"Mahindra Holidays & Resorts India Limited Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Mahindra Holidays & Resorts India Limited Q1 FY2021 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 on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh, Managing Director & CEO of Mahindra Holidays & Resorts India Limited. Thank you and over to you Sir!

Kavinder Singh: Thank you. Good evening, everyone, and a very warm welcome to our Q1 FY2021 earnings call. Today, I am joined by Mrs. Akhila Balachandar, our Chief Financial Officer; Mr. Dhanraj Mulki, our Company Secretary. We have already uploaded our Q1 results on the exchanges and a detailed investor presentation on our website. I hope everybody had a chance to go through the same.

<u>Let me begin by talking a little bit about the environment.</u>

Due to the COVID-19 situation, starting from mid-March onwards, we had to progressively scale down our operations at resorts, marketing events for lead generation and physical meetings with prospects. This has affected not only our resort revenues but also our new member additions. Consumer sentiment towards discretionary purchases, specifically related to travel has been significantly affected. However, our belief is that as the incidence of Corona infections begin to come down, the revival of travel to drivable locations will once again commence. We are seeing increased desire among our members to travel and the forward bookings at our Resorts, reflect this trend. However, this will only materialize as the mobility restrictions begin to ease off. As you know, every states have different travel restrictions. We believe once these restrictions begin to ease, we will see our members and guest traveling to our resorts, which will help to boost our occupancies going forward.

Further to Government guidelines, we started opening our resorts from June 15, 2020 onwards and till date, we have re-opened 20 resorts. We are continuously monitoring the situation and are full geared to serve our guests.

We have also noticed during the lockdown period there is a "Deal-Seeking" behavior from interested prospects and a preference for lower transaction value products. Our readiness with GoZest, (3 year product), Bliss (10-year product for 50+ age group), helped us to add members in Q1 even in these unprecedented times. Face to Face meetings were not an option, hence, we moved to virtual sales on an indigenously designed video tool. We started witnessing interest both in terms of inquiries and buying of our memberships from latter part of May.

We believe membership sales recovery is related to ability of people to travel and enjoy the experience at our resorts. I would say that I personally remain optimistic due to the following reasons:

- Domestic travel is bound to increase substantially as the Corona incidences begin to reduce
- Travel to nearby drivable destinations would be the norm and I must hasten to add, out of our 69 resorts, 46 of are within 200 -350 kilometer drivable range.
- The inherent prepaid product feature ensures carefree and stress-free holidays for our members during these challenging times.
- People will want to stay at hotel/ resorts where they are assured of safety, hygiene and personalized yet contactless experiences.
- Travelers would also look for secluded and spread-out resorts. We have significant advantage here as we are spread out, and our apartment sizes are bigger than a typical hotel.
- We also believe people will trust brands more than ever and look for healthier food option and wellness experiences. We have a significant advantage here, too.

Let me move on to safety and hygiene standards.

I think the biggest concern today for our members and our guests is when they step out of their homes they would expect safety and hygiene stay. As a trusted brand for more than 20 years and with vision to maintain highest level of safety at our resorts, which includes disinfection. We have launched a new program called "Club Mahindra SafeStay".

The SafeStay initiative focuses on:

- **Contactless hospitality**: We have implemented contactless service delivery, whether at check-in, check-out, digitized menus, online payment, etc., at our resorts.
- **Regular sanitization:** High-touch surfaces are cleaned at an increased frequency. Example: Common/ Public areas and back-of-the-house areas are frequently sanitized.
- **Resort Experience:** We have realigned spaces and services at our restaurants to ensure social distancing. But when I say social distancing, that is the language that has been used so I continue to use that, but we believe that we will ensure physical distancing, and yet people can remain socially connected. We have reengineered menus with in-room dining services.

- We have also associated with "BUREAU VERITAS" for certifying the safety and hygiene standards, that are being followed at our resorts. Bureau Veritas has a COVID Safe protocol. As I speak, 19 of our resorts are already certified 'COVID Safe' by Bureau Veritas.
- We have also partnered with top hospital facility management services provider to bring the best hygiene and disinfection protocols at our resorts.

Let me move on to member additions

- Our net member additions were at about 1270 in Q1 FY2021.
- We have also undertaken one-time overdue cancellation of 820 members which could not be retained.
- As I mentioned, we have seen improved consumer sentiment starting from mid-May.
- We have moved to 100% virtual selling, a new channel that will continue to stay even after Covid situation subsides.
- As we speak, we are undertaking various innovative initiatives for demand generation. We will open new channels for customer acquisition
- Digitization initiatives are being accelerated in the areas of customer acquisition, onboarding and resort experience, which I talked about.
- Our signature Heart2Heart program has now gone online. This has helped us to increase our referral and digital contribution, which used to be around 41% in 2019. Now in the Q1 FY21, it is at an all-time high to 57%.

