are also driving cash position. We are also driving higher down payment and lower EMI, which will help us to get our resort incomes going forward at a much brisker pace than what they had been.

Nihal Mahesh Jham, Edelweiss Securities Ltd., Research Division - Research Analyst [10]

Absolutely. Could you just like marketing numbers say some marketing spends for the Q3 FY '19?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [11]

Yes. Akhila.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [12]

So you want a quarter number or the YTD number?

Nihal Mahesh Jham, Edelweiss Securities Ltd., Research Division - Research Analyst [13]

Quarter number.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [14]

So quarter, if you take the spend INR 48 crores in last quarter, current -- last year 48...

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [15]

Last year, we have same quarter, 48.56.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [16]

And this year, the spend is 45.76 and this is end of the year accounting standards so that you'll have a like-like comparison.

Nihal Mahesh Jham, Edelweiss Securities Ltd., Research Division - Research Analyst [17]

Okay. Sure. And you can just share the CapEx number for 9M FY '19, the member spend in this year?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [18]

You have it ready, Akhila?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [19]

Yes. We spent more than INR 40 crores in this year. I can give you the exact numbers a little later.

Nihal Mahesh Jham, Edelweiss Securities Ltd., Research Division - Research Analyst [20]

Okay. Because H1 FY '19, you said our CapEx are between 50 and 70. So whenever possible, you let me know the exact number to the line item. I'll get back in the queue for the balance sheet.

Operator [21]

The next question is from Aditya Bagul from Axis Capital.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [22]

A couple of questions. Firstly, a more strategic -- there are quite a bit of, quite a few properties, hotel properties and liquidations proceedings today, would we be looking at any of these properties?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director
[23]

We do. We continuously look at properties, which are under various forms of distress. And let me be honest that we do look at properties which will come at a price lower than the market. In fact, one of the reasons we don't do or acquire properties as aggressively as we could given our cash position because we are never wanting to buy properties at the market price, we would like to buy properties which we can turn them around because if we were to get properties at a distressed price, we can refurbish it, we have that expertise and we can turn it around and we have demand, which is assured. So to that extent, it's a win-win situation for us and we are continuously looking as we speak. And to be honest, we are also very, very mindful that if we get a property, which is coming at its lower price and I can think of 2, 3 properties which came just 3 months ago. We did not proceed with them because we were not sure about the destination. And #2, we felt while the property looked good from outside, the inside of the property, which means the furniture, fixture, et cetera, were not of good quality, and that would have meant a huge amount of renovation and therefore we gave it a pass. So we do look at these properties very, very diligently because it obviously saves us time to build a new property in that particular destination.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [24]

Great. Sir, just a little more on this, would you say that most of these properties that are available today are at core leisure locations versus business locations like the key metro has one. And the second part is would they be available to us at a significant discount to the placement cost?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director
[25]

So what we have found is that leisure destinations, the properties are hard to come by. But having said that, there are leisure destinations. For example, take Agra, which is also a metro destination, metro meaning a city destination. So you do get sometimes properties in these places and we do not then whether this is city or a leisure because then, we have to look at the destination whether it will work or not. And then as I told you that in our evaluation criteria, we are very mindful how much of money we will need to spend on refurbishment. And therefore, refurbishment cost plus the price at which we could buy has to be attractive enough for us to take a bite off that slice. So its a constant -- we are in this business so we get leads, we get a lot of bankers approaching us, this is very normal for us. We have a full-fledged team that does that almost daily basis, this kind of evaluation. But for every maybe 100 evaluations, maybe we will pick 1 or 2.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [26]

Sure, Sir. So secondly, can you elaborate, I mean, you spoke a little in terms of your opening comments, but can you elaborate a little on the resort income, which was lower this time around?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director
[27]

No. So resort income is actually higher this time compared to the same period last year.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [28]

Growth rate, I mean.

