



“Mahindra Holidays & Resorts India Limited
Q2 FY2021 Earnings Conference Call”

October 29, 2020



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Moderator: Ladies and gentlemen, good day and welcome to Mahindra Holidays and Resort India Limited Q2 FY2021 Earnings Conference Call. 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 for Mahindra Holidays & Resorts India Limited. Thank you and over to you Mr. Singh!

Kavinder Singh: Good evening everyone and a very warm welcome to our Q2 FY2021 earnings conference call. Today I am joined by Mrs. Akhila Balachandar, our Chief Financial Officer and Mr. Dhanraj Mulki, Company Secretary on this call. We have already uploaded our Q2 results along with a detailed investor presentation on the exchanges and website. I hope you had a chance to go through the same and in any case I will take you through some of the key features of Q2 performance.

Before I get into the details of the Q2 performance let me do a quick environment scan around us. I would like to begin by saying that, the process of unlock started in June and various travel restrictions were eased off, the path to recovery in travel and tourism has kicked off. I would also like to make a point that in the early stages of unlock, localized lockdowns definitely slowed the pace of recovery. However, we have seen some improvement month-on-month basis from July onwards in the area of bookings, occupancies, and member additions. Before giving some specifics of our performance for the quarter, I would like to highlight few important macro trends.

Domestic tourism has seen 7.3% CAGR growth between 2012 to 2018, growing to \$94 billion price in value, of this approximately \$7.2 billion is the domestic tourist’s spend for accommodation. While this growth may slow down this year and maybe early next year due to COVID, but we believe leisure travel is expected to grow significantly due to the pent-up demand. Domestic leisure travel, will grow as people will not prefer to travel to international destinations.

People will continue to prefer taking vacations at drivable distances. As I mentioned, 80% of our resorts are at drivable distances, which is about six to seven hours from the metro or the city. Additionally, we are also spread across length and breadth of the country, giving our members a great holiday proposition. The “**work from anywhere**” proposition will



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become more prevalent in times to come. We believe and we also have noticed that, families prefer spacious rooms in spread out resorts and our resorts and room units are designed in line with that. We have also come to the conclusion through the behaviour of the travelers, that the travelers would be comfortable with the brand, which they can trust in terms of the safety and hygiene. This would become the foremost need for travelers when it comes to their accommodation. We are also observing a trend wherein people are keen to be outdoors, indulge in activities, that are a combination of activity as well as family bonding. Identifying this as a big opportunity we have invested in a company called Great Rocksport, which will help us bring such experiences to our resorts. Through Great Rocksport investment we will introduce soft adventure related experiences for our members in the cities and in our resorts.

I am of a firm belief that our value proposition holds a huge potential given the fact that there are at least 17 to 20 million households with an income of Rs.15 lakh and more. The numbers of households who own vacation ownership are approximately 350,000, which translates to merely 2% penetration. Given the fact that we are present across the length and breadth of the country, we are in a position to serve the needs of growing demand for an experiential holidaying product with multiple tenures suiting Indian families holidaying needs. As and when international leisure travel begins, we are also well placed to serve the needs of our members in resorts around the world in Asia, Europe and USA. Our total portfolio options available to our members including domestic options stands at more than 100 resorts.

I would like to draw your attention to some key points related to our unique and resilient business model and I will also share how this model has played out in both Q1 and Q2. Let me just highlight the key points of our business model. We currently have a cumulative member base of 260,000 plus, which generates multiple annuity revenue streams, vacation ownership income, which is a membership fee and we have annual subscription fee and the third one is the resort income when people holiday at our resorts. There is predictability to the revenue streams, If you look at our vacation ownership income, the vacation ownership comes from the deferred revenue pool, which has grown and will continue to grow going forward. We also have a track record of maintaining high occupancy of above 80% plus at our resorts, which also ensures continuous and consistent resort revenue growth. If you look at our annual subscription fees, these revenues continue to grow from the growing cumulative member base and that is what we have demonstrated over the last two years. We believe that we have a very strong balance sheet, we have a deferred revenue pool of over Rs. 5,300 Crores with very minimal cost in the balance sheet, which keeps accruing over



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the years into the vacation ownership income. Regular cash flows and free cash of Rs.791 Crores, together with Rs.1,596 Crores of receivables, provides us liquidity in excess of Rs.2,000 Crores. I would like to end by saying as far as the business model is concerned, we are a zero debt company and that makes us extremely unique player compared to a traditional hospitality player.