Let me move on to some key points for your consideration. If you look at our results, they reflect the intrinsic strength and resilience of our business model, which is significantly different from the traditional hospitality sector.

➢ Despite no resort income in Q1 at Mahindra Holidays, we have been able to deliver profit before tax growth of 27.3%. Rs.36.3 Crores is the PBT for Q1 FY2021. Our PBT margin has also improved by 770 bps to 18.5% and profit after tax growth of 47.4%. Our profit after tax is Rs.26.8 Crores. Our PAT margin also has improved by 676 basis points to 13.6%.

➢ Our cash position remains strong at Rs.776 Crores. I would like to draw your attention to the cash figure in March 2020, at Rs.781 Crores. We have deployed the money in safe instruments which will help us to tide over the current crisis.

Let me move on to our material subsidiary Holiday Club Resorts.

➢ Holiday Club Resorts is EBITDA positive in June, driven by 90% plus occupancies at key SPA hotels (almost all their resorts have SPA, so therefore, they are also called SPA hotel) and improved timeshare sales. We have started opening our resorts in June. In April and May, we were completely shut down in Finland, Sweden and Spain. We were not very confident about response in June month, but it has surprised us, as I mentioned, we are EBITDA positive in June, driven by 90% plus occupancies

At consolidated level, we have delivered Rs. 49.8 Crores EBITDA in these unprecedented times despite two months of complete shutdown across resorts and at Holiday Club Resorts, as mentioned earlier. We believe Holiday Club Resorts will benefit from the surge in domestic demand for leisure travel. We envisage improved demand for timeshare, as the timeshare units and are larger, equipped with kitchenette and other amenities. So, as we say that 'people are trying to find their own bubble, and timeshare helps you to find your own bubble and, in your comfort'. As holidaying season continues till mid-August, we expect improvement in performance in Q2 for our Holiday Club Resorts.

Let me move back to Mahindra Holidays. At Mahindra Holidays, we believe that, as our country unlocks and mobility restrictions ease off, we do see improvement in occupancies not only because we have a 258,000 + member base, but also due to the fact that festive season will be starting October onwards. In July at our resort in Rajasthan, we have seen occupancies upwards of 35%- 40% due to relaxed government restrictions. However, Himachal, Uttarakhand and various other states have serious restrictions, including Goa. You need to be COVID-free and within 48 hours, you need to get a test done, to be able to enter these states.

We believe that this situation over a period it will take its own course and we obviously cannot predict the future, but we continue to invest in our ongoing projects at Goa and Ashtamudi. We had started the construction work at both these sites in May'20. In terms of our capex investments, the Goa 152-room property and the 33-room expansion in Ashtamudi, and our desire to achieve 5,000 units by FY2024 remains on track.

Another point which I would like to highlight is that you may have noticed that our revenue dropped by about 26%, largely due to resort revenues. While we delivered Q1 revenue of Rs.196 Crores, it was aided by various cost optimization initiatives to the tune of 37%, which led to improvement in EBITDA. At Mahindra Holidays Resorts, we have taken significant steps in the area of cost control measures and as and when you ask questions, we will be able to tell you how we have been able to do that. But I believe that some of the cost reduction happened on the variable side. As you know that we did not add as many members however, there are a lot of savings that have happened, particularly in the fixed and semi-variable cost. One of the savings that I can mention, which is unique, is the lease rentals. We have had a couple of our resorts on lease and there again, we have been able to get savings so all in all, as I see, at a consolidated level, delivering Rs.49.8 Crores in these times and if I were to specifically look at how did this happen, I noticed that in Holiday Club Resorts, there have been significant reduction in costs as well. There was almost a 53% reduction in the cost as compared to last year. In fact, the employee expenses have been reduced by 45% as compared to the same period last year, as the local laws allowed them to do temporary layoffs of the personnel and also minimize the external services and sales and marketing expenses were also sharply reduced by 61%. Holiday Club Resort management has done a fantastic job in containing the loss after tax in the as per the FAS at about €4.78 million. Last year, the same period previous year, our loss after tax was €1.66 million. As you know, April, May, June is not a seasonal month in Holiday Club Resorts and considering the fact that April and May are shut down, this is a creditable performance and I want to once again mention that our results reflect that our VO business model is far more resilient than a traditional hospitality model.

