"Mahindra Holidays & Resorts India Limited Q4 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Mahindra Holidays & Resorts India Limited Q4 FY21 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 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 – MD and CEO. Thank you and over to you sir.

Kavinder Singh: Good afternoon everyone and a very warm welcome to our Q4 Earnings Call. I hope all of you and your families are safe and healthy during these challenging times. Joining me today are Mrs. Akhila Balachandar – our Chief Financial Officer and Mr. Dhanraj Mulki – our General Counsel and Company Secretary.

We have already uploaded our Quarter 4 results and investor presentation on the stock exchanges as well as on our company website after the conclusion of the board meeting yesterday. I hope you have had a chance to go through them.

For some time now, we have been reiterating to our investors that our business model is unique. Now, I can say with confidence it is resilient as well and therefore, I request the investor community to look at us from a different lens compared to the traditional hospitality players. As I have always mentioned that traditional hospitality players have to deal with two things all the time, one is occupancy and other is debt. And we are a zero-debt company and occupancies, I will talk about it a little later.

Let me now begin by just giving some highlights:

Despite the unprecedented and challenging times this year, more than ever, if you really look at our performance, we have been able to prove this point, that we are not only unique but resilient. Highlights of the year starting with occupancy: as the lockdown restrictions eased off in June 2020 we witnessed a very strong bounce back in occupancy levels across our resorts. In fact, we saw month-on-month improvement. I have mentioned earlier that from December onwards we started seeing occupancies of 85% almost on a month-on-month basis. We closed this quarter with 85% occupancy.

We are very encouraged as to how quickly occupancies have recovered. This recovery illustrates the desire of our members to visit our resorts. As you all know, Club Mahindra is a trusted brand for over two decades now and September 2021 onwards we will begin our celebrations of the 25^{th} year. Over the years, we have gained the trust of our members and more so during these pandemic times, because we have been in touch with our members and taken initiatives at our resorts, on which I will talk a little later, that have helped us to get members back at our resorts. If I look at member additions, we added 4,789 members in Quarter 4 which is up by about 46% on quarter-on-quarter basis and 32% on year-on-year basis. The pace of our member additions accelerated every quarter. We ended up with total member additions of 12,031 members during the year. Our total cumulative member base stood at 2,54,431 members at the end of FY21. We are extremely gratified to see new members continuing to choose us even during these challenging times.

Let me move on to our inventory - Our room inventory increased at the fastest rate to cross the 4,000+ mark in FY21. With the total addition of 465 rooms, our room inventory stands at 4,197 units at the end of March '21. We have added nine resorts in various states of India, including the fact that we have launched the Club Mahindra, Assonora Resort in Goa with 152 rooms. The resort offers the experience of a mini water theme park with a lazy river, probably the only resort in the country with that kind of a theme. We also launched a resort in Kerala, a very beautiful resort in a place called Arookutty which is just about a 50 minutes' drive from Cochin. We launched three resorts in Rajasthan, Jaipur, Ranthambore and Mount Abu. We had an old property in Jaipur. We have moved away from that and we now have a brand-new property that we have launched in Jaipur.

In Gujarat we have this beautiful resort, which is amidst the forest, it is called Netrang. Netrang is just 60 kilometers away from Statue of Unity. We are already seeing very very good momentum in terms of occupancies at Netrang. In Andaman & Nicobar we have tied up with Symphony Resorts and we have launched three properties there which is in Havelock, Neil Islands as well as Port Blair. They again have received huge response at the time when we opened the resorts up, which was sometime in January. We have also added a resort which is now really going to become even more popular with the RORO facility that we have in Mumbai. This is a resort in Alibaug, it is called Tropicana Resort by Club Mahindra. This is a resort that we are again very proud of that we have launched it well before the March ending. On a total basis, our number of resorts have gone up to 79 resorts in India and abroad which include resorts in Dubai, Singapore, Kuala Lumpur, Bhutan, Sri Lanka etc.

We have very clear plans over the next 4 years to go up to 5,500+ rooms from 4,197 today. We will use multiple routes which will include acquisitions and our own development. I will share more on this later because I am going to tell you which are the projects that are going on right now and more that we will be starting.

We will also expand our existing resorts while parallelly taking very high-quality resorts on lease and management control. The Phase-2 of Goa, Assonora project will be completed this year. We will be adding another 57 rooms to the existing 152 rooms resort. Our Ashtamudi project's last phase will end this year and we expect to add another 33 room units there. We are right now on very advanced stages of getting an approval for 130 rooms project near Ganpatipule at a place called Undi village which overlooks the beautiful Arabian sea. We will also be starting our expansion project at Kandaghat, Shimla with an additional 160 room units. All these activities will go on as planned.

As mentioned earlier, our endeavor is to curate new and memorable experiences for our members at Club Mahindra Resorts, by adding more rooms as well as resorts at pristine destinations across the country, we remain committed to offering immersive and unique leisure experiences to our members.

Now, If I look at revenue, our revenue has vacation ownership income has largely remained stable. As you know it is annuity income, including the annual fee income. The resort income by the way recovered very sharply on quarter-on-quarter basis, as resorts opened to almost reaching pre-pandemic levels in this quarter. We have achieved profit before tax growth of 37% on a year-on-year basis in FY21, despite the extremely challenging environment. Despite the crisis that we saw, we have strengthened our balance sheet and liquidity position.

