"Mahindra Holidays & Resorts India Ltd Q4 FY13 Earnings Conference Call"

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MODERATO: **MR. GAURANG KAKKAD – ANALYST, RELIGARE CAPITAL MARKETS**

Moderator Ladies and gentlemen good day and welcome to the Q4 FY13 earnings conference call of Mahindra Holidays and Resorts India limited hosted by Religare Capital Market. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Gaurang Kakkad from Religare Capital Market, thank you and over to you sir.

Gaurang Kakkad Thanks Shyma. Good afternoon to everyone, on behalf of Religare Capital Markets we welcome you all to the Q4 and FY13 earnings call of Mahindra Holidays and Resorts limited. From the senior management team we have Mr. Rajiv Sawhney, the Managing director and CEO as well as Mr. Aloke Ghosh the CFO of the company. I would like to hand over the floor to the Management for the openings remarks. Over to you sir.

Rajiv Sawhney Hi everyone this is Rajiv Sawhney and Aloke is there with me. First of all we have shared our quarter and annual results with you. We will come to them in a moment. We continue to be a work in progress; we have been sharing with you in the past conference calls about our plans and about certain promises that we have made to you. I am happy to say that the promises that we have made to you on delivery of the right climatic conditions which are required for growth whether it is fresh inventory, whether it is customer satisfaction, whether it is a far more user friendly booking process or taking it online. Those parameters are continuing to look good. During the year we added 560 rooms, we had shared with you and we are happy to come back that we would be adding international destinations to our portfolio and we did add both Bangkok and now Dubai. The initial response to these from our members is good. The feedback that we are getting and the booking responses that we are getting for our foreign destinations are promising. It re-injects our confidence that it was a right move to go to neighboring countries where low cost carriers are serving which would make the offering to a club Mahindra member richer.

Overall now that we have close to 2500 rooms just to put things into perspective in the last 2 years we have added close to a 1000 rooms on a base of 1500 that we were 2 years ago and during this period of time we have also taken the opportunity to cleanse our base, we have had certain lease properties that we have also given up. So the numbers that you see are the net addition because we have more rooms, because we moved to Members First as we had indicated to you, 90% plus of our total room occupancy is being used by members only. It is a members first because we moved to the online booking process about a year plus ago. We are today tracking above 50%, more than half of all holiday bookings of members are happening online. During the year because of more inventories, because of usage change that I talked to you about and because of more rooms per say the total number of rooms, total number of unique numbers that holidayed grew by 21% during the year and that has had a direct impact on the overall satisfaction levels, on the overall lack of complaint levels relatively, on the overall satisfaction that the members are getting from the experience that we are able to provide because like we had shared with you earlier the one thing people faulted is us for was that the experience is excellent, the experience was top class when they actually visited the resort but they were not able to book in advance always necessarily or do it so transparently.

So from our point of view while we would have liked the overall member addition to be faster we are quite confident that we are now ready to change gear in picking up pace in member acquisition and the reasons why I say that is we have entered new geographies through third parties in the 2nd Tier towns of India. The entire process took us a while; the entire process in selecting members, training our acquisition partners had a lag effect. It took us some time to get the imagery right to get people to consider and going forward we are going to focus on firstly on on-site which is acquisition of fresh members at our resorts both upgrades and through referrals and through referrals itself we have seen referrals go up to 28% now and more importantly is that the mood of our members, the word of mouth is so much more positive today that their willingness to refer us is significantly higher. So we are planning ourselves up to leverage this advantage to get a higher referral rates from our happy members and this would also help us in reducing our cost of acquisition going forward because not only do we get a better quality of member when we get our referrals we also get it at a significantly cheaper cost of acquisition. We have significantly increased our effort on web leads; we traditionally relied on getting lead for prospects from various sources, digital has picked up significantly and we see going forward this to be a significant shallow. So the way we acquire our customers is going to be more through referrals, the emphasis is increasingly going to be much more on referrals, on-site, on upgrades of our existing members as would be on the newer geographies that we are entering. We had during the period restructure in our product portfolio, we had Zest as a product which we stopped selling which from a restructuring point of view had an impact on our run-rate in terms of the acquisition of members that we had but that is something which we have now metabolized.

On the inventory pace we had shared with you earlier but I would like to come back. We have a few projects that we have started. There is Naldehra in Himachal Pradesh; there is Kanha in Madhya Pradesh, there is land that we have acquired in Asanora in Goa and there is an expansion that we are doing in Munnar. Now these are expansions which are under way at various stages, you will see the benefit of these coming in the next year and a half - two years. Equally we have identified certain land possibilities in places based on our experience where we believe there is a high potential and during the financial year 2014 we should be staring 2 new large projects which would be 200 rooms plus each. Equally we have land available in our existing premises in Kandaghat which is in Himachal Pradesh a property that we bought almost a year ago, less than a year ago actually where the property came with land which allows us to go up to a possible 200 rooms when we bought it which it is today it is only 75 rooms, so we are currently drawing up the plans and to get the necessary approvals to take that place up to the 200 number.