With this, I would like to open the floor for question and answers. Thank you so much.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Sir two questions. One on capital allocation, so the beauty of your business model is you get cash upfront from members, and then you have an obligation to service them in return for the ASF and whatever they spend at a resort. That cash, so far, you basically locked into real estate assets and especially as the duration of your membership comes down in the next few years, if we sell more and more of the shorter duration memberships, does it really make sense for us to be plowing all this cash into owning real estate assets because if we want to own a hospitality company, that is why we are coming here. We are not coming here to own real estate. Do you have any thoughts around how we could potentially do incremental expansion in a more capitalized manner? Or should we expect that all the cash will continue to be invested in owning resorts, which I should add, has been a profitable exercise for the last 20 years. But given the long-term outlook on land prices, real estate, etc, from this base, I am not sure it is the best use of capital going forward so I would love to get your thoughts on that? The second question is, could you give us a little more color on member additions, I believe you said this quarter, kind of stagnate in the last few years and I know you have been doing a lot of thinking and strategizing around how to reposition and package the product to accelerate member addition. Could you give us some color on what you are doing? We know the 3 packages you have, but are you trying different channels? Are you trying different engagement methods? What is the reason to expect that the pace of member addition will significantly accelerate going forward?

Kavinder Singh: Okay. Thank you very much, Pavan,. I think these are two fundamental questions in our business. And I think this is a great way to start the conversation. Let me go on and answer your first question. If I look at capital allocation, if you look at the way we are today, we have generated in the past 5 years approximately Rs.300 Crores of operating cash, every year. If I were to look at the free cash flows, we have had approximately Rs.200 Crores so our capital expenditure is not heavy. We have just been putting Rs.100-odd Crores. Now we have a capital expenditure plan to go here into Rs.1000 Crores and take the business to the next level. But rest assured that we have a clear desire to see how we can get more bang for our buck. At this point of time, as you know, that there are distressed sale assets which are available and you could actually get some of the good properties if this is the way it is, we could really get some properties for as low as Rs.50 lakh or Rs.60 lakh per room. This, in my opinion, is a great value. And if we can get some these kinds of assets, then it is a right capital allocation for a business where we need to continuously add inventory to service members. Having said that, let me move on to the idea that we have been following and you can see that we have approximately about 40% of our inventory currently as leased assets, long-term leases and by the way, even now, our lease rates are higher than our own build rates. Now the reason, we believe that we need to follow these mixed strategy is to, one, why tie up capital when you actually have a capital invested by some entrepreneur and it is not yielding any returns to the entrepreneur and it is a great capital, and all you have to do the refurbish it and manage it and create the magic that we do in Club Mahindra so we have been able to successfully do that with many, many resorts. In fact, some of our best-performing resorts, which have very high customer experience scores, are on lease, managed by us so it is not to say that our business can only grow by capital injection. We can follow strategies which are mixed. Why do we build our own resorts? We build our own resorts to create marquee experiences and at this point of time, it is our belief that we will have to follow a mixed strategy however, if there are distressed assets, which come to us at a lower cost and you know in our business model, the membership fee pays for the capital expenditure and if we can save there by having either a leased asset, which again, we have to see on an NPV basis should make sense based on the lease rentals and the way we get our earnings from the leased resorts in which we do that, by the way, so we look at these things and if you ask me, it is a mixed strategy. There will be leases. There will be acquisition of properties, and there will be capex. The capex on our own resort need not be to meet the full requirement that we have. We typically need about 300- to 400-room units and it is very unlikely that in a single year, we will pump in Rs.300 Crores or Rs.400 Crores in building 2 or 3 resorts. We will either acquire or we would either continue building the way we are building at Rs.100 Crores level and of course, we will continue scouting for leases and refurbishments, which help us to bring the resorts to our standards so in my opinion, if you look at our return on capital employed Akhila will be able to share with you, the numbers are staggeringly high. Akhila, can you confirm that our return on capital employed is upwards of 50%? Are you there, Akhila?

Pavan Ahluwalia: Kavinder, I think a lot of your accounting numbers some will look great, some will look awful because The accounting standards do not give you an accurate picture of what is going on at Mahindra Holidays and Mr. Nanda has repeatedly expressed his frustration with this on previous calls and I think anyone looking at your company properly will ignore the standard metrics because the way, it forces you to recognize things is meaningless in the case of this company. It is a unique business model, and so the accounting pictures are completely distorted. I think if you look at the actual profitability in your business, , right? You sell a membership. The bulk of the property you are making on a member is actually in that upfront fee that you get because if you look at the cost, it costs you to construct a room for the person adjusted pro rata for their use, it is much less than what they pay you in membership fee. After that, the members, ASF and resort spend basically cover the cost of running the resorts so we basically make money every time we sell a membership and that money right now is just being used to build more and more rooms so that is why I am asking. Effectively what you are saying to the shareholders is, guys, I am going to take all the profit I am generating on your behalf and put it into land and buildings, I am just asking, how do you think about that trade-off? Like what is the math saying I want to lease rather than build?