Our deferred revenue pool now stands at Rs. 5,081 crores. I always call this as un-booked income. If I were to take away about Rs. 700 odd crores of deferred cost, then about Rs. 4,400 crores of profit as I can say is sitting in deferred revenue which will keep accruing over the years. We continue to have zero debt at a standalone level. Also, as I was about to mention, we have improved our cash position to Rs. 940 crores from Rs. 781 crores at the end of March 2020. If you look at December'20, we were at Rs. 848 crores, Q4FY21 turned out to be one of the best quarters both in terms of member additions and occupancies and cash position improved to Rs. 940 crores.

We have delivered industry leading occupancies in Quarter 3, Quarter 4. In Quarter 3 our occupancy levels were at 75%. Despite the fact that there was no vaccine in sight during those times, we have been able to attract our members to our resorts, largely due to the trust and the safety factor that we espouse on. Going forward, as the vaccination drive picks up across the country and travel restrictions ease, we will see a very strong revival in domestic leisure travel, likes of which we saw in Quarter 3 and Quarter 4. We believe that our occupancies will improve further, and our member additions will actually grow faster. Given that most of our resorts are at drivable distances from cities and we have spacious properties and room units conducive to social distancing, we expect to benefit immensely from this revival.

A very quick look at the consumer trends; we believe leisure travel will lead recovery, vacations to domestic destinations will become even more popular. I did talk about drivable destinations. People will travel together, and they will form their own bubble along with extended families and friends, we are seeing that in our resorts. People are also looking for resorts with flexible bookings and rescheduling policies due to COVID-19 related uncertainties. That will become an important factor. Trusted hospitality players like us will be preferred in view of the heightened safety and hygiene expectations.

Moving on, let me just share with you some numbers:

The total income for Quarter 4 is at Rs. 255 crores which has increased by 4% on Quarter-on-Quarter basis. If I were to compare against Quarter 4, we were stable. Our resort performance as I mentioned has recovered sharply and resort income consequently went up by 19% on quarter-on-quarter basis and 8.5% on year-on-year basis. This gives us huge satisfaction that people would want to come to our resorts, and they would like to unwind and spend time with their family. The total income for the year is at Rs. 909 crores. Though it has decreased by 12% on year-on-year basis, mainly due to closure of resort operations as I mentioned earlier. Despite that we have ended up delivering 37% growth in profits before tax for the full year.

If I were to look at the profit before tax for the Quarter 4 even there, we saw an improvement by about 12% on a YoY basis. Our margin has improved by 130 basis points on year-on-year basis to 12.7%. If you look at profit after tax is at Rs.24.6 crores. Please do not compare it with the Rs. 30.5 crores in Q4 FY20, largely because they are not comparable. Last time in the same quarter we had taken a decision to opt for the lower tax rate and that led to some of the provisions getting reversed. That is where there was a kicker that we got in the PBT and the reported PAT moved up to Rs. 30.5 crores. If you really look at FY21, the strong performance comes from not only the improvement in profit before tax by 37% on year-on-year basis but also the margin has improved by 660 basis points to 18.6% compared to 12% in FY20. Profit after tax is at about Rs. 125.8 crores as compared to Rs. 91.5 crores in FY20. Of course, FY20 PAT is before the one-time impact that happened as a result of the transition into the new tax regime. The movement is up by 37.4% on year-on-year basis, roughly same as PBT growth rate. PAT margin has also improved by 500 basis points to 13.8%.

I would say that a lot of our margin improvement has happened as a result of sales and marketing expenses being controlled. Our, Happy Family Referral Program (HFRP) and Digital really picked up momentum, forming 55% of sales in FY21 compared to 40% in FY20. This has really been a big savior this year. The total savings that we received on lease rentals during the year amounts to about Rs. 52 crores of which Rs. 31 crores you will be able to see in the other income. These are the waivers from the long-term leases and there were waivers and savings on short-term leases as well. They have been shown as reduction in rent expenses amounting to Rs 21 crores. This is as per the accounting guidelines and therefore you will see some part in the other income and some part in the cost reduction.

If I look at other expenses, here again there have been major savings on account of reduction in resort consumption, energy, travel and conveyance and other corporate overheads. I think we have learned one thing that we have sufficient headroom for savings on fixed expenses, particularly related to lead generation and resort related costs including energy, that has been one of the big learnings during this year. As I have always mentioned that our focus is on quality member additions with higher down payments and that trend continues. We did see momentum in our 25-year product in Quarter 4. That has been partially or rather majorly responsible for building up the cash that we built up during this year.

Our cash flows from EMIs continued, tight control on costs, all of that helped us to actually move our cash position to about Rs. 940 crores. If I may pause here for a minute and then take you through the fact that what are the steps that we took to enhance the demand generation. While we had focused on running multiple demand generation campaigns such as Family Premier League, We Cover India, You Discover India. All of them have also helped us to build the saliency of the brand and that actually led us to the position that we are in.

Our Bliss product which is a 10-year points-based product and the GoZest product have gained momentum during this year. I would like to inform you that we have undertaken on a prudent basis a one-off cancellation of 14,782 members who were actually EMI overdue members from the past cumulative base. Just to clarify we added 12,031 fresh members but from the past cumulative base of 250,000+ members, we have undertaken a one-off cancellation of 14,782 members. They were overdue and we had done an assessment and then we had taken a call that they are not likely to pay up and that decision has been taken. By the way if I were to talk about the impact of that cancellation since we are sufficiently provided for, the impact has been minimal, and it is at a total level of Rs. 20.3 crores at the P&L level. The impact on the income is to the extent of Rs. 8.6 crores and the impact on the cost is at about Rs. 12 crores, since we deferred the costs which are there, and that impairment happens when we cancel the contracts. There is a total impact of Rs. 20.3 crores on our P&L as a result of cancellation. This is all because of the very strong provisioning policies and very strong methods of assessing that who is likely to pay up and who is not likely to pay up. We believe this one-time action is necessary during these times.

