"Mahindra Holidays Q4FY15 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Holidays Q4FY2015 results conference call. We have with us on the call today Mr. Kavinder Singh Singh – Managing Director and Chief Executive Officer, Mr. Vasant Krishnan – Chief Financial Officer and Ms. Deepali Naair – Chief Marketing Officer. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh Singh. Thank you and over to you sir.

Kavinder Singh Singh: Good evening everyone. Welcome to the Q4FY2015 earnings conference call of Mahindra Holidays. Let me begin with the operating metrics. As we have mentioned in our press release, our operating metrics this quarter continued to remain healthy as seen by the increase in member additions that grew by 9% to 4,914, up from 4,514 in the same quarter last year. We are also seeing higher proportions of red and purple members added in this quarter versus the same period last year which means a healthier portfolio mix. Also we are beginning to see our efforts in increasing consumer pull showing results as 60% of our new members this quarter have been acquired through digital and referrals versus 42% in the same period of the last year. On a full-year basis, we have added 54% of our members through digital and referral versus 37% in the last year. Our sales through digital is also gaining traction and we have recorded 100% growth in this year over the same period last year. One measure of increased member satisfaction that we track is through the referrals that we have been getting from our existing members. We are happy to share that our sales through referrals has grown by 34% over last year. We believe this augurs well for the business going forward.

Let me now turn to room inventory. In FY2015, we added 409 rooms and this is probably the highest ever addition in our history. The locations where we added the rooms are at Ganpatipule in Maharashtra, Kodaikanal, Goa, Manali, Alleppey, Kanha, Virajpet (where we added rooms to our existing resort), and Udaipur. Out of these, 301 rooms came in the last quarter. In the next 18-24 months, we have plans to add at least 500 rooms at various locations, some of them are in Northern India and one near Goa.

Now let met turn to the financial performance and we believe our performance is in line with our expectations. The total income stands at Rs. 207 crores, profit after tax from ordinary activities is at Rs. 24.9 crores, average unit realization for the year improved by 7% over the previous year and PAT after exceptional items is at Rs. 10.4

crores. You might have also noticed that there has been a drop of our VO income that now stands at Rs. 112 crores for the quarter, which is lower both on a sequential basis as well as on a year-on-year basis. So let me explain this, the company undertook a review of all its member accounts almost 183,000 since inception. We have recently completed the migration of all our data into the SAP ERP system. We reviewed all data points thoroughly and after reviewing all the data points, following two actions emerged, one an adjustment to balances that we carry forward in the deferred service tax account, deferred interest account, and other accounts under receivables to the extent of Rs. 73 crores and secondly adjustments to our VO income. Concurrently when we were reviewing the deferred utilization account, we also have taken a decision to recognize the entitlement fee commencing from admission rather than the holiday start date. The re-adjustment of the deferred utilization fee account to reflect the above change has resulted in a credit of Rs. 52 crores. The exceptional item of Rs. 21 crores or actually Rs. 15 crores net of tax is the resultant impact of both of the above. I will now open the floor to questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nimit Shah from ICICI Bank. Please go ahead.

Nimit Shah: Sir if you could clarify about this VO income which you have mentioned, I understand that the adjustment is reflected in the exceptional item and nothing has been excluded from the VO income for this quarter. So despite the mix being healthy and member addition being very strong, why there has been a dip in the VO income?

Vasant Krishnan: Alright. So this is Vasant here. I think this has already been explained by Kavinder Singh in his opening remark. When we did a review of the customer accounts, these are reviews of 183,000 accounts, there were certain adjustments as a consequence of the review**.** If you look at our exceptional item note, we are talking about adjustments relating to past period. The review also resulted in greater clarity on certain receivable accounts and to that extent adjustments were made to the VO income. to the extent that adjustments pertained to the past periods; it was treated as an exceptional item. So that is really the explanation that we have for these adjustments, aa mix of the entire review resulted in two action points having to be taken.

Nimit Shah: So one followup on that if this adjustment would not have been there then our VO income would be higher by 52 crores?