Deferred revenue pool of Rs.5,300 Crores ensured that we have a stable VO income as you would have seen in our results. Even though our memberships sales slowed down in Q1, it recovered sharply in Q2, where we added about 2,691 members. We have been able to enroll and add members even in these testing times. Our fixed and variable cost of acquisition have also been minimized, which is significant. We have an annuity revenue stream of ASF that kept flowing in these two quarters as well. While conventional hospitality businesses will see a slower build up in occupancy, in our case since we are a prepaid product, our members are prioritizing holiday at our resorts over any other holidaying option. With zero debt in our books significant cash flows, we are in a position to invest in acquisition of new inventory and we believe as we accelerate our inventory, we will be able to grow our member additions at a similar pace. As we speak, we are examining various proposals, which are attractive, and we will be in a position to share as something materializes. I must also mention that this would be a time to acquire right inventory and at the right cost.

Let me move on to the financial performance and you would now appreciate that we are not a traditional hospitality player and despite the COVID-19 situation and significantly lower resort revenues, we have been able to deliver robust operating performance and improved profitability aided by substantial cost saving measures during the quarter even in these challenging times. We have seen a positive correlation between the unlock measures, occupancies and also member additions despite Q2 being a seasonally weak quarter. Upcoming festive season in Q3 of course augurs well for us both in terms of occupancies and member addition.

.Our total revenue was down by 15.2% Y-o-Y basis, largely because of our resort income was lower as resorts were not fully operational. Our profit before tax for Q2 FY2021 is Rs.45.8 Crores as compared to Rs.27.7 Crores in Q2 FY2020. This is up by 65.1% on Y-o-Y basis. Our PBT margin has also improved by 1,052 bps and now stood at 21.6%. Profit after tax for Q2 FY2021 is Rs.33.8 Crores as compared to Rs.17.9 Crores in Q2 FY2020 up by 88.5%. PAT margin has also improved by 877 basis points and stood at 15.9%.



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Let me just highlight the significant cost control measures that we have taken during these times. We have been able to reduce our total cost by approximately 29%. Our sales and marketing expenses by 36%. Our share of referrals and digital is at 53% of the total member addition this quarter as compared to 40% in the same period last year. We have been able to secure significant waivers on lease rentals both for our resorts and some of our branch offices. We have reduced our other expenses compared to last year by 41%, our major savings in this area have come due to reduction in resort consumption, energy and travel expenses, and of course they include waivers received for minimum electricity demand charges from various State Electricity Boards as well. As we talk about our cash position, our cash flows from EMI and ASF streams continue regularly and our tight control on cost in all areas of operations helped us maintain our cash position in fact it improved by Rs.10 Crores from March 2020 levels of Rs.781 Crores.

If you look at our member additions we have grown more than doubled as compared to Q1 FY21. From 1270 member addition in Q1 FY21, we ended up adding 2681 members in Q2FY21. We have seen an improvement in our higher tenure product offerings even in these times. In Q1 I had mentioned that GoZest, our 3-year product did extremely well and it is doing well even now in Q2, but we have noticed that the preference for higher tenure product is coming back. GoZest 3-year product will help us build the funnel for upgrades to higher tenure products like 25-year product, which will help us lower the cost of acquisition in the medium term. We have continued to engage with our members through a digital initiative, this of course helped us to increase our referral and digital contribution to an all time high of 53% in Q2 FY2021. Our focus in acquiring members with higher down payment has continued in Q2. We have significantly digitized our touch points and we have accelerated our efforts. We have moved to contactless services at resorts. We have moved to virtual selling and all our payment options have been digitized, pre purchase of resort offerings are some of the capabilities we have rolled out in the last few months.