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [29]

Growth rate, yes, it's about 4% or there about. Part of the reason for that, as I mentioned, is that -- and this time, we should not look at value why. This time, we should look at sequential, why? Because we were coming out of the Kerala and Coorg floods. Mind you, some of our resorts had to be -- there were certain flooding in some parts so those repairs got done in very, very quick time. We opened up the resorts, but we found that the sentiment of traveling towards in October, towards Kerala definitely wasn't ready for it. And including Coorg, we noticed, because people was just not thinking of these destinations so we have to run a lot of marketing programs. In fact, we worked with the government of Kerala also to market Kerala as a destination. We are finding that now, the sentiments, starting November, mid-November, this sentiment is coming back. And now, we are finding that we are the business is back to usual. So to that extent, the resort income did suffer in terms of growth, but if you look at it in a sequential basis, then we have plunged to INR 50 - INR 42 crores, and now, we are up to INR 58 crores. So one has to see in these unique circumstance. And by the way, even in Q3, we found unseasonal rains in Himachal affecting people's plans, last minute cancellations were the order of the day. And we also found that the Subramanya issue, particularly in Kerala leading to a lot of bonds, also impacted the Kerala -- the company. So we are finding that some of these unusual events. And despite these unusual events moving from INR 40 crores to INR 58 crores, is that's why I highlighted the sequential part and not the Y-o-Y part. So that was the reason why I took that stand in this company.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [30]

Sure, Sir. And would that also explain the Y-o-Y reduction in the ARS? Would that be the same reason...

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [31]

So Y-o-Y reduction in ARR is a function of how many resorts we ended up doing the FIT. By the way, this is a very small part of our income and probably the most insignificant parameter, in my view, because we are not a company which sells rooms to live. There are rooms which don't get sold sometimes and then we put it out in the market. So we are not really, really obsessed with this parameter. And which should be -- the drop was also be due to because we may have opened in the low season or then there were unseasonal rains, let's say in Himachal, they may have put out the rooms for sale and we will not have got the price. But it's better to sell rather than it is empty and probably that is the reason. Not probably, that is the reason for that area to be lower but this does not have a material impact on our financials.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [32]

Sure, Sir. That's helpful. So one last question for my understanding. Can you please give us an update on NCR the performance, so far, I could not find that in the...

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [33]

So NCR performance is not yet been released. Akhila, you might want to answer? We normally release up to a few days.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [34]

We normally release it after a few days. We have not yet released the number. So maybe we can give you an update once we are putting it out in the public domain.

Operator [35]

The next question is from Sanjay Jain from Motilal Oswal Securities.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [36]

My first question is how do I calculate your cost of acquiring a new customer? I mean, is this the sales in marketing expense? Is that all that goes in acquiring a customer because there may be some marketing people who -- whose cost, maybe setting an employee benefit expenses. I don't know how to take that out. And can you enumerate that? I mean, what would be the denominator? Like is this a quarterly number that you would be -- you can show us, vacation ownership? Is that the number of the revenue that you want from the customer because this, you have some EMI, like all remaining, which comes in a particular quarter and you have availed of a revenue for recognition. So what will be perfect fixed cost of acquisition?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [37]

So I think your multiple questions and maybe I will break it before I find answer on your questions. The first is, earlier we used to follow the revenue recognition under the earlier accounting standard, which was the accounting standard 1-8, in that 1-8, wherein we would have got the 19% -- 60% of our of contract membership fee, which is nonrefundable admission fees. Add the income and the balance 40% would get deferred over the period of 25 years. Starting April 2018, there has been a new accounting standard, 115, we just come in two-folds. And under the standard, we have to now deferred, even the nonrefundable 60% admission fees or the 25 years and therefore, I will recognize my entire

membership fees with the 60% admission fee and the 40% entitlement fee over the 25 years, which mean annually, I would be able to book just 4% of the income. So therefore, there are 2 accounting standards we are following in the current year and therefore, some of our numbers are possibly not compatible and therefore, we are also given the moment to explain to the investors and the analysts. As for the mandate their forms. Now, cost of -- I hope that is on this revenue, recognition under the view income. It is something, which is a -- annual, annual fees that we charge for our members and which gets booked annually.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [38]

I understood that revenue recognition part. Can you just explain to me what -- I mean, just tell me what is the percentage cost of acquisition, like according to your calculations? Maybe I could detail we can discuss offline the details.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [39]

Sure. So the cost of acquisition, basically, comprises of various things, and our estimated trending, what we have over the last 8 to 10 quarters. The cost of acquisition for work around 25, 26 percentage of the overall membership fees, if that is the question you're asking.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [40]

So you think it's 25% -- above 25%, you see.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [41]

That's correct. 25% to 26%. It does keep going up and down but overall, we are within the range.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [42]

But then this year's marketing expense is, it's quite a large number like it's accord. I mean, I was just looking coming over to give 40% of your vacation ownership but that I'm not sure if that's the right way to calculate.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [43]