Vasant Krishnan: No because adjustments is pertaining to the past period. So whatever was pertaining to the past period is adjusted in the exceptional income. So please understand that the exceptional item has 2 components, it has got a debit component and a credit component. The credit component of 52 crores really relates to the re-setting of the deferred utilization fee account consequent to the review and the decision to reset the deferred utilization based on admission date. So that is all pertaining to past period. The impact of that on the current VO income is not material.

Nimit Shah: So then why there has been a dip in the topline despite member addition strong and mix getting better?

Vasant Krishnan: Yes so every year around the year end, we do take calls on what we need to do in terms of provisioning and it will reflect in our receivables, the metric being significantly better as compared to last year.

Kavinder Singh: Actually I have taken a little more conservative view than what has been taken in the past. That is why you see this dip. It is a call that I have taken going through the past numbers. I felt that we need to be a little more conservative and that is why this decision was taken.

Nimit Shah: What will be the average realization for this quarter you mentioned it was higher by 7% on a year-on-year basis? So if you could mention the absolute amount?

Vasant Krishnan: Actually when we have mentioned 7%, it is over the full year. We have not mentioned for the quarter. .

Nimit Shah: So if you can mention the absolute, what is the amount?

Vasant Krishnan: It is 3.64. Over 3.40, the previous quarter.

Nimit Shah: Sir if you could give this split between the CAPEX in terms of the owned CAPEX and rooms which are taken on lease for this year in terms of 409 rooms which you have added?

Vasant Krishnan: So this year, we constructed around 150 rooms and the balance out of the 300 rooms that we added this quarter around 150 rooms would be on lease.

Nimit Shah: Okay and if you could mention for the entire inventory which we have of 2,816?

Vasant Krishnan: Yes 60:40.

Nimit Shah: 60 would be owned and 40 is leased?

Vasant Krishnan: That is right.

Nimit Shah: Sir if you could give the breakup of the other operating income which is roughly around 18 crores for this quarter?

Vasant Krishnan: So I will tell you the components which should be there. It is essentially comprising of interest income, that is a large proportion, the interest on installment sales.

Nimit Shah: The interest on installment sales?

Vasant Krishnan: Yes and income from securitization that would comprise the components of the other operating income.

Moderator: Thank you. The next question is from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia: First of all question on the exceptional item again, sir if you can elaborate the exceptional which you are making this adjustment, so what kind of adjustment to be made in the previous financial year?

Vasant Krishnan: There were no adjustments made to the previous financial year. It is a restatement of the estimate since inception. So it is the one time re-adjustment that we did this quarter pertaining to the entire past period.

Chetan Vadia: And sir all the necessary adjustment to be done is already being done in the Q4 or is anything left to be done in Q1?

Vasant Krishnan: All adjustments on this account has been done and carried out.

Chetan Vadia: Alright and sir in terms of you said you are planning to add around 500 rooms in 18-24 months, can you be more specific on how much has been for FY2015?

Vasant Krishnan: So we have got plans to add almost 500 odd rooms Himachal, Goa, and Kerala. So we should be seeing another 500 rooms being added over the next 18-24 months. That is our plan going forward.

Chetan Vadia: So any kind of revenue guidance that you can provide for FY2015, revenue margin guidance?

Vasant Krishnan: We don't give revenue guidance.

Moderator: Thank you. Next question is from the line of Akshay Maheshwari from Wallfort. Please go ahead.

Akshay Maheshwari: Sir there is a cash-and-cash equivalents which have reduced from Rs. 48 crores in 2014 to Rs. 22 crores in 2015, can you explain this sir?

Vasant Krishnan: So that would have been on account of securitization that we do. Now that we have completely utilized our IPO or IPP funds, you would not see that balance in cash-and-cash equivalent. The securitization funds balance is also significantly lower as we have not done any securitization in the last 6 months.

Akshay Maheshwari: Okay and the noncurrent investments of Rs. 133 crores?

Vasant Krishnan: The noncurrent investment is down because of the fact that we have merged Bell Tower. Bell Tower is the subsidiary that was owning the Goa project.