So the message really which I wanted to share with you people was that we will now be focusing on building resorts, building them with a soul, building up with a character that we understand based on the flagships that we have created in the past and obviously these coming in new would be far better and we would be continuing to working on taking the user experience to an all-time high. When it comes to resort experience, when it comes to guest feedback we have had a more than reasonable increase from a very high score during the period under review where guest satisfaction level had gone up further. I am talking about guest satisfaction at the resort level, you guys look at the overall index of overall customer positivity towards us that has increased by 14% point where there is a movement, the needle has moved where people are far more positive about Club Mahindra per se. If you look at the top 4 Google searches of Club Mahindra, Club Mahindra feedback, Club Mahindra reviews they show a significant change upwards in the positive mentions. A big change in the negatives, where the negatives have dropped, neutral is pretty much the same. If you take positive minus negative there is a huge movement up in the positive.

So net-net the conditions are right for us so this will be the year of growth for us and you should see us increasing our member base where all that we have done in terms of the corrections, all that we have done in terms of the improvement, all that we have done in terms of taking the user experience up to higher levels, we are seeing people tell us about it, we are seeing that in online forums, we are seeing that in the feed-back that we are getting and that combine with the thrust that we are now going to make in the thrust which has been ready, some of those things we have not been firing on all cylinders on all times. One cylinder is fired in a particular month, one is in a particular month then you have taken some things away like Zest restructuring which is why overall you have not seen us deliver to what we had promised. So that is really what I have to say on the specifics for the numbers etc., and ask Aloke to share with you and then after that we can have the questions.

Aloke Ghosh Thanks Rajiv and good afternoon to everyone. So I will just share the numbers first on the year on year basis, then on the year on year for the quarter and then the consolidated numbers giving specifics before we open it up for question and answers.

So when I speak for the year and year the operating income for the year was Rs. 659 crores versus Rs. 574 crores on the year 2012 which is a growth of 15% year on year. Including all other income, the total income for the year was Rs**.** 716 crores. Now I will just give a break-up of the operating income which interests a lot of you. So out of the operating income which I just spoke of time share income is about Rs. 446 crores, Resort income Rs. 93 crores, ASF what we call as Annual Subscription Fee Rs. 114 crores, interest in others Rs. 57 crores and income from our ticketing business or TRS Rs. 6 crores. PAT for the year was Rs. 107 crores which is up 2%

year on year, number of member additions for the year was 17489. As Rajiv has just mentioned we discontinued further selling Zest which had a net impact of about 1800 units for the year. The company's total membership base now moves to have a precise number it is 1,60,747.

Now to give the results for the year we have for the quarter the operating income for the quarter that was Q4 was Rs. 187 crores verses 173 crores for the corresponding quarter last year which is a growth of 8% for the quarter-on-quarter for the year. Including all other income the total income for the year was Rs. 204 crores.

So just to give us split up of this the break-up of operating income includes time share income of Rs. 132 crores, resort income Rs. 24 crores, annual subscription fee Rs. 30 crores, interest on others Rs. 17 crores and TRS is one crore. PAT for the quarter was Rs. 31 crores verses Rs. 37 crores last year; PBT Rs. 48 crores verses Rs. 50 crores last year. Number of member additions for the quarter was 5,526 versus 5,468 last year.

Now to just give a brief about the consolidated financials, the consolidated total income which also includes the four properties which we have added last year was was Rs. 739 crores versus Rs. 626 crores last year and PAT at Rs. 91 crores versus Rs. 102 crores last year. So this is a brief about the results and now I would open up for question and answers. You can ask your questions.

Moderator Thank you sir. Participants we will now begin with the question and answer session. We have the first question from the line of Rishi Maheshwari from ING Life, please go ahead.

Rishi Maheshwari Mr. Sawhney you have given us a detailed explanation of whatever you think is happening. I would like to base my question on the same. You mentioned climatic conditions seem to be in place to seek very superlative growth ahead. Online initiatives, improved customer satisfaction and improving referrals along with restructured portfolio. It should have resulted in lower cost of acquisition and higher member growth consequently obviously higher margins. Now it has been some time since we have been hearing this but consequently this is not reflected in the numbers. Last quarter I asked you the same but the number of members, year on year growth has not been very fascinating. This year too, the year on year growth on the members is not very appealing again. What is your sense? Where are we not able to gear up and this is on member growth as well as the revenue consequently and secondly every quarter or the other we seeing either the expense on the employee front increasing or the SG&A increasing this quarter the other expenses have increased. What is our take on the margins? How do we look at holding up our margins you know as we have held in about 3-4 years ago?