I must also mention that our COVID19 related safety measures, whether it is Safe Stay program, Bureau Veritas, Bureau Veritas certifying as COVID safe and our Travel with Confidence program has done extremely well.

Let me quickly move to Holiday Club Resorts. Holiday Club Resorts in Q2FY21 had delivered a positive PBT but in Q3FY21 they saw their second wave and in Q4FY21 there was a third wave. The good news is that the third wave is now in some manner coming to an end. They have the situation in control, vaccination is moving at a very brisk pace, 30% of their population has been vaccinated, infections are now less than 100 a day and they are confident of getting back into business with full force starting mid-June, which is the time of the peak season in Finland. Our team in Finland led by Ms. Maisa Romanainen has done an amazing job of controlling the costs. Despite having lot of fixed costs, operational loss in Quarter 4 were contained to €4.12 million.

I would like you to just make a note that even in these times on a consolidated level our EBITDA is Rs. 349 crores and our margin has improved from the last year by about 130 basis points. Now these are extremely difficult times to deliver a consolidated EBITDA of Rs. 349 crores with margin improvement. This, once again demonstrates the resilience of the vacation ownership model that we have.

I would like to reiterate, we have made solid progress in mitigating the impact of COVID19 and we believe with the acceleration of vaccine rollouts we will see a significant rebound in travel. We also believe that high infection states in India will recover by mid-June at the latest and the rest of the states, the infection curve will flatten sometime by end June or early July. We believe that we will see a very quick rebound in occupancies like we saw last year. We also believe that there will be a growth in member additions in line with the number of resorts that we have added and the fact that we have 4,197 rooms. Our balance sheet is extremely strong as you can see, and we believe that the need for people to spend time with family, their own immediate family members and friends will actually help us to emerge stronger after the pandemic and we believe the leisure travel to domestic locations will drive the recovery and we are in the forefront of that. Even on Holiday Club Resorts I am very confident that situation will normalize by mid-June and thereafter we will see a big rebound in terms of the leisure travel that will happen. And on this note I would like to mention that we are very thankful to our team members. The fact that we have a strong balance sheet, the fact that we have a unique and resilient business model, we are an industry leading brand. Our differentiated model, resilient model actually points us to a brighter future as we look ahead. I hope each of you and your families continue to remain safe and healthy. Our thoughts are with all of those who have been impacted by the pandemic. Thank you for your time and patient listening. We are now open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss.

Nihal Jham: The first question was on the calculation of these members, the 14,782. On the P&L impact of Rs. 20 crores that you have mentioned, so all of that has purely hit the EBITDA, if I understand the accounting right. Just wanted to get clear on that first.

Akhila Balachandar: Yes, Nihal the entire amount partially Rs. 8 crores is the revenue lines and around Rs. 12 crores is the expense line, so it is all within the EBITDA lines. Your understanding is correct.

Nihal Jham: Rs. 12 crores is in the other expenses?

Akhila Balachandar: Sales and marketing and other expenses. It is split between the two.

Nihal Jham: The other thing on this is, would you say that these 14,782 members that you have cancelled is more because of the situation that happened after COVID? Did these members stop paying after

COVID or is it that they were showing up in the system earlier and maybe now you have taken the closer sense on how is that the choice is now?

Kavinder Singh: Nihal, the way we handle this is that we have a very strong program on keeping an eye on our overdue members and we have provisioning policies. If you think about it even after cancelling 14,782 members, the impact is only Rs. 20 crores which means we are keeping a close watch and every quarter we are making appropriate provisions. It is just that COVID in our view and by the way we had engaged Accenture this time around to do a very deep assessment because there are times people pay up and there are times people say, hey! let me think and come back. Why we are constantly at it, we have a very strong retention program, we have very strong win-back program. Now when the retention program teams and win-back program teams come back and say that listen COVID has in some manner affected the ability to pay, we felt it was prudent to take a decision. Had it not been for COVID, we would not have looked at this kind of a cancellation.

Nihal Jham: What was the AUR for this quarter?

Akhila Balachandar: Nihal good question. In Quarter 2 if you remember our AUR was around Rs.1.6 lakhs, in Quarter 3 it moved to around Rs. 2.6 lakhs and if you remember in Quarter 2, we sold more of the 3-year product and post that we have been focusing on moving back to the flagship product CMH25. The good news is that in Quarter 4 our AUR has come to around Rs. 2.9 lakh. I think we are on the right journey there and that is something I would definitely like to share with you.

Nihal Jham: I think a couple of years back or maybe before that, one of the thoughts was to look at taking management contracts, not sure when exactly. One question was on the expansion, if that is also an incremental line that we will explore and second is when you look at the 5,500 rooms that you are targeting in the next 4-5 years, have we become open now to looking at much more leased rooms than what we were earlier? Traditionally it was a 70-30 split, but I understand that this year obviously that split is more in terms of lease room. Just your thoughts on that have we done?