Akshay Maheshwari: No Rs. 133 crores investment is in 2015 and there was no balance in 2014?

Vasant Krishnan: Which number are we talking about sir?

Akshay Maheshwari: Noncurrent investments of Rs. 133 crores in 2015.

Vasant Krishnan: Alright, this is in consolidated accounts.

Akshay Maheshwari: The balance was 2.5 lakhs in 2014 which is now Rs. 133 crores consolidated.

Vasant Krishnan: In the consolidated account, you would recollect that we have a 22% stake in Finland Company. So that is the holding that is reflected there through over overseas subsidiary. I am sorry. I was looking at the standalone.

Akshay Maheshwari: 22% holding in which company?

Vasant Krishnan: In our Finland Company.

Akshay Maheshwari: okay and sir, normally the March quarter is a highest revenue generating quarter but this time, the revenue growth was actually less than December quarter also, so can you explain why?

Vasant Krishnan: So I think that question is already been asked and explained that we have a new CEO and he has reviewed all the debtors and he has taken some prudent calls and he has decided to debit the revenue and make provisioning.

Akshay Maheshwari: So we are increasing the provisioning you are saying.

Vasant Krishnan: Yes.

Akshay Maheshwari: Can I ask you what was the deferred income growth during this year?

Vasant Krishnan: Deferred income?

Akshay Maheshwari: Deferred income growth, growth in deferred income.

Vasant Krishnan: Deferred income as of March 2015 was Rs. 1,508 crores.

Akshay Maheshwari: Can you give me the percentage growth, if possible?

Vasant Krishnan: Percentage by growth, it is at 11%.

Moderator: Thank you. Next question is from the line of Anil Kini from Envision Capital. Please go ahead.

Anil Kini: Just wanted to ask, Kavinder Singh just mentioned that you have taken a very conservative view in terms of topline recognition. So can you just explain this conservative view that you have taken has the revenue recognition policy itself has changed?

Vasant Krishnan: No, the revenue recognition policy has not changed. The revenue recognition policy of 60%-40% continues, 60% is on admission and 40% is over 25 years. What we have done is that we have recognized 25% from the way of admission and thats what results in that adjustment in the exceptional item that you see.

Anil Kini: Fine and are these exceptional items also leading to the reduction in the net worth as well?

Vasant Krishnan: It is a charge to the P/L and will affect profits and reserves.

Anil Kini: You have ownership in Finland, you also have the option to exercise and take this stake higher, so what are your plans on that and how is that subsidiary actually doing? Can you just give some color?

Vasant Krishnan: So that option is available to us until 2016. At appropriate time, we will take action whether to increase our stake or not.

Anil Kini: How is that company doing at this moment?

Vasant Krishnan: It is in line with our expectation.

Anil Kini: Okay and when you have taken over this company, you had mentioned quite a few synergies etc. So can you just share what has really happened over this 1-year period?

Kavinder Singh: Kavinder Singh here again what we have done is as a first step, we have opened to our members the opportunity to be able to holiday in Finland Resorts. We are also going to have a situation where the people who are members of these Holiday Club Resorts also to be able to utilize the resort facilities in India. So that is one thing that has just gone online and the other thing that we are looking at is over a period of time we want to promote Finland as a tourist destination and ensure that the Finland Resorts get Indian tourist apart from Club Mahindra members. This is the second thing that we have in mind and of course we have some interesting ideas on how to leverage this for the promotions that we do to acquire new members and also for our referral program, a month ago we did this offer where people who refer a member can have an opportunity to go to Finland and enjoy the resorts of our company. So in a nutshell the idea is to increase traffic to those resorts and also get their traffic into our resorts which should do good to both the businesses.

Anil Kini: Secondly your membership addition in this quarter 4,900 odd has been really good after a very long time. Do you think this run rate is sustainable going forward?

Kavinder Singh: So we do not normally give guidance on the future quarters but as you can see in my opening remarks the patterns which you can observe whether it is the way we are acquiring our new customers through the digital route, through the referral route which tend to be sticky customers which stay with us and that is the mix which we are trying to improve whether it is our red and purple members which we are trying to increase in our overall share of members. We are seeing growth, we are seeing movement in the right direction. So I think the next quarters should reflect that but again it is very difficult to sort of point out what will be the growth, how we will do in the next quarters but we are positive.