Our safety and hygiene standards are second to none. As a trusted brand, for more than 20 years, we follow high level of corporate governance. We have undertaken significant safety measures for our members and employees. We have launched a door to door solution that encompasses the member journey of holidaying under the travel with confidence platform and this travel with confidence platform is one of a kind, which addresses all the concerns of members through multiple initiatives as you can probably note that in these times the biggest stress point for a traveler is do I need a COVID test certificate, where do I get it done. We have tied up with trustworthy national labs to facilitate testing at home at discounted rates on COVID test for our members, travel insurance, COVID medical



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insurance, special discounts for renting a car, car sanitization and flight bookings. We have launched a program called “**Club Mahindra SafeStay**” initiative, which is about contactless service delivery where high touch surfaces are cleaned with increased frequency and we have realigned our spaces and services in restaurants to ensure social distancing. We have also re-engineered our menus for in-room dining services and all of our resorts have gone through vigorous, safety and hygiene assessment with Bureau Veritas. As on date we have 26 resorts which are Bureau Veritas platinum certified as COVID safe and 15 resorts are ISO 22000 (Food and food safety management system) certified.

Rebuilding occupancy has been a key focus area for us, as you know there were lot of restrictions and as these restrictions have eased off, we have been upgrading our resorts for our members. We have focused on redesigning the customer facing SOPs, adapting the contactless services. Our operating inventory is 69% of the total inventory in September and for the whole quarter 54% of our room inventory was operational.

Overall occupancy has increased month-on-month and for the quarter stands at 30% and in September we had occupancy of 41%. As on date, we have 52 resorts, which are operational. We are seeing Maharashtra, Uttarakhand and Himachal showing occupancies upwards of 70%, even in places as far as Binsar and Naukuchiatal we have seen occupancies upwards of 95%. In fact we have noticed that there is a big demand during the holiday time as well as in the weekends; however, in the week day occupancies we have been positively surprised by the improvement. The resorts, which are popular right now, are Corbett, Kandaghat, Shimla, Dharamshala and Naldehra in Himachal and our resorts in Uttarakhand, Mahabaleshwar, Mussoorie, Binsar, Goa, are highly demanded.

Our capex plan continued even during these difficult times. We have continued our capex plan for the Goa project which will be operational in Q4FY21 with 152 room units, Ashtamudi resort, Kerala is under expansion where we would add another 33 room units. We are awaiting approvals for a new resort that we will launch in phases at Undi, Ganpatipule and this will be 150 rooms project overlooking Arabian Sea. There is also an expansion project at Kandaghat, Shimla with additional 160 units. We are also adding resorts in Jaipur and Alleppey, Kerala. There may be some new inventories that will come there, which will lead to a net addition of 44 room units.

Let me move on from here to our Holiday Club Resort (HCR). The summer holiday season in Finland is from mid June till end August. This year the international borders were closed due to the pandemic, this has resulted in loss of international tourist while increasing



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domestic tourism in Finland. SPA Hotel operations resumed mid June onwards. Increased domestic tourism has helped in maintaining our resort occupancies. As on September, 30 resorts were operational and we experienced 90% plus occupancies in key resorts during the holidaying season. The interest in timeshare has increased because of larger apartment units. The good news is that, holiday club resort has turned around in Q2 and delivered positive profit before tax for the quarter aided by increased occupancies and effective cost control measures. If you really look at the numbers from a loss before tax in Q1 of -€6.65 million to a profit before tax of €0.35 million in Q2, this is a significant turnaround in just three months' time. Similarly, if I look at consolidated numbers, our consolidated profit before tax for the quarter stood at Rs.40.9 Crores as against Rs.36.3 Crores for the same period last year up by 12.6% Y-o-Y. The same number was loss before tax at a consolidated level at Rs. -34 Crores in Q1, so it is a swing from Rs. -34 Crores to Rs.40.9 Crores. The consolidated profit after tax is also up by 18% and stands at Rs.28.8 Crores for Q2. At the H1 level, the consolidated profit before tax is now at Rs.6.3 Crores despite the loss in Q1 and this is something that we are happy about that we had been able to turnaround the holiday club resort and they are well on their way to continue this performance ahead. Q4 is a season for them, of course, December month is also season for them, so we will see how things go. On this note, I would like to make only one comment that, our business model is unique, as we have demonstrated with strong operating performance. It is resilient and it is not a traditional hospitality model with zero debt situation, significant cash on hand, deferred revenue of Rs.5300 Crores and liquidity of about Rs.2000 Crores (Including receivables and cash) are something that we are proud of.