Kavinder Singh: Pavan, I think you have a point, but let me assure you that, that is not what I said. I have been saying there is a mixed strategy because when I take things on long-term lease that is not capital allocation really. In some manner, I am saving capital significantly once I go on leases and I am taking the hit on my P&L. By the way, my P&L supports a significant part of the lease rentals not significant, all the lease rentals are already being absorbed in my P&L so if you really think about it, the fact that we are able to absorb the lease rentals that we have shows the strength of the business model, too and by the way, reason we are asset-light, if I were to call 60% owned and 40% leased, we are already on our way to being asset-light and therefore, we have the freed-up cash that we have of about Rs.776 Crores.

Let me move on to your second question because we have probably other people who may want to ask questions so therefore, I will move on quickly to your second question. Your second question is on how we grow our member base. I believe, and our philosophy is over the last few years, it is important to grow member base, but it is important to grow the right kind of member base. If you really look at it, we have higher down payment, lower EMI customers coming in, the whole profile of our customer base and the mix is changing in favor of higher down payment and lower EMI customer base. We believe that our business must be also valued from a member lifetime value. When you have 258,000 plus members, there is a lifetime value that we are actually getting in, and it is reflected in almost every quarter P&L and by the way, in some manner, the results that you are seeing today are also because there is a lifetime value. There is a deferred accounting, and, in my opinion, we can discuss accounting separately offline, but the accounting clearly reflects the way today the revenues are apportioned in the upfront. Of course, costs we take upfront and revenues are postponed, which is fine because at the end of the day, that revenue is coming in and net of deferred cost, we are around Rs.5,400+ Crores of deferred revenue sitting at our books. And that, too, is a great source of strength. One in these times, and going forward also, if I keep improving my member additions of the right kind, which is what the focus has been of this management, we have seen how we build cash. We have seen how we build customer experience, and we have seen how we are building the lifetime value because the customers who are paying you higher down payment are also spending more at the resorts. We have internal metrics which track that. By the way, if you look at CAGR of our resort revenues, it has been growing in double digits, 14%, 15% CAGR resort revenues. Every income of us has been growing at double digit, and therefore, if you look at our total income for the last 5 years, has been growing at 10% CAGR. Now this does not happen even at a Y-o-Y level. We have had 18,000 member additions in the last 3 years. By the way, 5 years ago, we used to be 12,000. Then we moved to 16,000 and then we are at 18,000. Obviously, our aim would be to go to the next level and that is the desire that we have, and had it not been for the pandemic, this was the year. That is what we were gunning for. But having said that, I think the key point is not whether 18,000 becomes 20,000 or 22,000 or 24,000. There is a huge intrinsic value that is built as the cumulative member base keeps on increasing. Even if the cumulative member base were to increase at about 8%, 9%, you can do the math, the profit growth and we have a very clear business model that even if you had that kind of a number, you are going to see upwards of 20% profit before tax and that is what we have demonstrated. By the way, in our June-19 analyst meet that we did where we have actually shown, even if the member additions remained at 18,000, how do you see the entire revenue going forward and by the way, the fact that these 18,000, 20,000 members that they come, they also start contributing to your resort revenues and let me assure you that the annual fee revenues and the resort revenues, this whole business of running resorts and annual fee is profitable. It is not just covering the cost, just wanted to confirm that and maybe we can have a separate off-line chat, where we can actually run you through some numbers, that we have done with few others who have asked us these details so this is something just to understand the business model, and probably in this call, this may not be the proper time to explain almost all the nuances so I think your questions are valid and we have sufficient clarity on the way we are driving the business, and we are very happy to take you off-line and understand any more concerns of yours and address them.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: I sincerely hope everyone at Club Mahindra is safe and well. Kavinder, Sir, Akhila, madam, I have two questions. One is given this period of the last three to four months, when members have not been able to travel, how are we looking to sort of compensate them for this period of time and what is the sort of quantum of provision that you would have to probably make to sort of offset this that is my first question. The second question is with 1270 odd member addition this time around, I am assuming, if you can just give us a broad split of how many came from your GoZest, Bliss and our 25-year product.