Moderator: The next question is from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: Sir what is the average realization for Q4FY2015?

Vasant Krishnan: 3.54 lacs this quarter.

Sumant Kumar: Versus?

Vasant Krishnan: 3.60 lacs last quarter of the previous fiscal.

Sumant Kumar: Last Q4FY2014?

Vasant Krishnan: Yes, that is right.

Sumant Kumar: What is the net member addition?

Vasant Krishnan: Sorry for Q4FY2014 ?

Sumant Kumar: 4,900 is gross addition, so what is the net addition?

Vasant Krishnan: So we gave only the net addition. So when we say 4,914, it is a net addition.

Sumant Kumar: So the next question is what is our global ambition to increase our resort globally? So what is the plan for that and how it is going to help to add more members going forward?

Kavinder Singh: So as you know we already have about 4 resorts outside India. You probably know that we have one in Dubai, one in Kuala Lumpur, one in Bangkok, and one in Austria. We are continuously looking at opportunities outside India including Sri Lanka. Through the Finland acquisition we also have a possibility to be able to offer our members resorts in Finland and in Grand Canary islands and in 2 resorts in Sweden. So I think today we are uniquely positioned to be able to give our members not only great experiences within India but also in the nearby countries as well as of course a country like Finland which is a fairly exotic destination for our members and we also as we speak continuously look out for opportunities in South East Asia, Middle East, and as you know that in Europe we have already taken the first step by going for this Finland acquisition. So the answer is very clearly yes. If there is a good opportunity which will fit in with our member holidaying behavior because we continuously keep in mind that our members must get the best possible experience and we continuously study the members holidaying behavior. If we believe there is a destination or there is a potential destination which can create newer experiences for our members, we certainly look at those destinations whether in India or abroad.

Sumant Kumar: So any plan to increase the stake in European subsidiary?

Kavinder Singh: I think Vasant answered this earlier. We have an option to increase stake in European subsidiary from what is our current stake, we can go up to the 100% and that option is open to us till by September 2016. We will take call nearer the time as time goes on. We will see the situation and we will decide.

Sumant Kumar: So next 2 years, we can go up to 100%?

Kavinder Singh: Yes, that option exists with us.

Sumant Kumar: Considering that the current run rate what we have seen in FY2014-2015, we are in the range of 12,000-13,000 member addition and historically we have seen the gross member addition was 21,000. So if we will acquire 100% of European subsidiary, so can we reach that kind of level when we acquire all the 17-18 resort I think we have the European subsidiaries. So can we reach at that level 21,000, more than 20,000 member addition per year?

Kavinder Singh: So I do not think our member addition is today linked to the European subsidiary. We acquire members based on the strength of our resorts in India and the locations that I mentioned to you, the nearby locations. We are not constrained by our room inventory in India as well as in the nearby locations. So I do not see the link between the member additions and the resorts that are required, the connection that you are trying to build with Finland. Actually Finland is a very specific acquisition that we have done with a very specific purpose and I think the two are not related.

Sumant Kumar: So considering that there is a good growth in outbound, so the opportunity is there. So grabbing that opportunity if you are expanding globally so that will help you to tap the outbound markets?

Kavinder Singh: Yes, that is it.

Sumant Kumar: Is it helpful for the company?

Kavinder Singh: So yes it is helpful. When we are in a position to offer our members an opportunity to holiday in Finland, yes to that extent it is helpful but our driver today continues to remain India and of course the locations nearby and our member additions is primarily driven by that, however if a member believes that there is a huge value by getting Club Mahindra membership to be able to holiday in Finland, of course that option exist. So it is in that connection only our decision to go ahead with the acquisition of the European subsidiary was taken. So to an extent yes, but we are not constrained. That is the only point that I would like to maintain.

Sumant Kumar: That is why my question is, what is our plan to attract the outbound customers who is taking the package tour, 2 lakh-3 lakh package tour, so what are the plans to acquire that customer in time-share model?