Rajiv Sawhney See I would not like to compare our margins today with 3-4 years ago, I would say that see there are couple of things and then I will leave the question to be answered by Aloke. There was a point in time when we had a large percentage which was in its teens or the late teens which was happening through non-member revenues, non-member occupancy at a resort. We took a big haircut when we moved to members first and now that we have adequacy of rooms at the overall level pretty much we see ourselves as a company being able to get into the FIT which is the non-member hotel guest on a member first basis. Member first is something which is sacrosanct; to you give an example if I have opened a new resort take for example in Dubai. Now it will take me some time to ramp up member demand, once I open my bookings it will take some time to people to make up their mind to figure out what the place is all about etc. Since I have more rooms available I would be using more rooms to get me FIT revenue on a member's first basis. So that is one piece. Secondly Aloke will share with you the bridge of the gap of where the margins are disappearing to use your words pretty much what are the one of cost? What are the one of investments that we have made and what are the improvements in expenditure that we have done which is going to benefit us going forward**.**

Aloke Ghosh So Rishi I mean since you just mentioned the cost of acquisition as a first thing so I will touch base on the cost of acquisition as a percentage of sales which we have generally shared before. See cost of acquisition as a percentage of sales is in-line with what we had last quarter which was in Q3 around 30.7%, Q4 we have ended at about 30.4% and for the year 32% versus 36% last year. So that matrix which we have shared before and which we have been tracking very closely. We have fared well.

Now to come to your other expenses: the other expenses what we see between if you go from year to year there is a big jump and I would break it up into 2 categories which is:

a) Which are one-time expenses? b) The increase expense because of our increase infrastructure in the resorts. So the first category which is a) one time charges would be about Rs. 6 crores which we have incurred, if you know we have implemented ERP across the company. So there has been a build-up on the infrastructure, hotel, PMO and quality assurance, infrastructures from IT which has led to about Rs. 2 crores one-time expense. We have done about Rs. 4 crores other expense which includes renovation at a few of our key resorts.

As far as increase in other expense due to additional new resorts we have and I am doing this on a year to year basis. So other expense is a one-time charge as I mentioned of about Rs. 6 crores due to IT infrastructure and renovation at one particular resort. The second thing is we also have additional you know as we grow up with the rooms we would incur additional expenses to service our members and for future benefit that would constitute about Rs. 7 crores which includes the lease, the power costs and food and beverage cost but of course food have a corresponding revenue parameter in it. So I have explained about Rs. 13 crores of the increase in other expense through this methodology.

Rishi Maheshwari Part of about Rs. 6 crores which is absolute, which is justifiable and probably will be reversed next quarter onwards but the other Rs. 7 crores is an ongoing expenditure, if I had to reverse the 6 crores or take away that from the expense line it would still mean your margins are more less just in line with the one percent up move that we have seen over the last year. what we have been hearing over the last few years is that there has been several initiatives like taking away the freebies like be online, acquisition cost therefore going low and hence we were looking for a significant jump in the margins. Is that a wrong assumption to go to hence forth look at we do not hence forth should not assume a significant jump in margin here-on despite the changes in the restructuring that you have done?

Rajiv Sawhney So you should see an improvement in the margins obviously you know. We stay our course on that one.

Rishi Maheshwari Secondly if you can break up the revenue of Resort income Mr. Ghosh it will be helpful.

Aloke Ghosh For the quarter?

Rishi Maheshwari Yes, for the quarter as well as for the year.

Aloke Ghosh So the resort income room revenue is Rs. 3 crores for quarter I am saying for Q4 2013, food and beverage is Rs. 14.6 crores and holiday activity and others is Rs. 6.6 crores. And for the year it is room is Rs. 10.76 crores, food and beverages Rs. 59.04 crores and holiday activity and others is Rs. 23.3 crores.

Rishi Maheshwari I am sorry I missed that, food and beverages you mentioned was 54 crores and holiday activities was?

Aloke Ghosh Food and beverages was Rs. 59.04 crores for the year and holiday activity and others is Rs. 23.34 crores.

Moderator Thank you. We have the next question from the line of Parvez Jasani from Edelweiss Capital, please go ahead.

Parvez Jasani Just wanted to know some data points regarding the rooms that are on lease as of today ?

Aloke Ghosh See we can give you the total number of rooms as on lease, not get in to specifics. Yeah, just hold on for a minute.

Parvez Jasani Should I continue with my next question?

Management Yes, please.

Aloke Ghosh Your total number of rooms on lease is 903, 900 rooms.

Parvez Jasani And what about the Zest members? The members who are in Zest have they converted into the Club Mahindra members? What is the conversion ratio that you are getting these days?