Yes, that's what -- okay. So it will not be the right way because the book only, under the earlier method, we would book only 60% as the income upfront and the rest of the 40% will

get deferred over the 25 years, whereas all of my sales and marketing spend the interior cost will get charged in the same year. Therefore, if you were to put a direct percentage, it will not work out. Similarly, the sales and marketing spend will also include a fair amount of brand marketing spend between costs all the overall Club Mahindra brand. So a direct correlation across may not be really possible, but what we have an internal number and where we calculate our cost of acquisition per member is roughly 25%, 26% of the membership fees.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [44]

And this -- will this would be sitting in employee benefit expenses centric?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [45]

When I think -- okay. So from a regulation 43 perspective or an accounting flow perspective, all the relevant expense will go as mandated by the accounting standard and definitely, some expense would sit under the employee expenses. What number? We are talking 25%, 26% would include a portion of those employee cost, which include directly the incentives that we give or the permissions that we pay to some of our channel partners for selling, and that is a more directly attributable cost for the acquisition of the membership.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [46]

So essentially, since you are promoting all the customer acquisition, expensing customer acquisition cost in the same quarter and revenue your spending over 25 years, so current profit actually is quite understated. I mean, it's not actually, expense and the revenue are not in line because of this accounting treatment...

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [47]

Yes. Yes, indeed. You really got this point on and therefore the deferred income, which you will see in the balance sheet, that's a significant number. And when we restated from AS 18 to 115, the deferred income really grew significantly, and that's an income, that will come in into the P&L every quarter rather every year, quarter and yearly from the deferred income pool. And we will also keep adding more into the deferred income pool and we will keep drawing out of the deferred income pool. Get the deferred income pool will keep growing. So that is the certainty of the income. And if you look at our investor presentation, we have mentioned that this leads to very high visibility of revenues in our business. In fact, we have written as high as 95%. So revenue visibility has significantly improved. And you are right, the profit is understated but that is after the accounting standard.

Operator [48]

(Operator Instructions) The next question is Himanshu Shah from HDFC Securities.

Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [49]

Can you just help me that what would be the OCF for 9-month FY '18 last year, say, same period?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [50]

So Himanshu, last year, for the full year, our OC, given the operating cash, which was around INR 332 crores. This is pre any CapEx sort of commitment.

Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [51]

Okay. So ma'am, if you just see for 9 months and if I try and annualize it, it would be a decline Y-o-Y. While our business is growing, our membership has shown in a growth. Why should there be a declining OCF? And it would be like at par with more like FY '17 numbers. Over 2 years, our OCF is like remaining broadly flat. So is it fair to assume that it is due to delayed collections or nonpayment by the new members that have come in?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [52]

So Himanshu, if you really see our quarter-on-quarter trending, our fourth quarter in the past 4, 5 years, you should go back and see the quarter 4 performance, is always the best because that is a season when people start planning for the large vacations, their annual vacations. To simply do an annualizing may not be the correct way of doing things.

Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [53]

Ma'am, in that case, what number would have probably helped me out to segregate that stuff?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [54]

We can take up your request and share it with you.

Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [55]

Sure. I'm not sure. Secondly, just want to understand the OCF up to first half FY '19 was INR 153 crore and now it is INR 201 crore. So it's like a -- it seems like there has been some

softening over there. Again, it's a matter of 1 quarter, but not sure again. Yet -- and the member additions has been like slightly flat only on a sequential basis or on a Y-o-Y basis, a nominal decline. So is it, again, attributable to slight delay in collections or something?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [56]

I would not make that statement. As I said, our business is also a little bit cyclical and would like to wait for the year-end to see the final numbers.

Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [57]

Okay. Okay. Just one more thing...

Operator [58]

Sir Shah, sorry to interrupt, but may we request you to return to the question queue for follow-up questions as there are several participants waiting for their turn?

Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [59]

Sure, no issues.

Operator [60]

(Operator Instructions) The next question is from Pankaj Kumar from Kotak Securities.

Pankaj Kumar, Kotak Securities Limited, Research Division - Research Analyst [61]

Sir, my question pertains to the performance of Bliss added product. During the last 2 quarters, we have seen Bliss had contributed significantly. In this quarter, that trend has been similar or it's changed?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [62]

I think the Bliss momentum is continuing. It's not that the trend has changed. And by the way, it is still insignificant part of our total sales. Insignificant means it is -- it has not become so dominant for us to be able to share the numbers. But this is a new product. It is gaining ground. It is being sold by a different sales team. So we are happy with the internal

moment of the product, and that is why we talk about it that this is gaining momentum. And the momentum continues.