Kavinder Singh: Our model is slightly different from the package to providers. Our model is actually about giving 25 years of fun-filled family holidays and in that connection, people have always a choice in India whoever have taken our membership to actually go to 4,000 resorts globally through the RCI network, we have an tie-up with RCI which allows people to go and enjoy the resorts worldwide, that option even today exist.

Sumant Kumar: Then question is what are the challenges we are facing because if we are providing attractive package for 25 years and other player are doing good in outbound package tour, so what are the challenges we are facing to attract that customer?

Kavinder Singh: No, so I do not think we have a challenge there. Our challenge is not that we are having difficulty in attracting an outbound customer. Actually in fact we offer today a possibility as I mentioned to you through RCI which is an affiliate of ours for a member who joins us to actually go to 4,000 resorts around the world actually by joining and becoming our member, his options to holiday in India and abroad are actually limitless. So truly that is not the constraint or the challenge as I have mentioned earlier to you.

Moderator: Thank you. Next question is from the line of Nimit Shah from ICICI. Please go ahead.

Nimit Shah: Sir after this exceptional item of Rs. 73 crores on account of receivables, our FY2015 long-term receivables is still higher at Rs. 437 crores. In the last year, it was Rs. 384 crores. So I understand it is a rolling figure and it depends upon the new member additions also but if you could throw some light on that?

Vasant Krishnan: Alright, so need to make 2 points here. One, you have to look at the total receivables, you have to gross it up with the securitization and if you gross it up with the securitization, the total receivable this year is lower than what you saw last year. That is the first point. The second point is if you look again that the total receivable as a function of sales and factor that the fact that, this quarter the sales has been higher as compared to Q4 of last year you would obviously see that their receivables sales ratio is lower this year than what it was last year. It is a very encouraging trend. I will now come to the overdue. As far as the overdue is concerned, we have focused on the time share overdues and the timeshare overdues this year is lower than the timeshares overdues last year, both in absolute numbers and also as a proportion to the total time-share receivables.

Nimit Shah: So after this provision for this financial year, is there any more provision outstanding in terms of receivables?

Vasant Krishnan: Well that is a continuous assessment that we have to do in the business. So we cannot say that there will be no further provisions – that will be like giving you forward guidance, which we don't do.

Nimit Shah: Sure and sir in the balance sheet, I see one more component this year that is deferred income entitlement fee and deferred income annual subscription fee. Earlier it was only deferred income entitlement fee, it was only entitlement fee of 75 crores.

Vasant Krishnan: So, it is a re-grouping Nimit.

Nimit Shah: Deferred income?

Vasant Krishnan: Yes, it was clubbed because the annual subscription fee went under current liabilities, we just felt it is more appropriate and more transparent to pull that out from current liability and show it separately and you will notice that even the previous year's figures that have been regrouped to enable to get a comparative.

Nimit Shah: Sure and one more question which the earlier participant asked on the reserves and surplus, the standalone reserves and surplus has declined. So any reason for that?

Vasant Krishnan: No, that is the impact of the Bell Tower merger know, the Bell Tower merger impacted the reserves by Rs. 76 crores so you will factor that.

Moderator: Thank you. Next question is from the line of Deepak Malik from Axis Mutual Fund. Please go ahead.

Deepak Malik: Sir I just wanted to understand a little more detail about this exceptional thing which we have done. So what I understand is that there is some nonpaying accounts for the membership which we have I think cancelled in this quarter and there is an impact on the receivable which we have taken in the exceptional item of 72 crores. So on the same thing whatever income which we have booked that we have taken the write-off from the topline, is it the correct way to look at?

Vasant Krishnan: Yes that would be a correct interpretation as far as the current income provisioning is concerned, the past period adjustments is contained in the exceptional item.

Deepak Malik: Okay and the second thing the Rs. 52 crores of credit which we have taken so that I am not able to understand, what is this credit related to?