Rajiv Sawhney See as we said we have stopped signing up fresh Zest members so we have reached out to existing Zest members and given them the opportunity to upgrade themselves to Club Mahindra members by paying the difference. So we you know,

Parvez Jasani So what is the feed-back from them like is it positive or?

Rajiv Sawhney Well the feedback as you would imagine would be mixed there are some people who would consider it, there are some people who we are having conversations with, bottom line is that they have the choice of continuing to be Zest members, and there is a Zest network of properties which continues to exist. So they continue to be able to avail of the services which the signed up for, so to that extent there is no change in their status. What we are sharing with them is how by paying a difference they can actually upgrade to a far wider offering, offering which is increasing at a rapid pace which is giving them far greater variety and chances are that they themselves in their lives that evolved since they find up and now are in a position to invest more money. So currently our member nation's teams are in a process of having conversations with them. In fact we have done some homework on this and we had also checked with other time share companies in the west when they had moved from a regime of days to points, when those migrations occurred you know it took them 6 months to a year to kept the whole migration process going and to have conversations with members individually because this is not something which will summarily inform people. This is something which we individual reach out to somebody because I think they are 2 different things one is I am not going into the market and asking anybody to sign-up for the fresh Zest membership. That is one event. The other thing is that now I am going to reach out and I am in the course of reaching out to individual customers who are my members of Zest and having a conversation with them say,' Hey! Hang on would you consider this' so that process I think will carry on for a couple of quarters.

Aloke Ghosh It has just about begun in January March.

Parvez Jasani My next question is regarding the number of room additions as compared to Q3 we have added approximately 230 rooms, out of which 75 I understand is the Dubai rooms. Can you give us the break-up of the other rooms which have been added?

Aloke Ghosh We have got a property in Cherai near Cochin, we have a property in Poovar which is also in Kerala and Virajpet which is in Karnataka and there is one in Udaipur that we have leased. All these details of our current inventory has updated would be now on our website. And this particular conversation that we are having to supplement I think there is a presentation up there which talks you through various salient points including the matrices and the numbers and everything, all those details in fact all where every any facts are to be supplemented they are all available now online.

Parvez Jasani My last question is on the number of cancellations in this quarter. What has been the number of cancelations and the cancelation charges that we have paid per member?

Aloke Ghosh See cancelation charges for member we do not share but number of cancelations has been 1018.

Parvez Jasani 1018. I believe last time you all had shared the cancelation charges for member which was 1.8 or 1 point something,

Aloke Ghosh No. we shared an average rate but the exact amount we do not share.

Parvez Jasani Yes sir, could you please share the average points?

Aloke Ghosh The average that is just about we have said 1.8.

Parvez Jasani 1.8 okay.

Moderator Thank you. The next question is from the line of Nimit Shah from ICICI Securities, please go ahead.

Nimit Shah One thing I wanted to ask like the gross block which is reflected in the balance sheet it shows a nominal increase where as we have added significant rooms. So I just wanted to know where is the disconnect between?

Aloke Ghosh See Nimit it is like this the gross blocks seems all these rooms that is what I said at the beginning that was 4 properties are now are subsidiaries. So when you are seeing the balance sheet this would appear in the investment and the loans and advances, it would not appear under fixed assets because they are separate subsidiaries for us, all the primary properties which we have acquired.

Nimit Shah So it is reflected under loans and advances, long term?

Aloke Ghosh See it will reflect under 2 things one is investment and the other thing is loans and advances because when we have acquired them we have invested into that company which has a property and we have also closed the loans with they have with the respective banks. So the value would actually show under investment loans and advances and not under the gross blocks which you are seeing.

Nimit Shah Correct. And sir could you share us the consideration which you might have paid for the Dubai property? And what are the terms for that?

Rajiv Sawhney Nimit, we don't share the consideration for respective properties as policy.

Nimit Shah And it will be totally operated by us, I think it will be open to outsiders also.

Dinesh Dinesh here. The investment team, Dubai`s we have put is very minimum because we formed a JV over there and JV has the right to lease the property over there.

Nimit Shah So it is open to outsiders also?

Dinesh Shetty Yes, if it is available.

Moderator Thank you. The next question is from the line of Mohit Jain from Trust group. Please go ahead.

Mohit Jain Do you believe that inventory at this point of time is running ahead of member additions and what would be our invitation targets for '14?

Rajiv Sawhney I would not say it is running ahead. If you look at the year under review, then we have certainly added far more rooms than what the fresh member as required. We would certainly as I had mentioned just about half an hour earlier, the plans that we have in place, the pipeline that is there is clearly pointing us, that we will do more rooms in FY14 than we did in FY13. And that reflect our confidence in the being able to step up the member acquisition rate.