Kavinder Singh: Nihal, just to give an idea, we have always been believers of delivering a very high-quality experience. Now the method of delivery of experience could be through building your own resorts, through buying, upgrading them and even when we take resort lease, the resort had to meet the Club Mahindra standard, measurement process and on that what we do is we have a very strong upgrade program. We in fact call it PIP i.e. Product Improvement Program. If you look at a product like Netrang that we launched. Netrang is an existing resort and if we look at the pictures before and the pictures after, we worked with the owner for almost a year to bring the resort to the level where it is now a world class resort. Same thing we did with Arookutty. Our idea is very simple, even if we take a resort on lease, can we bring it to the standards that the owner would be proud of, who are Mahindra members would be proud of and all of us would be proud of. Now this means investment that it pays us on lease rentals. The rentals are fixed and we have taken time to build the resorts to our level. Basically, refurbish and upgrade the resorts to our level and build a resort inventory pipeline. Now, coming back to your earlier question of taking resorts on management basis. By the way all the resorts that we operate or whether on lease or whether they are on our own, we manage them anyway. But your question is on taking a property on management which means the risk of occupancy lies with the owner. That model is not being looked at in Club Mahindra. The separate verticals that we are looking at and we have mentioned earlier the idea of that vertical is to stand alone, stand on their own thing and create a brand which will obviously have Mahindra's name but may not be necessarily a Club Mahindra. The idea is to create a brand there in the leisure destinations where Club Mahindra will take some inventory and advantage would be that our hospitality credentials are well established which will help in that brand. It will be an asset light model of getting inventory for us and most importantly we will be able to target the customers who would come into that resort, that would be operated by a separate entity. That business has yet not been flagged off because of the various reasons like COVID etc. Right now, we are focused on growing from 4,197 room unites to 5,500+ room unites in 4 years odd through the methods that we have today which is build your own, expand existing resorts, acquire as well as take resorts on lease but refurbish them, have a product improvement plan and bring them to our standards and manage them.

Moderator: The next question is from the line of Aditya Bagul from Axis Capital.

Aditya Bagul: I had two questions, first on the cancellations that we have seen. If you can give us some color, Nihal did ask some questions but I wanted to get a little more details into this. If we try and back calculate the Rs. 8.5 crores and try and figure out what is the per member revenue recognition that we have done. That brings us to a lower number. Is it fair to assess that most of these members have been either Bliss or GoZest members?

Kavinder Singh: Actually, Aditya that is not true. The reason that you are getting a very low number, and which is what I was trying to hint to Nihal is that our provisioning policies have been thought through very scientifically. As we see deterioration in our debtors, we on a regular basis keep providing and if and when we have to take a decision to cancel because we have a retention program. Please as you know in our business these are receivables but remember, members cannot visit our resorts if they are not up to date in their accounts. Anyway, their product is forfeited, the moment they become overdue, even if they are 1-month overdue or 1 day overdue. So, we have the product, it is not that we have to impair anything like that, that is not an issue in our case. However, since we are recognizing their income over 25 years in line with new accounting standards, and the whole idea therefore is that how do you win them back. Because the idea of winning them back, we used to ensure that their deferred revenue will keep coming to us and also they will come and spend at the resorts and therefore the lifetime value of the customer will be insured. Our provisioning policies ensure that even if we were to take a decision of a defaulting member, the impact is not going to be significant, which is again the confidence that I want to give to our analysts and our investors that there is really no surprise. Even in these

14,782 members when we have cancelled, the provisioning has been sufficient to lead to only an impact of ~Rs. 20 crores which is minuscule and that our provisioning policies are robust, and our methods are very well established over the years by the way.

Aditya Bagul: My second question is, and I know this could be slightly forward-looking, but you have talked about 5,500 rooms, right? So, if I just go by our historical trend, does that imply a total membership base of about 3.5 lakh members at 65 members to a room? Is that a fair back of the envelope calculation?

Kavinder Singh: I think it is fair for you to multiply by 65 members to a room and we are aiming to accelerate our member additions. We are aiming to accelerate our inventory because we have learnt now in this pandemic that at least for the next 3 to 5 years, there is going to be a huge interest in domestic travel. It is not that the pandemic will last so long but even if pandemic were to go away tomorrow, the fact is that there are lot of people who have realized they have not seen their own country, they want to go to drivable destinations, they want to be with their family, larger family which easily is not possible in terms of international holidays which are largely a nuclear family phenomenon. So, extended families, larger set of friends and families going on a drivable domestic destination, that is one trend which is going to boom. In fact, all our resorts that we are acquiring, we are keeping in mind acquiring or building a resort that is 3 hours-4 hours away from the city where we will get our members from. In my view FY22 to FY26-27, these next 4-5 years, they will be golden years in terms of the domestic travel if not more. Even Indian Government, even Prime Minister has gone on record on Dekho Apna Desh. Also, to let you know, all these parties who have won the elections in the recent four states, each one of them is talking about growing the tourism in their respective states. This is there in their party manifesto. Tourism is a job generator direct-indirect; it is the fastest way to create jobs, it is the fastest way to boost the micro economies around the places where you create connectivity and create the infrastructure and we are heading towards very good times ahead and that is why I am confident. If you notice in our investor deck, we have mentioned 5,500+ room units. However, we are not wanting to stop at 5,500, we must go even beyond. If we can why not 6,000 in the same period.

Aditya Bagul: My last question is more to do with, we have been hearing that there are several talks of a reset that is happening in the Mahindra Group. Just wanted to get your sense on whether there is a change in terms of mandate that we have received from our largest shareholder?