Vasant Krishnan: When you look at the exceptional item note, we have been talking about 2 things the adjustments on account of the receivables and the fact that we are recognizing the entitlement fee now commencing from the year of admission as against entitlement, you have credit for the past periods of 52 crores. Now since both of them were exceptional in nature, we do not want to put it through the normal line item. So we have been advised that appropriate accounting standards that this has to be an exceptional item, so both the debit and the credit line items were treated as exceptional line item and the impact at a gross level of Rs. 21 crores is what has been shown in note 5 and what we see in the press release in the first page is the impact net of tax of Rs. 15 crores.

Deepak Malik: Sir what does this entitlement fee means?

Vasant Krishnan: It is the 25 year entitlement fee, one-twenty fifth that we take into the revenue every year.

Deepak Malik: Right sir, thank you, it was quite helpful.

Moderator: The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: Sir I just wanted to understand in terms of our strategy versus our owned rooms versus leased rooms, how do we look at this going forward?

Kavinder Singh: So generally we try to ensure that our own resorts in the destinations which have not yet become destinations come up and we are constantly working on that which is what I alluded in my opening remarks that we are looking at newer destinations in Himachal and a newer resort near Goa. So we constantly aim to get our land, bank ahead of time, build resorts, and create the experience that we would like to have our members whatever experience that we are promising our members. Now in this process there are opportunities that come up are where we get resorts where they are available on lease and we do look at them and if we find the resort quality meeting our standards, we do look at leasing options. So we really do not have a strategy that we will have 40% lease or 60% owned but it so happens that right now we are at about between 60-65 owned and about 30-35 lease. Wherever we are in a position to get land and build our own resort even if we have in that location a lease property, we do try doing that because we believe that when we create a resort, our expertise is in creating the right resort and creating the right experience and sometimes may not be possible to get in a lease resort. So it is a constant, let us say assessment which we do and at this point of time, we are at about 65:35 which is a fairly healthy mix because the other 35% the lease resorts are also chosen ones and they are delivering the experience that we wish to deliver to our members.

Arjun Khanna: Fair enough, sir the reason I asked this is because if we dial back a few years, the ratio has largely been the same. So I am just wondering is there a strategy behind this or this is just by accident?

Kavinder Singh: No, it is certainly not by accident. There is an overall thought process behind this. The reasoning behind the thought is that we would like our room additions to be in line with member additions. So that is one strategy. Now when we are doing that, we do see opportunities where we can get an existing resort which is not utilized or which is not being managed well. So we look at that and we say why not do a lease and parallelly since we cannot only depend only on these opportunities, therefore we keep looking for opportunities to buy land and build. So it ends up being at 65:35 and it is healthy, it is good because we are able to constantly evaluate and adjust this as time goes by.

Arjun Khanna: Right generally whenever we get a new subscriber to our program a part obviously would be allocated towards building of the infrastructure in terms of long-term costing, how would you differentiate between the two, would ownership be cheaper or do you think lease would be a cheaper model?

Vasant Krishnan: The ownership and lease question is something that is always before us and it has multiple factors that we have to take into account. So these are levers that we keep pushing from time to time. Now if you ask me the question what is the total costs if you own the property obviously it may be more expensive and more capital intensive now but you have to look at the benefits of capital appreciation. Again I have to weigh that against the fact of capital appreciation, what is the cost of capital? I may get a great opportunity in terms of a lease that I might decide to leverage now. So these are all multiple questions which we take decisions on. There is a strategy behind it like Kavinder Singh just explained. I might also add here that the kind of capital commitment that we now want to make in the business is going to be higher because now there are properties that Kavinder Singh spoke about are all going to be owned. So then all these factors go into the mix.

Arjun Khanna: Fair enough. My final question is just in terms of our CAPEX for the next 2 years, how do we see that move?

Vasant Krishnan: So just to clarify before we go forward, the 500 rooms that I was mentioning is predicated on the fact that these are owned inventory that we have. So just to give you a flavor that in this 500, we are not looking at 60:40 and the leases if any would be over and about that.

Arjun Khanna: Fair enough and over the next 2 years, how much do we expect to spend?

Vasant Krishnan: We should reckon around Rs. 75-80 lakhs room.