On this note I would like to close my remarks and thank you everyone for joining us. Along with Akhila I will now answer all your queries.

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. Please go ahead.

Nihal Jham: Thank you so much and good evening to the entire management. Sir there are three questions from my side, first one on the member addition specifically you mentioned that this quarter also the addition of GoZest, but CMH 25 is seeing traction, the question was that incrementally is it that in terms of member acquisition strategy there is a thought of initially trying to say push the GoZest product and try getting high number of people on zest and potentially let us see them convert into CMH 25 or we are planning to keep the marketing of both these products separate, first just wanted a sense on that?



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Kavinder Singh: As we are running our business in October, we have GoZest in minority and CMH 25 is in majority, there was a situation in Q1 where GoZest was majority and when I say majority means more than 50% and this has already turned in favour of CMH 25. Nihal what I was mentioning that, GoZest as a entry product was tried out in Q1 and we are now already seeing our Club Mahindra 25-year product back in majority. Now the purpose of making the statement is that we remain committed to our Bliss product, which is a 10 year product, which is point based product and a 25 year product. These products are the main stay of our organization, GoZest has a strategy to create a funnel for future conversions and getting younger audience to look at us and it has been a part of our strategy. It is just that pandemic gave us the boost to test this out and we believe that all the three products will coexist and it will be a portfolio strategy for us going forward, but still believe, that in the overall business model it makes lot of sense for us to have majority of people coming in the 10-and 25-year product and definitely we should have option for people to take a peek into our product depending on the life stage they are in and then over a period of time upgrade. As you know that the cost of acquisition during upgrade are almost nil so that is something that we will aim and that will hopefully help us to bring our weighted average cost of acquisition down going forward.

Nihal Jham: Thank you Sir. Second question was, you mentioned that we have managed to see a big reduction in your cost of acquisition other than obviously the ATL sales and marketing, which you have cut down are there any other initiatives that you can elaborate?

Kavinder Singh: We would like you to know that we do not use ATL, we never include ATL in our cost of acquisition, so ATL going up or down would not affect our cost of acquisition. We were able to make a big difference in reduction in our cost of acquisition due to higher focus on reference and the fact that we were able to convert better, we have been doing obviously huge improvement in our sales pitch, etc., and the fact that we have been sourcing our leads in a different manner than what we were doing in the past. In fact we have revamped our website and we have done lot of things to improve our digital and referral sourcing plus we also have worked on the lead acquisition strategy and these have helped us to bring down the cost of acquisition and quite a lot of these benefits are sustainable.

Nihal Jham: Anything specific that has helped into the conversion rate and if you could just give us sense of approximately what is the conversion rate?

Kavinder Singh: Typically, we have never talked about conversion rates because they vary across the markets, across the locations and for product types. All I can mention is that the pandemic



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has given us an opportunity to actually do video sales, video sales in some cases are extremely efficient because you are in a position to do more meetings than what you would otherwise do, that has been one positive kicker for us. Our offering and option to the customers is to be able to lock in their 25 years of holidays or 10 years of holidays at the current prices given the uncertainty, that has also been hugely helpful in improving our conversion. We have also launched various initiatives other than of course referrals because referrals and digital moving from 40% to 53% would not have been possible, had we not very deeply worked on it and therefore member engagement is actually important for us and we are also doing work both at the onsite conversion. We are also doing work through various models that we are trying of which includes an idea called club associate, women entrepreneur etc. We are doing many things, many innovations are happening some of them will play out over a period of time and that is why we were able to smartly recover in Q2 and my confidence is that in these difficult times if we are able to deliver this kind of number I think we are really looking at good times ahead because I do mention that I am a strong believer that we are only 2% penetrated among the households that we would like to target. 2% is no penetration and this is something that this kind of product should be better growth of.