Kavinder Singh: I must say that there is continuity in change. Even prior to the change, the belief was to generate value for, and we are all governed by one philosophy which is never changing which is the Mahindra Rise philosophy about creating value for all stakeholders in a way and enabling people to rise and all stakeholders whether it is our customers, our vendor ecosystem, our employees, our society and that is why you must have seen on our investor deck a clear section on ESG. In my opening remarks I could not talk much about it because I wanted more time for questions, but we have this time in our investor deck talked about what we are doing on the ESG area. So, the philosophy of Rise is unchanged. Yes, there is a focus clearly on the statements that you may have seen on the financial prudence and discipline and by the way the good news for you since you are tracking us, we have any way been following the path of generating high returns on equity, high returns on capital employed as well as building our balance sheet position. You know that in 5 or 6 years we have moved from Rs. 26 crores cash on hand to about Rs. 940 crores of cash while we moved our room count from 2,400 units to 4,197 units. We are well on our way to meeting the aspirations of the group. And we are one of the growth gems, identified by the group and we believe that we are looking at a great future ahead.

Moderator: The next question is from the line of Deepak Lalwani from Unifi Capital.

Deepak Lalwani: My first question was on cancellation. As 45,000 members are still on EMI clients. Just wanted your understanding if these are standard customers who have paid ASF and overdues in the last 6 to 9 months or do we see more cancellations coming forward?

Kavinder Singh: Just to confirm to you that these are not ASF customers. These are people who have to pay their EMI towards the membership so what you have seen in the investor deck which you are referring to 45,000 EMI paying customers; yes they are EMI paying customers with respect to their membership fee. This is a data for membership fee.

Deepak Lalwani: Do we see any stress in these members who might skip their overdue coming forward?

Kavinder Singh: As far as our understanding is concerned as I mentioned earlier, we do not forsee any stress and hence these members are there. Definitely as time moves on, this assessment happens on a continuous basis and we have very strong provisioning policies under this estimated credit loss methodology. That is why when we cancelled 14,782 members, the net impact, net of the estimated credit loss was only Rs 20 crores. If you go through our journey over the last 5-7 years on the basis of whatever data we are putting out, you will see that we have been following a consistent policy on provisioning and as a result of which we have been able to deliver a consistent growth in our cumulative members as well as our resort incomes as well as the fact that we have been growing profits year-on-year. Now, in this business fundamentally we are generating a significant interest income; we do finance ourselves. be membership fee, but our focus is to get higher down payment paying customers which ensures a very strong commitment to the product. We are making that shift over the year and that is why you see our cash position grow.

Deepak Lalwani: My second question is on rentals. We had savings of about Rs. 52 crores in this financial year. I wanted to get a sense of these waivers in FY22. How much of these savings will continue in the next year?

Kavinder Singh: It is very simple. Actually, I use this word called natural hedge. A lot of times when we used to think about it in days when there was no pandemic and we used to think we have so much of rentals that we pay to the various rented properties that we have whether it is our sales offices or whether it is our resorts that we have taken on lease. Is there a risk of these fixed costs? Now if you think about it in a pandemic kind of a situation, while we lost resort income and the consequent earnings, we actually made it up by saving on the rental costs. Now it is an absolute natural hedge that we have seen. At this point of time if I go forward into the future as our resorts run at high occupancies there is no rental saving and there will not be any rental saving because the rental savings if at all will come through better negotiations with the properties that we are taking in and even with the older properties sometimes we reset. So, those things will keep on happening and that is a part of normal operating process. There is nothing new that I am telling you but the moment our resort occupancies go up, we get higher income, and we make very good money in the Food & Beverage margins and therefore we do not need those rental savings. This is how you need to think about it and compare us with the FY20 numbers, compare FY21 and if you just plot them into FY22 you may not see much of rental savings, but you will see higher resort income. You will see higher gross margins coming out of the resorts which will actually help us in our profitability going forward.

Deepak Lalwani: My last question is on HCRO. Given the current situation, did we receive any incentive from the government there?

Kavinder Singh: Akhila, it is €1.59 million but just give the breakup if you want.

Akhila Balachandar: That's the amount that we have already received €1.5 million, and we are also seeing that maybe some more could come over the next couple of months but that is still work in progress.

Deepak Lalwani: What is your debt position there currently?

Akhila Balachandar: Currently they have a debt position of €26 million but they are also very well capitalized. They have a liquidity position of €12 million. Since we had the pandemic, right up front, we decided to recapitalize and take some debt on the book to ensure we did not have a liquidity crunch. We took a sufficient borrowing in HCRO in the local books and at the end of the year we are at around €26 million. But the liquidity position which is the cash available would be around €12 million.

Moderator: The next question is from the line of Pavan Ahluwalia from Laburnum Capital.