Moderator: Thank you. Next question is from the line of Shalabh Agarwal from Snowball Capital. Please go ahead.

Shalabh Agarwal: There is a reference on the number of referrals and how they have grown, I guess some 34% growth has been there. So it is a great number. I just wanted to check if you can comment on out of 12,700 or 13,000 net inflows that we have had, what percentage broadly is the referrals?

Kavinder Singh: So what we do is if you recall what I said in the beginning, we gave number of digital and referrals together. That is what we have been giving in the public domain earlier. We do not split the numbers in our calls or in public domain. As I mentioned in this quarter, we have had a 60% share of both the referrals as well as the digital and if I look at the full year, I think I mentioned 54% of our members came through digital and referral. So we normally do not split that for the public. This is how we track it internally and this is the metric that we are tracking and we do share it regularly.

Shalabh Agarwal: Sure so this 64% out of 12,800 that we have net added, out of that 64% is coming through referrals and through internet?

Kavinder Singh: Yes.

Shalabh Agarwal: And when we say internet, what does that implies?

Vasant Krishnan: We have been taking significant amount of actions in the digital marketing space. I would request my colleague, Deepali to speak on this and explain you what we are doing in that area.

Shalabh Agarwal: That will be very helpful, thank you.

Deepali Naair: Hi, so there has been a consistent effort every quarter to have certain pilots that we have done on digital and we scale up in the next quarter from a strategic point of view. You know the way we buy media on digital has also changed. We also had a change in the digital agency that we used during this financial year. We have also added newer scenes within the digital space to acquire more lease. We have also fastened the process of closing the lease through our sales team which is actually on ground. So in the nutshell, there has been a process overhaul in terms of how we treat the lease. We have looked at connectivity rate, the way we call them, we have looked at scripts. So we have overhauled the processes on the non-digital side where the closure happens and we have also done some very interesting pilots which for example Google has documented the kind of work that we have done with them. One new opportunity that we have initiated for ourselves is that we also now generate leads through Facebook. Holiday is the only category in one of the top 10 conversations that happen on Facebook. The other conversations are all on for example on relationships and moves and stuff like that. So holiday is the big category on Facebook and we are now doing lead generation on Facebook which is also being successful for us and also we tracked costs very well on the digital medium too and so we have seen some efficiencies there too.

Shalabh Agarwal: Sure that is very helpful. So this 54% if you can just help me remind what was this number for last year FY2014, how that has changed?

Kavinder Singh: So 54% versus the last year which I said was 37%.

Shalabh Agarwal: Okay, that is the substantial jump.

Kavinder Singh: A substantial move and that is why we highlighted that.

Shalabh Agarwal: Sure, thank you. The second question is I know you stopped sharing on cancellation numbers but if you can qualitatively give us a feel of how they have come down or whether they have not come down and are we actively doing anything about it?

Vasant Krishnan: So I would answer your question by saying that it is in line with what we normally do every quarter and maybe marginally higher or lower but it is not something which is very significant in terms of a variance from what we normally do.

Shalabh Agarwal: Sure but what is the reason that this number is not really coming down because the kind of activation, the kind of the number of resorts, and the kind of the positive feedback clue that is getting added because the new additions are coming more through referrals, then what is the reason that why this number is not fairly coming down?

Kavinder Singh: So I think what is happening is that as I have mentioned to you this digital and referral journey that we have started over the last 1-1.5 year is beginning to now play out and we are seeing as I was mentioning in my opening remarks stickier customers but yes if we have in the past added customers where they have not been of the right profile or they have found that this is not for them, people have always a choice in a long-term resort like ours and we want to move out and so the way to look at this is that you have to keep making movements in the direction of creating pull rather than push which is where the entire sales and marketing teams efforts are and the idea is to ensure that we on a long-term basis create the right pull and therefore arrive at a lower return or a cancellation rate as you may call and therefore if the cancellation rates are not in control, we cannot be growing in member additions.

Shalabh Agarwal: That is that media which is finally affecting us right?