Pankaj Kumar, Kotak Securities Limited, Research Division - Research Analyst [63]

Okay, perfect. And this product is only for the age group of 50 plus.

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [64]

That's right.

Pankaj Kumar, Kotak Securities Limited, Research Division - Research Analyst [65]

So I mean, we had discussed about the product, where we would be looking at your age group with a lower tenure. So have we started that product?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [66]

We have a product. We have a product called GoZest!. It's a 3-year product. This product cannot be sold traditionally because the cost of acquisition, otherwise, will not justify. It's a shorter duration product, lower transaction revenue product. So we are trying to sell it online. We have not achieved great success, and that's why we did not talk about it. But we have not given up on it. Eventually, this product is meant to funnel a millennial into our core product, and therefore, this may require rethinking and thinking fresh as to how do we attract the millennials into a 3-year product and then eventually move them into a 25-year product or thereabout. So it is in that stage that we are.

Pankaj Kumar, Kotak Securities Limited, Research Division - Research Analyst [67]

Okay. And sir, lastly on the -- overall the growth strength. If you look at -- over the past years, we have grown our cumulative membership base 8% and now we see it turn around 7%. So is the -- are we seeing any softness in that trend or something?

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [68]

No. So cumulative member base growth is of the order of about 8% if you were to look at the YTD December '17 to YTD December '18. 8% or thereabouts, it could be 8%, it could be 9% depending on how it goes because the cumulative base is also expanding. As far as I'm concerned, I am, as I told you, I am looking at the business in a very holistic manner and I'm trying to see how we can get the higher down payment paying members, lower EMI

tenures, better cash position. You see our cash position, the way it has moved up and ensuring that we are in a position to grow the membership base on a sustained basis and more importantly, also bringing inventories in line with that so that the customer metrics are improving because, in our brand, it is important for us to continuously improve the customer metrics. Eventually, that is what will take the business to the next level. So this is what we are trying to do. And we are seeing [our leaders that is] in terms of resort incomes. The fact that resort incomes on -- even on when we do per room night metrics, the resort incomes are growing on per room night basis also. So we do see a healthy trend internally. We are well capitalized. We are in a position to invest, and we are debt free at a stand-alone level, and we are in a position to definitely grow the business because we are also improving our value proposition. If you recall, I mentioned that we are trying to create an experiential ecosystem, which will help us to create experiences, which are very, very unique, whether in resorts, around resorts as well as in city. So it's a work in progress. People who are able to understand our value proposition, we are able to get them in. And by the way, I want to share a very interesting update, which I did not share in my opening remarks. We have seen a significant improvement in upgrades. While our member additions are what they are, we have seen a very robust addition to our upgrades. You won't see much of that effect in our income because, like the membership income, this also gets spread over the balance period of the tenure. When I say balance period of the tenure, if some member comes to us after 5 years saying that I want to upgrade to the next season or next apartment type, the price -- the current price is taken and minus from the price at which he or she may have bought the membership and then that differential payout after the member does. But again, that income gets spread over 25 years, so you will not see an income pickup. The real moment we are seeing is in upgrades, and we are using the power of analytics to target members who are constantly trying to do one-off holiday or multiple apartments. And the power of analytics is helping us to also get upgrades, and my happiness comes from the fact that when your upgrades are good, which means your value proposition continues to remain strong.

Operator [69]

The next question is from Shivan Sarvaiya from JHP Securities.

Shivan Sarvaiya, [70]

Sir, my question is on the membership addition. So sir, if I look at the gross addition of the 3 quarters, it comes up to around 12,700 members. Now if I consider the membership base as at 31st March 2018, which was around to like 35,700 members and currently, it is to like 47,716 members, that the difference comes out to be 11,900 members. So the difference between the gross and the net comes to around 782 members who dropped out kind of a thing. So this is much -- this is a very high number compared to what it was in the same period last year. So sir, any color on this? Are we seeing the old members -- the old memberships maturing? And will this then continue going forward?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [71]

Shivan, we used to have an earlier product called ZEST, which was a 10-year product, and there are members of that particular product who are retiring. And this is basically those members.