Pavan Ahluwalia: Like everybody else who have started off with the cancellations, so I look at the EMI memberships over time right, they have rose to about 72,000 in FY17. Then they were in FY18 and since then they have come down. We had one cancellation about ~10,000 members in FY19 and now we had a 14,782 cancellation now and between the two of those we have taken the EMI members from 73,000 in FY18 to 45,000 now. So, basically, what has been happening? Looks to me like you have not really been adding a lot of EMI members in the last 2 or 3 years which we are having, probably a good thing. Could you give us a little bit of color? I know you said that these guys were not necessarily Zest or could you give us some color on the vintage of these members over what period where these memberships mostly sold, at what point did they stop paying, how long after they stopped paying if we decide to cancel, and is this FY14 to FY17 vintage sales, was it later that would be very helpful to know? Secondly any other color on them, are these mostly self-employed people, small-business individuals may have had greater leverage to pandemic, metros versus Tier-II any more for the analytics you can drill down on in terms of who the ones out turns bad. How does that actually impact our sales targeting going forward? I mean that would be the first question. Second question is in terms of obviously the cash generation continues to be very strong which is great. Any visibility towards our interaction with the government on the ability to pay out dividends because it would be very nice to actually be able to reflect the true capital light nature of our business and pay out dividends the way FMCG companies do. Finally, in terms of just resort operations, I was glad to see the rebound and resort income, and to the specific questions around that one, are you seeing a strong demand because of the kind of work from anywhere syndrome where people are saying look, I am holding up in my apartment and I am working from my apartment, I may as well take the family to a Mahindra Resort and work from there. And secondly as you did say that probably we are fair bit of revenge tourism and particularly domestic social distance tourism which we are well positioned to capture. There is also a lot of savings that people have because they cannot spend on regular activity during a pandemic. Are we introducing higher margin activities at the resort so that we can capture some of the spends because people have saved tens of thousands of several lakhs over a three-to-six-month period when nobody's meeting out, going to movies or anything, it would be nice to be able to capture that in terms of extra spends at the resorts and would just be curious to see if there has been any thinking or action around that in terms of positioning ourselves?

Kavinder Singh: Let me start answering all your questions I noticed have a common thread; it is around value creation and value distribution. So, let me start with the cancellation of the members and what is their vintage and most important question was towards the end. How do we think of targeting members? And so, the answer is like this that most of these people, businessmen small businessmen and to be honest I do not have Tier-I, Tier-II, Tier-III data but largely our membership base is from Tier-I and Tier-II. They must be between these tiers largely, Tier-III off late is growing that is something that we are noticing but coming back to these in terms of vintage we have a policy which is obviously internal to us as to aging of the people who are overdue. Please remember our product is such that we are not a high-frequency usage product. Therefore, if someone is not being paying up often, we get this answer saying that when I am coming to resorts, I will pay. We say you know you are supposed to pay in time and the guy says okay I will. Then again, we need to follow up because while there are in some cases the electronic mandates there, sometimes the mandates are not there. People are saying whenever I want to go I can always pay up and more, of course there is a bit of a penalty, but people are saying fine. Now what we have noticed is that people who were running their own businesses and sometimes when liquidity position is tight, they are saying we do not know when are we going to go for the holidays next. And then there are people who may say that this will lead to revenge tourism and a set of people are saying, I do not know when I will feel comfortable to venture out of my home.

It could be year, it could be two years, it could be three years when people start thinking like that and they say, is this Club Mahindra membership worth continuing because I am paying an EMI which has a cash burden and then of course why should I pay? And then that is where we see and that is where we did a one-off exercise of one assessing the person and obviously we are a hospitality company. We cannot do anything to hurt our relationship with the member. Once we realize that the member is not going to pay, we are constantly providing, but after a point in time we take a decision and we say, he/she is not going to come back. Let us take a decision because in any case no point in keeping on your books a set of members, and the good news which we already shared with you is that anyways billed estimated credit loss which is built into our financials in the past and therefore the net differential from the estimated credit loss was of the order of Rs. 20 crores which is what you saw.

So, this is all I would be able to say at this point of time about these members because there is a lot of analytics that we do internally and that gives us pointers. So, by the way we have already started increasing our focus on people who have little stabler revenue streams of income, which is corporate's as well as salaried class. We are seeing that shift happening already. But, if a small businessman wants to become a member, we are not going to say no, that is very clear to us. So, that is something in terms of targeting, that is one action we are taking.

Pavan Ahluwalia: Just one thing here. What I am trying to get at is a clean rate of member addition, so that is why I am trying to understand the vintage during which these memberships were sold. Were this mostly memberships sold in the last two years and the last three to five years more than five years ago? Any kind of rough indication you could give us on that?

Kavinder Singh: Basically, our EMI plans are for four years. Most of the people would pay their EMI in 4 years and after you have paid your EMI obviously, you cannot be an overdue member. Now, if I were to move on the dividend side of the point which is the Ministry of Corporate Affairs. I must say that a lot of work has been done and the work is still ongoing. There is no update unfortunately because of COVID, and so therefore that remains an area which is still under follow-up, I am afraid there is no update. And your third point was related to people now wanting to stay at the resort instead of their homes and say I can work from the resort and therefore are we creating experiences where we can capture more of their wallet spends at the resorts because there is that money available. and the answer is a big yes. We have plans, programs, initiatives where we are able to predict who is likely to spend how much in their holiday and we obviously run targeted campaigns. We offer them unique bundled offers for food, beverages, and activities.

We are also doing a lot of outdoor activities which are also one for wellbeing and second over a period of time people find them useful. So, we have paid outdoor activities, we have unpaid outdoor activities and that is how we do it. Everything is not charged but the idea is to yes get them out of their rooms and do something which will get them to spend time with nature, while also engaging in something which they will relish when they are back and also in some manner giving us some kind of revenue. So, yes, those kinds of activities are going on whether it is walking trails, whether it is electric bicycle tools which is a nature friendly way of going around and seeing the resort and beyond. There are a lot of activities and we have taken a stake in this company called Great Rock Sport. All the activities that they do are in the nature of soft adventure, and their activities are also being installed in our resorts because they are now in some manner our adventure partner. That is the action that is being taken to keep people at the resort in any case and there is no need to go outside the resort and eat out. That will also hopefully help us to improve our food and beverage related revenues because our kitchens are ISO-22,000 certified and that is something that we do communicate. So, lot of communication, lot of initiatives are geared towards capturing the lifetime value of the customer when they are at our resorts.