Mohit Jain Though new homes, new rooms would be owned in other than these stages?

Rajiv Sawhney Once we have already maintained that the value accretion happens if we buy a property, because the terminal value at the end of the term which is 25 years belongs to us, if you sign up as a member today, then 25 years later you will lose your right to use. I would then be able to resell that unused inventory which will then get freed up to somebody else. So we would always prefer to buy in fact what we would love most always is to build ourselves, because of the gestation period, because of the practical considerations in the last year and a half you see that buy more than built. We now have built start and I just counted of 5 or 6 of them for you, which are at various stages of either activity or consideration. So if you were to ask me before this calendar year is gone, we should have in motion 6 projects at various stages. So yes that would be preferred, however, we would continue to be open if we find good locations – I will give you an example of Mahabaleshwar, in Mahabaleshwar there is a Supreme Court ruling that no commercial construction is permitted. So I can never build anything over there. So that leaves me with the choice of buying or leasing. Now we chose to lease the property that we have there currently, however, we will always take the full lease and run it ourselves and repurpose it to our requirements, so the preference would have been to buy but if that choice does not exist then we have leased and should there been interesting opportunities going forward, we will not be shy of leasing but the preferred thing would be to build.

Mohit Jain In terms of members-to-rooms ratio, do you think there is room for everyone and there or would you like to continue at the correct level.

Rajiv Sawhney I think we are pretty much there now.

Mohit Jain We should assume it to be constant from here on?

Rajiv Sawhney We will never be able to fine tune our demand and supply. It will have to be a constant toggle but yes we are happy with the kind of balance which we have been able to achieve through the efforts that we put in the last year and a half.

Mohit Jain And were we able to furnish member request during Q4 for rooms.

Rajiv Sawhney All never happens, will never happen. It does not happen in any kind of business. But the rate of denial has dropped significantly. The rate of denial now is within acceptable norms. There will always be the outliers; there will always be the unhappy customers. There will always be somebody who wants to book a week ahead of Easter Sunday and wish to go on a weekend and then say hang on why am I not getting it? The same thing would apply to everybody if they were trying to book into any hotel or even to get an airline ticket. What I am saying is there is something called as reasonable expectation, there is something call as reasonable SLA (Service level agreement).

Mohit Jain So how is the rate of denial now. What's it one year back?

Rajiv Sawhney The rate of denial, we look at it 2 ways. We look at it as did you get your first choice holiday or not. Of what I was able to offer you is an alternative, so if you are looking for Goa for 24th December, I might request you if that is not available assuming that you are booking by an advance, whether you would consider another location or another date and at the end of the conversation or if it is most probably more than happening online. You would have made up your mind of what is available. So 85% of where about are getting their first choice holiday. When it comes to second obviously that number improves significantly. But yes if you go into cyber space, if you go into any online reputation management, there will also be some people out there who would say that they did not get what they want but is fast dwindling trend.

Mohit Jain And what was the rate of denial one year back?

Rajiv Sawhney It has improved by over 15% points.

Mohit Jain What was the average realization during the quarter?

Rajiv Sawhney You are talking of **AUR** it is around 3.3 lakhs.

Mohit Jain Compared to 3.8 last quarters?

Rajiv Sawhney Mohit as we mentioned, we also were experimenting in the lower seasons. So we did sell a few of them in this quarter.

Mohit Jain that was realization last year same quarter?

Rajiv Sawhney Last year same quarter was 3.1 lakhs for the same quarter last year.

Mohit Jain One last thing, why is renovation is counted as one-off?

Rajiv Sawhney This is specified as one of, as we did big renovation is a couple of our resorts, so it is not that every quarter we will have it. It would depend on when we decide. So it is not that every quarter there will be renovation expenses because it is a discretionary spend as and when we feel that we need to spend enough in a particular resort, we will do that.

Mohit Jain Is it safe to assume that just recurring expense will keep coming every 2 or 3 years?

Rajiv Sawhney Are you talking about renovation here?

Mohit Jain Based on your experience because you have a network of 44 resorts today. So resort or the other will keep coming in for renovation on a yearly basis.

Rajiv Sawhney Yes of course some resort or the other will always com into renovation but whether will have the same run rate for every quarter is something which will be difficult to predict.

Mohit Jain So believe this expense was exceptionally high this time.

Rajiv Sawhney Yes. This time it was high.

Moderator Thank you. The next question is from the line of Jaisingh Suchak of JM Financial. Please go ahead Sir.

Jaisingh Suchak We spoke at the referrals being at 28% for what period are they for 28%? For the Q4 or ?

Rajiv Sawhney This 28% is an average for the year. So it is based on what we have achieved in Q4. It was from what I know last to last year it was 23%

Rajiv Sawhney To use our cricketing analogy, the average for 20 over is not what the exit run rate is. So we are seeing an increase on a QOQ basis.