Kavinder Singh: So in any case as I was mentioning that we have healthy operating metrics both in terms of the member additions and both in terms of the room inventory additions, so this is only possible if we are able to contain the cancellation and that is what I was alluding to in my opening remarks that that movement is we are in the right direction whether it is sourcing of customers through the digital and the referral route and also ensuring that our experience is unmatched one through the addition of new resorts doing a lot of holiday activities in the resorts which ensures that a member actually if he has decided to move out of Club Mahindra will actually really feel bad moving out because he will be missing out on what we are able to offer. So that kind of marketing push and that kind of consumer pull is the direction that we have taken and we are seeing the results of that, otherwise we would not have seen the robust member addition that we just now reported to you.

Shalabh Agarwal: Sure, so I must say because I myself I am a member and just to put it on record, I have been a very happy member and every time I go to the resort, I feel something new and the family enjoys very well. I am also a shareholder but somehow the results on both these fronts are very divergent and that is where it is far tricky to understand that when the company is doing so well for the customers, what is the kind of restraining it for doing it well for shareholders?

Deepali Naair: There is bound to be some amount of natural progression of a person in our long-term product. So therefore you will have certain people whose children let us say at some point of time may outgrow the lifecycle of the product that we have to offer. So somebody has entered the product when the children were let us say 8 years old and when the children are 18 and they we can get into college sometimes although the person has bought a 25-year product, there is a natural progression of 10-year life but interestingly for me is the market here, what is interesting is that they still say that it is complete paisa vasool and we really enjoyed ourselves for 10 years, the sentiment that you kind of voiced here. So there is bound to be some amount of natural progression of that nature which will happen.

Shalabh Agarwal: Sure and just lastly in terms of without really looking at the CAPEX on newer rooms which we are adding if we were to look at what we have been spending just for the upgrade and upkeep of the existing properties where they are on lease or our own properties, if you can share that number broadly how much that is for this year or how much for this last year?

Vasant Krishnan: So these would be available to you in our annual reports but I can broadly give you some flavor. It is n line with what we have spent last year on building and resorts, our repairs and renovations to the extent of around 11 odd crores, it is marginally down from what we spent last year.

Moderator: Thank you. The last question is from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia: Sir earlier there was a question asked on the lease resorts and owned resorts? So at the resort level, which model is giving you better margin?

Vasant Krishnan: At this stage if it is not a question of looking at the margins right because we track them at a composite level of all our resorts. All our cost structures will vary depending upon what is the lease, what kind of lease arrangements we enter into. I think Kavinder Singh explained that very adequately in the earlier question that the member experience should not be diluted in any manner. So you could have a situation where you could pay a lease rental but you could incur a lot of cost on renovation because these are all not negotiable. So we look at it from a composite basket of all our resorts and as far as the owned resorts are.

Moderator: Sir we are unable to hear you.

Vasant Krishnan: We track the resort profitability and the resort cost as cost for rooms, revenue for room, and that is how we look at the business internally.

Chetan Vadia: Alright and sir I think for one of the adjustments in the exceptional items you said that it is a 25-year every year charge, the deferred entitlement cost, what is the nature of the other account that deferred utilization account?

Vasant Krishnan: So that is what I explained. The deferred utilization fee account, it represents the balance of the 40% that the member pays or the member is due to pay us when he gets that membership From that utilization fee account, 125th is taken to revenue every year. So the balance represents the amounts that we keep in the members account for the residual period.

Chetan Vadia: From the new way of recognize already been commenced from the Q4 so hence there is no major adjustment in Q4 account?

Vasant Krishnan: There is no change in the policy. I think we made that clear. It is just a recognition of change of estimate and we have disclosed the financial impact in note 5.

Moderator: Thank you. I now hand the conference over to the management for their closing comments.

Kavinder Singh: I would like to thank everyone on the conference call. We look forward to this kind of an interaction every quarter and without giving any future guidance as I mentioned in my conversation, we are optimistic and positive about the quarters ahead. I think we have what is required in place to take the company further. This is what I would give as my closing remarks. Thank you all of you, thanks to all of you, and wish you all the very best.

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

(This document has been edited for readability purposes)