Shivan Sarvaiya, [72]

Okay. Okay. So that 25-year product is yet -- or -- so that has not seen any retirement yet.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [73]

No, that has not -- the core product has not seen any retirement yet. And your question on is it significantly increased, it is more or less in the same line of it will not be a significant jump at least over the next 6, 9, 12 months. But there will be members who will constantly finish the tenure of their membership.

Operator [74]

The next question is from Rahil Jasani from ICICI Securities.

Rahil Jasani, ICICI Securities Limited, Research Division - Research Analyst [75]

My question was related with vacation ownership income. So in the second quarter of FY '19, the vacation ownership income was around INR 726 million, which is now INR 768 million in Q3 FY '19, which is an increase of around 6%. What if I compare that Q-on-Q, member addition growth there I think is a decline of around 4%. Now I know that the VO income is a blended mix of the old members and new members. But shouldn't the direction be the same? I mean, can you explain the gap to me?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [76]

So you are now looking at my 115 numbers, right?

Rahil Jasani, ICICI Securities Limited, Research Division - Research Analyst [77]

Yes, both 115, correct.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [78]

So under 115, basically, what happens is, as you know, that we have migrated to this accounting standard, I will have the entire income coming from the past members and the incremental for the current members. So despite whatever I've added, the real numbers -- I mean, I will be adding my membership fees of -- the one by 25th for the existing member base, which is the INR 2 lakhs, 38,000 members we have as at the end of quarter 2. So that income will anyway come in. This will only be on top of that, and therefore, really speaking quarter-on-quarter, the VO income will only go up. There will not be too many [bad that is] going forward, which is what we've also shared in the investor deck that almost 95%, 96% of our income would become far more predictable.

Rahil Jasani, ICICI Securities Limited, Research Division - Research Analyst [79]

Right. Right. Understood. And one -- just a second question. In the September balance sheet, which you had shared, the deferred revenue total to around INR 5,259 crores if I had added both noncurrent and current deferred revenue. But in the key items, balance sheet items published today, the September deferred revenue stated as INR 5,114 crores. So I was just thinking what is the gap there.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [80]

Let me just check that figure and come back to you, Rahil.

Operator [81]

(Operator Instructions) The next question is from [Kushal Maheshwari] from [Omni City Capital].

Unidentified Analyst, [82]

Hello?

Operator [83]

[Mr. Kushal Maheshwari], we can barely hear you. Requesting to use the handset. Speak a little louder.

Unidentified Analyst, [84]

Yes, I'm using the handset. Hello?

Operator [85]

Yes, we can hear you now.

(technical difficulty)

We'll move to the next question. The next question is from Nemish Shah from Emkay Investment Managers.

Nemish Shah, [86]

Just wanted to know the CapEx figure for the 9 months of the year, get it as a chance to calculate that.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [87]

CapEx figure for the 9 months is roughly around INR 90 crores that we have spent since March.

Operator [88]

The next question is from the line of Sanjay Jain from Motilal Oswal Securities.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [89]

This is -- on the last slide, the deferred revenue part, you were talking about so INR 1,766 crores, so this is at the end of first half and a similar number. My question is, this is the accounting number, right? What is the cash receivable against this?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [90]

I'm sorry, can you repeat your question?

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [91]

If you go to Slide 39. The deferred receivable, you show that INR 1,792 crores.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [92]

Correct.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [93]

So yes, what is the cash receivable? Because this will be an accounting receivable because you were not recognizing the remaining [quarter number].

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [94]

Let me explain this a little bit. So what this receivable is the actual cash receivable from the members. So basically, we do a 4-year payment plan to members, and they have the option to pay either in 12 months, 24 months, 36 months or 48 months. And they all probably chose payment plan that's convenient to them. This receivable is actually a reflection of the amount receivable from them. Now at that part that you are talking of is the accounting part, which is under revenue recognition, which is sitting on my deferred revenue on the liability side, which is close to INR 5,200 crores. That is the unbooked revenue, which is sitting in my book, but that sits under liability side. This receivable is actual cash receivable, and it is sitting on the asset side of the balance sheet.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [95]

Got it. Got it. So this is actually -- and you are not making any NPV kind of assessment here. So this is your -- I mean, there is no effective value you're calculating. It's simple value of the cash receivable.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [96]

What we'll do, as per the accounting guidelines, is that is our requirement to do an estimated credit loss provisioning, and we have an internal model, which has been signed off with our board, with the internal audit and with our statutory auditor. So we do an estimation of the credit loss, and that gets factored into it. But we are not doing an NPV calculation because what we are not -- we are not giving a 10-year payment plan or an 8-year payment plan. It's a 4-year payment plan, and therefore, we're really not doing any NPV calculus into it.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [97]

Okay. This is very useful. Can I ask one more question if we don't have too many people behind?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [98]

Yes, but shortly.