Jaisingh Suchak So this 28% is for Q3?

Rajiv Sawhney This 28% is the average for the year. So if you look at Q1, it will be much higher.

Jaisingh Suchak Last time you had spoken about in terms of the besides the bookings happening online, we are also looking at acquiring members online, where the number was a 10% of the members acquired in Q3, who were online vis-à-vis 2% in previous year. How is that number fairing now?

Rajiv Sawhney That is continuing to track. That's not acquiring online that is web lease. So I am just clarifying that we get lease from various sources, certain customers reach out to us through the web and then eventually they are met. The fulfillment doesn't happen online.

Jaisingh Suchak In terms of that, that number stays at 10%. Obviously the cost is lower when you get the lead online.

Rajiv Sawhney We are quite confident that that number should see a significant change during the year.

Jaisingh Suchak The tax rate has been significantly high. Any particular reason for the same?

Aloke Ghosh There are couple of reasons. As far as the deferred tax liability is concerned, you know that there is a proposal in the budget that the surcharge on that will be increased from 5-10%. So we have basically followed accounting Standard 21 there. So it is required that your deferred tax assets and liabilities to be measured at the rate that are enacted or substantially enacted by the balance sheet date. So what has happened is since our deferred tax liability has gone up by surcharge, 5-10% that has inflated the tax by about 1.8 crores for the year. Now beside that last year we had higher dividend income from mutual funds which was tax free. So these are the 2 primary reasons why we see that the tax rates are higher.

Jaisingh Suchak Sure. On the inventory side, we have added like 560 gross homes and now about 430 net rooms. How do we see this number going forward like for the year or so, may be no guidance in terms of – do you think we will maintain the same rate or better like do you have some Greenfield projects you have spoken about but these projects obviously take slightly longer like over a couple of years because they have different stages.

Rajiv Sawhney We should do better in FY14.

Jaisingh Suchak In terms of member's outlook, now that after third quarter we stopped Zest. So we obviously have to compensate for that 1800 or so which the loss would be made up by Club Mahindra for next year onwards. So the 17500 number what's the outlook on that because that's the key trigger?

Rajiv Sawhney As I was mentioning a short while ago that the reason first is the inventory status as we have today. We are satisfied with the inventory and the demand match up currently. So the reason we are continuing to press all the gas on acquiring more rooms is that we are confident that we will increase the rate of member acquisition and there is always a slight reorganization, restructuring, when the product portfolio changes especially in a product like this which is sold individually and not through a channel where the teams needs to be restructured and retrained and so but having said that we are certain that we will be growing at a significantly faster phase.

Jaisingh Suchak Anything specific on the Dubai office that which we had? What is the status on that? Are we fully operational there?

Rajiv Sawhney Dubai- yes to give you an update, we had the license, we have got a new office there as a consequence and we are very active there and we should be in a quarter or two, we should be in a quarter or two be able to – although we don't normally separately talk about geography, but we should be able to give you the updates. We are happy with the traction that we are seeing, I am happy enough to say on this call that we would be expanding within the Gulf not so far away and I remain on track to say that we would take this year to learn our lessons in the Gulf. Get our understanding and learning right about how to get after the non-resident Indians and people of Indian origin in these locations and thereafter we would look at the UK which is something which we are studying internally as we speak. So yes the UAE is on track.

Moderator The next question is from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre If I have to take a long term view of the company, if I see last 3 years our membership size has grown with a 14% CAGR. So over the next 3 years, do you think we will be able to maintain this growth?

Rajiv Sawhney It will be higher.

Mahesh Bendre Will it be (+20%)?

Rajiv Sawhney I am not talking numbers here. But I am saying that if you can see all that we are doing, if you look at what you people have been beating us with for last half an hour of why our margins are not behaving themselves, why are we investing so much? We are not saying why we are investing I think how our expenses have gone up. So we have invested in new rooms, we have invested in new technologies, we have invested in new processes, all these things have been done to gear up growth and that is what we are going for.

Mahesh Bendre Over the next 18-24 months, what would be our priority, whether it is aggressive ramp up in terms of member addition or creating additional inventory or maximizing all these resources to improve in profitability?

Rajiv Sawhney I think inventory growth is no longer a priority, it is a hygiene, it is an inventory that must keep based on the demand growth here onwards. It is to overall bring the business up to scale. We remain bullish on the potential that the Indian market offers. We bring your attention back to the earlier presentations. One of those slides we have even carried again in this presentation which is uploaded a short while ago. We are sharing with you the surrogate, the macroeconomics of why we feel that the unrealized potential of this category is huge, something which this industry is not taping, so we are quite positive about the overall potential that this category represents and we believe we are in a position to realize that potential with all the changes that we have brought about.