Kavinder Singh: Okay. Aditya, as far as the member additions are concerned, I would say that this quarter is a quarter in which we moved away from face-to-face selling to video selling. Second, consumer discretionary sentiment at an all-time low. The good news is that we have been adding members on video We are learning new ways of generating referrals. I would be very, very clear to say that, as I mentioned in my opening comments, the GoZest 3-year product is something driven by its low transaction value, has obviously seen momentum and it is quite obvious because of the situation that we are in. But at a broad level, I can tell you that we are seeing a significant improvement in the trend towards, again, the longer-tenure product because I am extremely clear that we may have multiple-tenure products. But the core product that we have, 25-year product, is something that carries value because it has true value to the customers and this is something that, if it is across the table explained and unfortunately, there is no across the table now and that is why there is a bit of a difficulty, and that is where the GoZest becomes a little bit easier and at this point of time, we want the momentum. We want the additions to happen and by the way, GoZest is also an extremely profitable product for us, if you must really look at it. But I look at member lifetime value, and I am very, very clear that the longer the tenure, the better off we are in terms of getting upfront our cost of acquisitions as well as building our resorts, which whether we build or whether we lease, I mean, at the end of the day, we need to factor those costs and therefore, I would say do not really worry about what got sold in this April and June. We will have time as we move forward to share with you how the journey has been. I can inform you because we also have the July numbers with us. We know exactly what is happening on the ground. Our movement of the longer-tenure product is on a northward climb, significant northward climb despite these consumer discretionary sentiments that I talked to you, so our system is tuned to quickly shift into the higher-tenure products as the consumer sentiment improves. But yes, I can openly tell you at this point of time, the GoZest has been the three-year product has been dominant in this regard to member addition that you see. I am quite open in saying that. Yes, we sold more GoZest than CMH 25 in this period.

Aditya Bagul: Understood. Sir, the question was rather looking to try to understand whether if there is a permanent change in terms of member acceptance for a 25-year product, which you clearly explained, is not. The second part of the question was just to try and understand how the mathematics probably look given that the lower-tenure, lower-value product will have the same acquisition or similar acquisition cost compared to our 25-year product so just wanted to try and get some understanding on that.

Kavinder Singh: Okay. . The lower-tenure product does not have the same acquisition cost as 25-year product. Why? Face-to-face selling adds to the cost. Marketing actions add to the cost. In this period, April-June, literally, if you really think about it positively, and there is really not meant things to think positively in these times, but if you really think about it, take it as a lab. In a lab, you do an experiment and a slot. You can sell on phone, on video, a premium product, literally very, very low cost. Why because we have, in our database, significant amount of leads. We do simple, low-cost digital campaigns. Lots of people get attracted. They come to us. They say, "Hey, we want to buy a lower-tenure product. We want to make no commitment for a longer-term period." They are saying, "Okay. Fine this time because I am selling on video. I am also adjusting the incentives of my sales team lower, and I am also adjusting the offers appropriately." You will be amazed. Had it been for the same levels of cost, you would have not seen these numbers and then if you really look at our sales and marketing expenses, if you really look at our cost of acquisition, it has dropped significantly in this period while we sold the GoZest product so 3-year product will not have the same cost of acquisition. We always used to debate this internally. It is, in fact, proven in this quarter that we do not have the cost of acquisition that we have for a 25-year product. That is very clear. Otherwise, there is no viability. I fully understand where you are coming from.

Aditya Bagul: Understood, Sir. Sir, if you can help me understand the first question. The time lag and if there is a provision that needs to be cleared.

Kavinder Singh: Okay. The time lag question, to be honest, I need to understand a little better. Can you repeat it?

Aditya Bagul: Yes, so what I meant was as the entire mechanism for Club Mahindra works is that each room has 52 weeks, which is given to 52 members. Now unfortunately, in the last 4.5 months, there would be a chunk of members who would want to travel but could not. As a result, there will be those rooms, or I do not know how to explain it. Probably the provision for this members or the members who could not travel this year will travel next year or the year after that so I am just trying to understand whether there is a provision which needs to be created for the loss of time here because our business is a time business, so if a week goes by without a room being occupied, a week goes by, it is a complete waste so just trying to understand from that perspective.