Moderator: The next question is from the line of Ankit Kanodia from Smart Sync Services.

Ankit Kanodia: First of all, I would like to thank you for these disclosures in the presentation; especially I like the #37 slide. I hope we continue giving this breakup in future as well in regard to our Fully Paid members versus the EMI members. I just had one question; we are now 25 years old, so some of our early members may retire or may not renew their membership and we are into some sort of increasing our room count and resort count. If we can and since we have a very good data bank with us and we can project a lot of things. Can we give some more clarity maybe from next quarter or so wherein how do we see our membership going forward assuming some members maybe who will be renewing or may not be renewing, some working there and how we plan to raise our inventory and how do we see our inventory maybe that may take off the room per member ratio? How do we see that going over the next say three to four years when we plan to aggressively expand our inventory and how do we see our cash moving? Because right now we are sitting on 900 crores and when if you plan to say as we have announced that Rs 1,200 to Rs 1,500 crores over the next three to four years, but still after even investing that the kind of business model, we have we would be still left with a lot of cash maybe around Rs 400 to 500 crores after four to five years. How do we intend to use that cash if we can give some clarity on these two points that could be great?

Kavinder Singh: First of all, thank you; we intend on giving disclosures on a regular basis what we have given already in this investor deck. As you may have noticed it is a recast investor deck because we believe this COVID is a one in a 100-year event which has shown the uniqueness and the resilience of our business model. That is why we felt it is worth demonstrating to our investors. To your core question which is really one in my understanding and if I miss then you can ask me again is that how do we think about growing member additions, how do we think about growing inventory additions and how do we think about dealing with the cash that we are generating? So, if I think from a cash standpoint, the cash movement, a positive movement is largely a function of two things. One, the way we are running the business in terms of the kind of members that we are getting with a higher down payment, plus the fact that our collection efforts are also done in a very meaningful manner. We are also making our proposition very robust, such that people would like to enter our resorts and enjoy and therefore they will pay up the annual fee. The renewal part is not much of a concern because the annual fee, yes there are times when people do not pay but then they want a holiday, they must pay because they cannot use the club facilities if you do not pay your annual fee. The good part is, in our business model which is inherent, our asset is lying with us unlike in lending where your asset is with the person who you have given the debt. So, asset is with us.

Eventually people pay and if they do not pay, yes, we have strong provisioning policies. That should give comfort to investors that our provisioning policies are strong by actually doing this one-time cancellation. We have also been sharing with you the amount of data to the extent of impact. We have also demonstrated to the investors that we are very-very prudent in our provisioning policies under the estimated credit loss methodology which is very proven methodology and has stood the test of time now over the years. Yes, as time goes by we acquire members who come with higher down payment, you may see a reduction in interest income which is fine with us, but they will spend money at the resorts. They will travel more; they will stay more, and we will be able to get a much better lifetime value. They will also engage in the activities and the best part which I have not revealed to you is that happier members lead to higher referrals. I have not emphasized enough that this quarter and this year we delivered 55% of the sales through the referral and digital route which shows the growing brand pool that we have created through the unique experiences, through the service culture that we have created and the way we implemented our safety and hygiene measures at our resorts. This to my mind shows the true strength of the company and of course the fact that our people during these difficult times have been able to give amazing experiences to our members and their families. To us that is the number one asset, then comes cash which is an outcome and cash deployment is very simple. We will deploy cash in our new resorts and you are right, we might still be left with cash, but I'm very confident that we will find a solution to this dividend pay-out problem or we will think of another solution of rewarding our shareholders, since you're right the business model the way we are running now, the way we are managing the business, we are in a position to return some of the cash, which is definitely due to the shareholders, that to us would be our objective. So, that objective we are aligned, growth objective we are aligned with our investor's objective, with our group's objectives and we are also aligned with one biggest objective which is actually our mission of good living and happy families, more so important in pandemic times all of us would want good living free from the pandemic ideally, and happy families. We are very clearly aligned to creating our growing our member base, growing our resorts and experiences and thereby creating a very big flywheel effect in terms of capturing the lifetime value of our members. Specifically, you have seen our aspiration crossing 5,500 rooms in four years and whether through our own Greenfield or Brownfield expansions or whether through our leasing group where again we ensure that investment either by the owner or by us in some manner is done to bring the resort to our standard. This is how we are going to play out in the future.

Ankit Kanodia: Just one follow up on that in terms of returning, so regarding the catch which you are talking about returning, since we have around 67% holding can we also expect a buy-back? The valuation of our stock is very attractive for many years now and whenever the issue with the company has been sorted, and whenever we are eligible, can we expect a buy-back also or only we are looking for dividends?

Kavinder Singh: To be honest, we have not given thought in this area. We are focused on getting an approval from MCA to give us an exemption under that specific section. I would say once we have achieved that, then we will discuss whatever options are there on the table to make up our mind on that. Right now our focus is to get the exemption.

Moderator: The next question is from the line of Sachin Shah from Emkay Investment Manager.