Mahesh Bendre How much priority will be given to the profitability, margin expansion?

Rajiv Sawhney Scale will automatically yield itself, a result in better bottom-line.

Moderator The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu Out of these 500 rooms which are into development, how much would be added in FY14 and FY15?

Rajiv Sawhney I cannot give you an offhand breakup of those many rooms. Let me say this at the broader level to any stake holders at this point of view, if we have achieved a kind of good equilibrium between demand and supply as we speak, I am saying that equilibrium will only continue to get better and we will continue to be ahead of the curve when it comes to supply creation, so we are committed that there is something which we have shared a couple of quarters ago, we are committed that we will create supply ahead of the demand curve and we will always be ahead of the demand curve.

Sudhakar Prabhu And what would be the CAPEX for FY14?

Aloke Ghosh We don’t disclose the exact CAPEX number. But we spend on an average between 60-65 lakhs per room. So you can gauge from that.

Rajiv Sawhney But be mindful of the fact that not everything we had is purchased or built.

Sudhakar Prabhu And would you continue on your international acquisitions strategy?

Rajiv Sawhney We just shared that we are happy the response that we are receiving in Dubai, we are happy with Bangkok and there for the other piece in that puzzle for us is Sri Lanka which is also very relevant destination under the destination which was very important at the overall level from tourism point of view 15-20 years ago is coming right back into relevance. So we certainly would look at Sri Lanka, we are very keen on Sri Lanka and we have mentioned that few quarters ago also. So we hope to do something there. Is there something which is cooking there as we speak? The answer is no but we are looking for something there.

Sudhakar Prabhu lastly my question is the one on your revenue accounting. If I understand correctly 70% of the vacation ownership is taken to the P&L. just wanted to understand what is the thought process of this 70% and is this in line with the international peers?

Aloke Ghosh This question came up last time as well. It is not 70 – but 60%, of our discussions on our revenues because this is a call which is primarily for results, so let us not discuss it here. You can individually call me and I will speak to you on this.

Sudhakar Prabhu Just to understand, is it in line with international peers?

Rajiv Sawhney The difference in the international peers and us is that they sell a week, we sell a right to use. So you become a fractional owner. So if I have a house with one room week 23 belongs to you, week 24 belongs to your brother; week 25 belongs to your sister. You are owners of that. So the property is worth 100 bucks, 100 divided by 52 is the value of one week, that is what you have paid. What we do is we do a right to use, so it is not even an apple and an orange, it is an apple and an onion really of what we offer versus what they offer in the international listed companies. You can have a conversation separately on why is it 60, with Aloke you can fix up a session and he will walk you through that.

Moderator Thank you. The next question is from the line of Jay Ashar from Ignite Capital Advisors. Please go ahead.

Jay Ashar Can you please give specific guidance on CAPEX for FY14. Is it fair to assume that you will likely to add around 500 rooms and at 60 lakhs for a room, if your CAPEX will be around that number?

Rajiv Sawhney Absolutely.

Jay Ashar It will be around 300 crores.

Rajiv Sawhney You could take that as a guideline.

Jay Ashar If you can throw some light on what is the operating cash flow of FY13 for the company excluding securitization please?

Aloke Ghosh If you want it excluding securitization, I want to give you separately off the line but I can give you the operating cash, how much it was right now including securitization. You can ask the other question as I give you the answer.

Jay Ashar As you guided that going forward FY14 will be a year of aggressive growth, last 2 years we have seen about 16-18000 net member addition with the company. Is it fair to assume that that there will be a material increase in the membership addition?

Rajiv Sawhney You see us perform in the quarter and ask us at the end of that quarter, the run rate would be maintained and the answer yes or no. Would that be a fair answer?

Jay Ashar It will not answer my question then.

Rajiv Sawhney I am saying judge us by the money which we are investing, judge us by what we are setting it up to. And let's follow it up at the end of the quarter. I am saying 90 days is not that far away.

Aloke Ghosh And our cash from operation is 200 crores for FY13.

Jay Ashar And CAPEX was higher than that, is it right to believe that at least with the guidance?

Aloke Ghosh CAPEX will be higher than that.

Moderator We have the next follow up question from the line of Parvez Jasani from Edelweiss Capital. Please go head.

Parvez Jasani Neeraj here. I actually wanted to know what is the percentage of rooms given to non-members?

Rajiv Sawhney It is an outcome. Let me explain to you how it happens and I will give you the numbers. Basically it is members first. If anybody were to ask as a nonmember today for the 15th of May, then we are not talking to them. We will give no answer because there is no possibility unless there is a place like Jaisalmer which may have currently it being 50 degree Celsius in Jaisalmer in May, it may have a 40% occupancy forecast, in which I would be happy to take on board a non-member. Because what we do is the member forecast and to figure out what is the member forecast so basically it is at the last minute only that we give to nonmembers and it is based on the member first policy. It is based on the forecast. Bottom-line is it is the number which you are seeking is forecast.