Kavinder Singh: Okay. I understand now where you are coming from much better than you first explained it, so it is very simple, Aditya, the way it was sorted, that we have a 3-year accumulation of holidays even today. I mean if a member decides not to holiday for 3 years, they can accumulate, it is built into our model, by the way and we have built our business model keeping in mind the situation that someone may have an exam, someone may be abroad, someone may not be able to use so there is a non-usage that may happen. But here, you are right, there is a non usage of a 3- or 3.5 or 4 months period, correct, full base and to that extent, of course, all of the members are not eligible to holiday in this period as well anyway because we have seasons so it is not that the entire base would have holidayed in April, May, June and even we do not have so many people anyway do not holiday in April, May, June so there is a base that would have holidayed April, May, June, and they have lost out the opportunity so what is it that they can do? They can accumulate. They can come back. Now the question is will it led to, let us say, a member dissatisfaction that you may not get the bookings that they want. See, if there is some level of, let us say, build-up that happens, he may want to burn it at the earliest opportunities. You think about it. Even at this point of time, we have about 3,700 rooms multiplied by whatever number of days left, say, 600,000, 700,000 room nights as we move forward. If people decide to holiday, they decide to holiday, there will be room available. Even today is the best of the time we have operated with 80%, 85% occupancy. We do not see a situation where people will not be able to get the bookings that they want and the way it works is, one, you can accumulate; second, people who have accumulated beyond 21 days, there is an issue of lapsing. We are very clearly saying that if there is a lapsation issue, we will ensure that your thing will not lapse till if you are going to use it in a certain period of time, that is something very specific to the members so we are designed in our business to actually allow accumulation up to 3 years. And we are talking only 3 months or 4 months or 5 months. I do not see any reason for any kind of provisioning as a result of loss of these room nights. In fact, we have very carefully looked at it and as far as we are concerned, there is a set of members who have lost out an opportunity. They may choose to holiday in non-season. This was the peak season, April and May and June and by the way, in the low seasons, we have huge vacancies available and we have seen people holidaying from high season into low season and getting a greater number of days. In our system, we have that flexibility. If a red member wants to holiday in a blue season, he could actually get more number of days so we believe that the demand shifts will happen and by the way, they will be localized shifts because a lot of people would holiday probably local and this is a new normal that we will have to deal with it, and we are pretty confident of getting this based on our internal capital or model business that we have.

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

Nihal Jham: Kavinder, Sir, I wanted to delve a little more on our cost-saving initiatives and you mentioned also in the opening remarks so first, if you could just give a breakdown on the stand-alone operations specifically, which is our India operations. Have we managed to reduce our other expenses specifically? And then I will come to the sales and marketing part.

Kavinder Singh: Akhila, would you like to go?

Akhila Balachandar: Sure, Kavinder. I think one of the things that we have been working on continuously over the last three, four years now along with initiatives on collection and quality members has been the cost, overall cost has been reducing and our margins have been consistently increasing over the past few years. I mean the results keep getting a little difficult to interpret because of the accounting changes. But we have been doing good amount of work understanding cost at a granular level, trying to get into long-term sustainable savings. If you remember, even in the last 2 years, we have been working on investing in solar initiatives. We have almost 7 of our resorts on solar. Now these are small things which we have been doing. Over a period because of our cost of acquisition, we have done a tremendous amount of work where we try to see how to convert a lot of our expenses into variable rather than keep them fixed. In running operations, sometimes we do not see the full impact. I think what we have done over the past few years has really helped us. This year, as soon as the pandemic start, and we realized that our resorts would not resume for some point in time . We started a lot of initiatives right at the resorts at the sales office levels. And for example, let me tell you things like in our resorts, we bought things like Tata Sky subscription, AMC subscriptions. We tried to see if there was something that we could see for next one to two months what happens. We spoke to the electricity boards for waiver of the minimum load charges. These are small, but when you have 30, 40 resorts, the accumulation of all these small ones helps us. These are also sustainable for a long time till the resorts come back to the level at which it used to operate so these are some sustainable cost-saving initiatives we have done. Two, we have done some amount of work on kind of reducing our lease rent in these periods. Also, we were able to lower sales and marketing expense. A good amount of our expense, we have been working in the past to see how can it become more leads to successfully sales driven and that has really helped to bring it under control, and we have seen the results now.

Nihal Mahesh Jham: Sure. Can I say once the resorts are back to full operations, which this quarter does not, what is the comeback in the cost base is because I would believe that the power for saving of, say, the 7 properties, but it may not be significant as once our resorts are operational on a full-scale basis, that there would be a significant reduction on that specific aspect so say once the resorts are back to full operation, what is the kind of cost saving, at least on the ex sales and marketing aspect?

Akhila Balachandar: Lot of these could be yes?