Sachin Shah: Kavinder I completely agree with you, with the presentation. You really done a great job in terms of giving excellent disclosures and particularly slide number 37 as some of the earlier speakers have also mentioned. I just had one question in relation to that, we can see that 45,000 members are still on their EMIs. I just wanted to understand one basic thing that will it be fair to assume that a large part of this 45,000 members say about 85% to 90% plus of them would have purchased this membership or would have subscribed to the membership in the last four years, because generally our EMIs are four years or lesser than that, so large part of this 45,000 members would have to come into our family within the last four years, would that be a fair assumption?

Kavinder Singh: Fairly correct.

Sachin Shah: A related question to that is that we are showing we have debtors of almost Rs. 1,200 crores. Will it also be fair to assume that a large part of this Rs. 1,200 crores, I understand there might be some ASF and all of that, but still I mean I am saying 80% plus even if not 90%+, 80%+ would be from these 45,000 membership fees? Would that be a fair assumption?

Kavinder Singh: I think to my mind this is EMI and annual fee and large part of that would be EMI, correct Akhila?

Akhila Balchandar: That is correct.

Sachin Shah: The other one point was that if you can give me some sense that generally we have been maintaining 60% of our resorts our owned resorts and about one-third was our leased properties of the total inventory. Has the ratio remained in that range or has that now got skewed more towards the lease property, if you can give some sense in that?

Kavinder Singh: I think now we are closer to 60-40 and I just want to make a point that in good old days there was this feeling that when you have a resort on lease then it is not as good as the resort that you have built yourself. I must share this in all honesty that even our leased resorts which are managed by us and we have done significant improvements, our chief resort officer Miguel has been driving this excellence journey and we have done investments in these leased resorts as I was mentioning earlier. Our holiday feedback scores which we track internally are at par between leased and own resorts, so that is one good news that I can share with you. Therefore, we believe that if we choose the right resort, do a proper product improvement plan, bring it up to the standards that we would like it to be including the happy hub, the classic activities that we do in Club Mahindra. We are very-very comfortable because we believe there is a huge opportunity in the leisure hospitality space and there are times, as they say, time to market without compromising on the experience. In fact some of our resorts which we have opened very recently, if you look at the Arookutty Resort in Kerala, it is such a beautiful resort on the backwaters of just 45 minutes away from Cochin. It is a leased resort, but it has taken them one and a half years to bring it to our standards. We are not saying that whatever condition the resort is let us take it in because that would hurt the brand and we really will not be able to grow. That we are very-very clear, so yes, the answer is 60-40.

Moderator: The next question is from the line of Rohit P from Equirus Securities.

Rohit P: Hi Sir, congratulations on a great set of numbers and I must appreciate it is a very detailed well laid out presentation. I had a question on growth initiatives for the business, given that you have large cash reserves, are you evaluating any inorganic acquisition opportunities over the near to medium term and if yes is the focus expected to be domestic or global?

Kavinder Singh: So, first of all we are very clear the opportunity in India is huge. So, we believe that for us it does not make sense to buy any timeshare company because there is no timeshare company which will probably meet our standards. We believe that what we really need is good quality properties which are unique which need a bit of upgrade if necessary and are strategically located where our member bases are or we can grow our member base. For example if you look at, if I got a good property in Odisha, I would love it because our position over there is weak because we do not have a good property. We do not have a property there and I cannot therefore attract members in that area. Anywhere in Northeast we are open to looking at properties which are good quality which will help us to grow our member base there.

South always remains an attractive destination. We are very well represented in Kerala but in Karnataka we still have opportunity and same way in Tamil Nadu and same way in Andhra Pradesh and to some extent I would say in Telangana. If I were to look at Maharashtra, we are always open to see a property because we have a very significant base in Maharashtra. Gujarat even now we believe is an area of opportunity, very good growth in member additions have been seen in Gujarat month-on-month. It is a very-very important state for us. Same is the case with Rajasthan. When I go up North, we are well-represented in Himachal even though we are still looking at more opportunities in Himachal. Uttarakhand remains still an area of opportunity for us. If I look around there are opportunities, and Madhya Pradesh is something that we should not forget.

We are constantly looking at properties which are either in various stages of construction meaning not fully completed and from time to time owners come to us and say why didn't you guys tell us how we will bring it to your standards and then you take it. That is something that we like, and we love that idea because then we can shape it the way we want it. Similarly, if there is a ready running good quality property coming at the right price for us, we are open. That is the second thing that we think about and therefore when we talk of acquisition, we only mean the resort property acquisition. We do not mean acquiring any timeshare company and that is largely our focus is India. Let me be honest enough to also tell you that we have some properties outside India in Southeast Asia, we do keep looking at opportunities in Southeast Asia because the fact is the moment Asia and India come into control in terms of pandemic, the short haul destinations will be again very much in demand.

Whether it is Phuket, whether it is Dubai, whether it is Singapore, Kuala Lumpur you know all these places are going to remain in good demand because of the proximity to the country. We do see this as in some manner an extended India region for our purposes and we keep looking at opportunities there also at this moment of time.

Moderator: Thank you. That was the last questions; I would now like to hand the conference over to Kavinder Singh for closing comments.

Kavinder Singh: Thank you very much for taking time and listening to us as a team and more importantly showing interest in our company. We remain grateful. We learn from your questions. We keep improving based on your questions, as you can see, we have improved our investor deck. It has all happened because you ask us questions, you make us think and we believe that this is the journey that we are on of continuous improvement and on this note once again wishing you safety, good health. We believe that this pandemic second wave at some point of time will also come down the same rate at which it went up. This is how the second waves are around the world and the good times shall come, recovery will happen. We are very-very confident that things will begin to look up again for leisure travel and thank you for taking interest in our company.

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