Sanjay Jain, Motilal Oswal Securities Limited, Research Division - Senior VP of Institutional Research & Metal Analyst [99]

Maybe -- I guess, slipped out of my mind. I'll come back in the queue.

Operator [100]

The next question is [Kushal Maheshwari] from [Omni City Capital].

Unidentified Analyst, [101]

My first question is with respect to the interest category. So can you guys give me a breakup of how -- what is the interest rate charge on the EMIs and the whether all the receivable that have been shown are interest bearing?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [102]

So [Kushal], we have various interest rates for various schemes. There are, as I said, 12 months, 24 months, 36 months and 48 months payment plan. Each will have a varying thing and which will also keep changing over a period of time. As far as the receivables go, again, if -- it depends on the payment plan that the person has taken, and therefore, I cannot give you one single answer for the whole thing. Where the recent interest applicable, it will include it. Where it is not applicable, it will not include it.

Unidentified Analyst, [103]

Okay. And ma'am, can you just give some -- analyze on what is the average interest that you charge?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [104]

So we would be around 15% plus, and I would -- that would be roughly an indicative number.

Unidentified Analyst, [105]

Okay. And ma'am, the second question is with respect to the cost of acquisition. As you said, that the currency -- that cost of acquisition is about 25% to 26%, right?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [106]

That's right.

Unidentified Analyst, [107]

Yes. So in this quarter, as was earlier mentioned, that cost of acquisition has decreased by some amount. So is this 25%, 26% a further decrease? Or has it been the same all along?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [108]

So what I responded was that basically our cost of acquisition has been trending in the last 8 to 10 quarters in the range of 25%, 26%. We are very conscious, and we keep modulating our cost of acquisition strategy, both to complete sales and to keep a control on the cost. It has been in this range. And this quarter, we have been on the lower end of the range rather than on the higher end of the range.

Operator [109]

The last question is from Anandha Padmanabhan from Renaissance Investments.

Anandha Padmanabhan, [110]

Ma'am, would you be able to break up your deferred revenue into vacation ownership, ASF or income?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [111]

We would be doing these breakup only during year-end and not during the quarterly -- because it is not required. I think we'll stick to the new disclosures on that.

Anandha Padmanabhan, [112]

But just because -- would basically help us to understand the model that are in long term just much better.

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [113]

Let us evaluate, and we'll come back to you.

Anandha Padmanabhan, [114]

Okay. And how would your average realization [per member] have moved this quarter? Would you be again around INR 3.5 lakhs?

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [115]

We are trending in the same region, INR 3.4 lakhs, INR 3.5 lakhs.

Anandha Padmanabhan, [116]

Okay. And overall -- over the past 3-year period, what has been the average? Did you decrease or average kind of increased in the realization [that you announced] in the past 3 to 5 years? If I were to model this number in the past, how would that -- this number...

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [117]

The last 2 years -- 2 to 3 years, the overall hospitality industry has been fairly sluggish, and our pricing power also comes with what is happening in the overall macroeconomic environment. So we've been taking fairly contained prices in the range of 2%, 3% across various schedules. So our trending, as you see last 12 quarters or even more, 8 to 10 quarters, I would say, would be in the range of 3.3, 3.4, 3.5.

Anandha Padmanabhan, [118]

Okay. And how was your ASF? Or what would have been the typical price if you [take out what you typically take]...

Akhila Balachandar, Mahindra Holidays & Resorts India Limited - CFO [119]

So the ASF price increase is linked to the WPI, CPI Indices. This year, we were around 4.6%. Last year was 4%. This is the range. And it will again depend on how the indices move.

Operator [120]

I would now like to hand the conference back to the management team for closing comments.

Kavinder Singh, Mahindra Holidays & Resorts India Limited - CEO, MD & Executive Director [121]

I would like to thank all the participants today. And as is the process, if there are any more questions, we do set up meetings as per the proper scheduling format that we have, and we will be open to discussing with any -- if there are any more details that are required as we move along. And once again, we would like to thank all the participants for asking the relevant questions and trying to make us think hard. Thank you very much.

Operator [122]

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