Kavinder Singh: Nihal, the strategy that we are following is to see and this is a reset in some manner because we had this opportunity in these 3 months to look at all our costs. As and when we move into restarting our resorts, we are looking at every fixed cost and saying that either it can be variabilized or in some manner, in some cases, even eliminating so I would say this is a work in progress. I am quite confident that when we come post our Q2 results, you will really see that despite opening our resorts, how we are managing our costs because once you have an opportunity to look at literally bare bones where we are right now to how you start building it up again, you can actually question every fundamental fixed cost and also variabilize some of the fixed costs, if you can. I would say that as we move forward in terms of building up our occupancy, starting up our resorts, we should see, and I am pretty confident about it, that some of the cost savings that we have delivered are sustainable going into the future and of course, there will be some variable costs, which are directly attributed to, let us say, the F&B expenses, etc. They will obviously help us.

Nihal Mahesh Jham: I missed the last 10 seconds of the conversation.

Kavinder Singh: Yes, I am only saying, Nihal, that at a broader level, I wanted to answer rather than getting caught into a solar or this or that because these are all real details. One thing which we have realized, there is a great opportunity to fundamentally reset the fixed cost and you will see that as it plays out and once you have reset for example, let me give you one example, if you are keen. Why not multiskill by the way, our Chief Resort Officer is, at this point of time, busy seeing how we can multiskill people in the resorts. People can work across multiple departments. Of course, we do not want to touch now housekeeping because housekeeping is now very, very specialized because of the hygiene issues but really speaking, all the other departments, whether it is F&B, whether it is front office, why there is not an opportunity to do multiskills and when these times happen, when we had skeleton manpower, and then we have to restart the resorts because when we started the resorts, occupancies are low, obviously so we have to get into this multiskilling and as you really move on, you realize that this multiskilling is going to be possible and you can continue living with it so there are examples like that. There are lots of stories within the company, which we are hearing, where people are coming out with unique cross-selling ideas. Let me give you another example on productivity. I mean if we are doing video sales, I mean, really, you can handle more appointments than you can handle physically, you could technically do, let us say, 4 or 5 calls versus 1 or 2 calls on a physical basis some of these savings, in my opinion, are sustainable, and they will start playing out as we move forward and I think Akhila was mentioning to you that if you look at our track record over the last 4, 5 years, every year, we have moved the margins by at least 100 basis points and I do not see any reason why we cannot do that, and in fact, a little more as we move forward.

Moderator: Thank you. The next question is from the line of Ekta Bhalja from Karma Capital. Please go ahead.

Ekta Bhalja: My first question is to Akhila so Akhila, can you share what would be the impact of the cancellations on deferred revenue in this quarter?

Akhila Balachandar: Sure, so if you see, we have shared the balance sheet and before revenue would be lower by approximately Rs.100 Crores. It would not be a direct answer to your question because in this quarter sales have also been lower. To that extent, generally, what happens is there is a good amount of addition to the deferred revenue because of the sales. 96% goes into the deferred revenue. This time, since our sales have been of 1270 members, this quantum was lower and therefore, there is a net reduction in the deferred revenue of around Rs.100 Crores.

Ekta Bhalja: Akhila, if you could share what would be the AUR for the quarter for the 1270 members that you have added in the quarter, what would be the AUR for them?

Akhila Balachandar: The majority, as Kavinder shared, was the GoZest members. Average AUR will be around 1 to 1.2 Lakhs. This is the price of our GoZest product.

Ekta Bhalja: I am sorry, Akhila, 1.2?

Akhila Balachandar: 1.2

Ekta Bhalja: 1.2. Okay and would there be an impact on the receivables because of the cancellation?

Akhila Balachandar: Not really because we do have a very strong provisioning policy so that is the impact of the receivables is not much.

Ekta Bhalja: Okay and second question is for Kavinder, if you could explain the company policy on cancellations and the cancellation that we have done in this quarter. What would be the vintage of these customers? I mean how long have they been members with us? I am assuming they will not be very long because of the collection issue that you would have seen, and which is why the cancellation so if you could just share what would be the policy that we follow for cancellation?