Nihal Jham:

That is helpful. If I may just one last question from my side, in Q1 you did highlight that part of the cost saving was due to the lower power cost and lower costs related to resort, incrementally to Q2 are there any more initiatives and now six months having passed any sense on what can be the permanent reduction in the cost?

Kavinder Singh:

I would say that we have a natural hedge Nihal. Two things played out as our resorts were shut and there was opening up in phases we were able to gradually increase our revenues; however, you are right, there are fixed cost and only up to a point you can cut them down, but you cannot go below a certain point. So yes we are carrying certain fixed cost, but we were able to reduce our big fixed cost i.e. lease rentals through the fact that there has been a situation, which is a never before situation and we also did a very simple arithmetic that if we were running at a certain occupancy even lower than what we are and if we were paying full lease rentals would we still have delivered similar kind of numbers. The good news is that it does pan out because while we lost on resort income, we made up by the cost saving. What will happen going forward, is that the income will come back of course some cost will come back, but the way the cost will come back we have learnt many things in this pandemic and we will be far more efficient than possibly we have been in the past and that will lead to a sustained improvement in margins as we move ahead.



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- Nihal Jham:** I will come back in the queue if I have questions.
- Moderator:** Thank you very much. Next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.
- Pavan Ahluwalia:** Thanks. Kavinder a couple of questions. First on Rocksport, it is interesting to think about how you thought about that acquisition, the price you are willing to pay for it and in particular the choice between building versus buying because what I definitely appreciate is the desire to offer innovative experiences to members. How did you think about the trade off between either hiring rock climbing or adventurous sports and structures and doing this yourself or subcontracting to someone rather than actually buying the equity in a company and given these companies are typically built around one or two sort of founders who really run business in hands on way, what are we really buying when we pay up for these companies, would love to understand how you thought about it, the return on investment, what was the analysis that went into this. Second is on membership breakdown, so I am glad that CMH 25 is back in majority, should we be aiming to serve longest duration packages possible because we get paid cash upfront you said 10 to 15 years logically if I can sell it anytime I have a choice of selling a 25-year membership, if I could sell the entire capacity of 25-year membership I should not want to do that right or I am missing something here and finally any defaults that we have seen on annual subscription fees or some people saying like resorts are closed and therefore they are not paying ASF and what is the percentage of that, what is the company's policy on this?
- Kavinder Singh:** Let me start with question number two and question three and then come to question number one because question number one answer is slightly longer. Let me start with question three, we have not seen defaults in our business, we have seen some delays but no defaults. Lack of desire but the fact is that yes there have been some cases where they have requested for deferrals, which is fine because there are times when people would say that of we not holiday then can I defer, of course there is a penalty in our system if you defer and that is something that people are mindful of. Also, I think our customer base of course some of them would have been impacted as a result of the pandemic, but we have not seen anything major, so that in my mind is the answer to the question number three. Coming to question number two on the varying tenures, I think our dream desire is to sell higher tenure products, but the interesting part of these lower tenure products like 10 years and to some extent three years is that they are also in some manner, the 3 and 10 year are potential converts to 25 because as they stay with you they are more likely to convert than exit. We are confident about our experience and how we deal with them at our resorts in terms of