Parvez Jasani And what is the room rate that you might have charged for these nonmembers?

Rajiv Sawhney There is no average. Because the room that goes in Goa, in Himachal and Uttarakhand, we described it in so much I am saying it would be difficult to give an average if I give you a number.

Parvez Jasani You lease a lot of rooms now. So what would be the average lease rent that you pay on average? Again as a company level I understand that again it will be different. But an average will just give a good indication of what the cost stand actually.

Rajiv Sawhney We don't disclose that.

Parvez Jasani And a model that you have taken like Dubai property, where we have taken 49% equity, you have rights to those properties entire 75 rooms. Am I right on that?

Rajiv Sawhney Yes.

Parvez Jasani So why a model where you are partly owning where you are actually having rights for entire, why not a different, what was the thought process when you entered it?

Rajiv Sawhney It depends on the laws in Dubai which does not allow us to buy hold more than 49% is a local requirement. We have JV partner who is at 51%. If law permitted we would have bought it.

Parvez Jasani Now that you are saying that you are going towards the international property acquisition mode, don't you see the CAPEX per room also increasing slightly higher on an average scale for the company?

Rajiv Sawhney CAPEX on what timeframe are you saying.

Parvez Jasani CAPEX per room for next 2 years that you will be spending because you are moving to more international properties. Don't you see the cost per room moving upwards?

Rajiv Sawhney No. We plan to add Sri Lanka and nothing else that we have shared. As and when there is an evolution, as and when more Indians travel if significant numbers start going to Florida or Las Vegas we will take that call but you will be surprised that the cost of in India being as high as they are, international properties do compare favorably.

Parvez Jasani The other thing is that where you see the consolidated profits and standalone profits. They are quite different. I think as you told there were 4 properties in the subsidiaries which might have led the differences. The difference is quite large. It was 2 crores last years. It was 16 cores loss this year. Can you share more light on them and how do you see them moving in the next 2 years.

Aloke Ghosh We share about these 4 properties which we talked about – Emerald Palms, well Emerald Palms was there last year but for only for a small period. Emerald Palms in Goa, then we have a property in Shimla, we have a property in Jaisalmer and one in Bangkok because Dubai came absolutely at the fag end of the year. So basically these are the four and the difference which you see these four are operating as separate subsidiaries for the company. Now when you acquire a property what happens is that there is a startup time for it to become operational. So suppose you acquire property x, there is a startup time which could take 2 months, 3 months for the new company which you incur the fixed costs in that period, so that would be one aspect. We take a little bit of time to start up. Number 2 is renovation and pre-opening. So some of the properties we renovate and we also spend on preopening of those properties which expenses which we incur at that point of time and number 2 is when we acquire a property, the occupancy in that property takes a little bit of time to build up. So primarily we have subsidiaries in Austria, Malaysia which continues, which was there last year but these 4 properties led to this loss which you were talking of between the standalone and consolidated financials. Now when we observe it and start operating on a full scale basis, we would expect it to do better and run it for the full year with the proper occupancy to do better than what it is doing right now.

Parvez Jasani But for a member going to use that room in those particular four properties which is not 100% purely owned in some cases. How do you account for the revenues in the sense that like for example for Dubai properties, in standalone how would the revenues come for those members?

Aloke Ghosh It would be like income for the subsidiary repay and to those subsidiaries for the members going in light under regulations. We have a transfer pricing arrangement between company A and company B and we pay rent to those enterprises for our member going there.

Parvez Jasani In that case why don't you declare the consolidate numbers? Now going forward things would look quite different in your entire earning statement as well because the CAPEX is also happening in the subsidiary side as well.

Aloke Ghosh What happens is you take it as an income in one company and expense in the other company. It is not something that which we have taken that is the common accounting which is followed by every enterprise.

Parvez Jasani I will have the discussion with you sometime later. We are running out of time. Thank you.

Moderator Sir would you like to add any closing remarks?

Rajiv Sawhney Hi this is Rajiv here. I am sure we are staying the course. My message to all the people in the call will be is thanks for your faith and thank for time on this call. Keep the faith and you will see what we are doing. Yes I agree we have made a lot of promises and now we need to next quarter what we have delivered on those. We have delivered in significant part on a lot of those things. But the one significant thing which is missing, which is key to everything is growth and that's what you will see. Thanks.

Moderator Thank you Sir. Ladies and gentleman, on behalf of Religare Capital Market that concludes this conference call. Thank you for joining us and you may now disconnect your lines.