Kavinder Singh: Okay. Ekta, as a follow-on answer to what you asked earlier, since you were very keen to know the AUR, and I had mentioned earlier GoZest, I wanted to mention to all the people who are listening on this call that, GoZest while may have been our strategy during these times, but remember one thing, in the world of international timeshare also, these are called entry-level products and we have a desire to convert most of them into 25-year product and there is a significant possibility once they start experiencing the product, once the pandemic effects come down, they would convert at the on-site into 25-year product and by the way, when they convert, our cost of acquisition even further comes down so I just did not want to talk about it earlier. But since you have asked very specifically about AUR, I want to comfort everyone that this is, in fact, the funnel we are creating for future 25-year product customers and quite a lot of them, we have seen over a period of time, do and will indeed move to 25-year product so that was one follow-on answer to your question, which I wanted to bring in. On the cancellation policy, I think we have been consistent, first, to let you know. The numbers that we release every quarter are after the necessary cancellations. If you really look at it, even in the 1,270 number that we have released, there is the cancellations that has been done, which is routinely done because we have an overdue base. We constantly track it and as Akhila was mentioning, there is a very defined provisioning policy and that is why you do not see our numbers going up and down. In fact, more every quarter or every year, we have been taking our numbers up. If you now look at the last 5.5, 6 years, year-on-year, we have seen both on revenue as well as in profits, there is a movement upwards. The way this happens is very simple. One, of course, the number of member additions that we have had, of course, the members that we cancel and of course, the members that we provide for and by the way, when we cancel, we are very, very clear that we cannot retain them anymore and since most of them have been provided for appropriately, we do not see the impact on the P&L so that is why I have often given this comfort to all the investors that because we release like-to-like numbers, really, cancellation is not a cause of worry because they are suitably provided for and there are a number of times when people ask me what is the extent of cancellation that we do typically in a year, and I have also ended up mentioning in various calls that it is in low single digits. It is not even worth talking about in terms of absolute quantum, if you were to compare it with a total base of 258,000 so the 1,270 number has a built-in cancellation, which is normally done. The 820 cancellation that we did, which was a onetime cancellation that we did because as somebody else pointed out also that because of the COVID, we realized that these members may really not be we will not be able to collect it, but it is prudent to actually take a call and cancel these 820 members onetime because we are quite clear that as far as accounting and provisioning norms, we want to be more prudent than aggressive.

Ekta Bhalja: Okay and you mentioned that you would continue with your capex for Ashtamudi and Goa this year so any number that you can share the capex for this year?

Kavinder Singh: Okay. Normally, I did mention Rs.300 Crores, Rs.100 Crores kind of the number in the beginning of the call. But let us look at it this way. We have 152-room in Goa project, which will come this year, subject to all approvals, which are right now at that stage. Project is almost down, 152-room unit and we expect the Phase 2 to be delivered next year, which will be another 57 so to become a 209-room hotel resort in Goa, Assonora. We have another 33-room project going on in Ashtamudi, which will again be ready next year and as we speak, we have applied for provisions for a resort in the Ganpatipule area, which is going to be in phases, adding up to 150 units that will be another investment that we will do once the permissions come in. We have an existing lot in Kandaghat, Shimla, where we are looking to expand it by another 160 units so wherever we have a very scenic and a beautiful piece of land with the character of our brand, we will build resorts, obviously, because that actually helps us to fuel member additions and wherever there is an opportunity related to acquisitions, we will look at and by the way, there is a very strong funnel that we have of resorts which are going to be taken on lease. We are just waiting for the situation to get a little normal. We already have a very strong funnel of these resorts, which are available for us to take in. Prior to pandemic, the discussions were going on. In some cases, the discussions were even closed so we are just waiting. And at the right moment, we will bring them in as well so if you are really asking what is the capex for the year that we will be able to spend, I do not think it will be very different from what we have spent in the past. The trend will be roughly similar this year. But going forward, the pipeline looks very strong for both our own resorts as well as acquisition that we have in mind.

Ekta Bhalja: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints, that will be the last question for today. I will now hand the conference over to Mr. Kavinder Singh for closing comments.

Kavinder Singh: Thank you so much for taking your time on a Friday evening and I am quite happy, and I would like to say that, which I say all the time or almost in all my calls, that we learn a lot from your questions. We really appreciate how you look at our numbers and how you want to understand our strategies. It makes us think. It makes us sharper and we are very excited to look forward to these kind of interactions, even on one-on-one with new people, whenever people ask for it and I am very happy if there are questions that you could not ask or you could not get the answer, to take them off-line as there is always a possibility in the next 2 months to have more interactions and give you a deeper understanding. But I just want to end with only one point that please bear in mind that business model is unique, not just accounting and our model has inherent strengths, because we have a captive customer base of 258,000 plus members and all you have to do is to see how they are enjoying even in these times at our resorts with the mask on their faces. I believe they feel that they are safe that is why they are there at our resorts and one thing I would like to mention that in these times, where trust will be something that will be at a premium, people would trust Club Mahindra. They would want to take a break. They would want to come to our resorts, and we are in an extremely sweet spot as we see. And my belief is we are in even sweeter spot than we were prior to the pandemic because we will generate trust, we will generate safety, hygiene and larger spaces, away from cities. All of this is going to auger well for our business and look forward to interacting with you in August and September, if you have any more questions. Thank you so much.

Moderator: Thank you very much. On behalf of Mahindra Holidays & Resorts India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.