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providing the experience, but coming back to the 25-year product yes, it is a product that helps us to build inventory, but if you notice and I think I mentioned somewhere that we have strategy of own and lease resorts it is not 100% owned, so if we have free cash of 791 Crores it is also because some part of my inventory is in a lease format. So as I say that there are consumer trends, there are people who not like to commit for 25, there are people who are okay with them and people who would like to have 3 year product, can I take care of the first set of constituencies and in the process also understand them better, serve them in a manner that they would like to stay with me, yes our business proposition has to be far more stronger if you have to convert people because they have an option of an exit after a period of time, so our view is that it is a portfolio strategy with dominant part coming from the 25 year product followed by 10 and followed by 3 and when I say dominant I mean majority and it does help us to bring in cash, it helps us commitment, it also helps us blocking the capacity that we have it is more like committed capacity, so I think the answer is in portfolio, the answer is in reading the signals of the market, the answer is in taking care of the emerging needs of the customer without closing focus on what you stand for, this is on the demand side. On the supply side and sure that you have both the owned as well as leasing and leasing definitely helps us, leasing does not mean that we are outsourcing, we are on the resort, we refurbish it, we get into long term agreement and in some sense it has been helpful because we don't have to construct the resort and also the fact that in some location construction is not even allowed. Let me move onto your question number one, on the Rockspport investment. It is a very small investment, but in my view, it is a very strategic investment. The reason is that we like the idea of these founders and they are not one by the way they are five and they have been in the business for about seven, eight years. They are positive PAT company, still startup and we had started to look at them when we realized that even though we have lot of adventures stuff in our resorts, but are we able to engage with the members both on adventure activities in the resort and also in the cities in which they resides. Our belief through the rationale for this investment it is not even an acquisition the small strategic investment is to work with these passionate founders on soft adventure-related activities bringing in some freshness into our resorts as well as creating an option for our members to engage with them in the cities and let me just hasten to add they have worked with the schools and they have almost worked with about 2.5 lakh kids who have gone through their programs. We also see this is a rich source for lead generation for us, we would like to work with them to also generate lead, create opportunity for our members to be able to engage with them in their activities because they have built a very unique business opportunity and they have built this business brick by brick and we have also opened our resorts to looking at doing things for our members, so we see a big positive, a big win-win in this model and they will obviously be also able to get higher business by



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being able to target our member, so that was the strategic rationale for this and this does not take away the fact that we can continuously keep building on what we want to do in our resorts, which we anyway keep doing.

Pavan Ahluwalia: Did you buy the entire company?

Kavinder Singh: No, this is a just 7% stake.

Pavan Ahluwalia: Sorry, I misunderstood that, so basically, they have significant skin in the game?

Kavinder Singh: Yes, they have significant skin in the game and they will continue to have significant skin in the game that is how we have constructed the arrangement.

Pavan Ahluwalia: Why did they want to sell you a 7% stake, was that they just need some liquidity in lean period where few of people were going out, so you did an equity stake, and they get some liquidity and you setup a strategic relationship?

Kavinder Singh: For them being associated with our group or company gives them definitely a leg up in terms of their own stature number one, number two they believe they can target our member base for their activity, which we are very happy, because their activity is par excellence we have observed that. Number three for them this becomes growth capital , Let us see how this relationship grows, they may at different points of time will release capital and we will see how it goes.

Pavan Ahluwalia: Thank you.

Moderator: Thank you very much. Next question is from the line of Ankit Kanodia from Smart Sync Service. Please go ahead.

Ankit Kanodia: Thank you for taking my question and congratulations for good set of numbers, but if you just move away from the quarterly numbers or even from the P&L as I understand your business model is basically fantastic business model where you take money upfront and then basically use the money to built resort and bring experience for your customers, so what really surprises me or puzzles me is that why are we not using this Rs.800 Crores of cash a little aggressively to buy some good properties at this juncture when due to COVID scenario maybe we will be getting a very good deal, can you throw some light on that?



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Kavinder Singh:

We typically deploy our cash in two, three ways. One as I was mentioning we do build Greenfield project and some of our resorts, which we have built ourselves even today they are marquee resorts and people keep going there again and again. These resorts have stood the test of time, so we definitely believe that some part of this cash will go in building our own resorts, but of course that is not the full utilization of this capital because you can do a simple ballpark arithmetic, we will generate cash every year. Over the last four years we have generated about Rs.200 Crores to Rs.250 Crores free cash and this will continue to get generated barring this COVID year and once that happens then obviously we need to look at things like you mentioned beyond our own investments. First of all can we accelerate our own investment that anyways we are doing, I have already said on record that we are going to add at least 1200 to 1500 rooms and grow our inventory beyond 5000 in about three to four years' time and part of that will obviously be our own and part of that will come through acquisitions and part of that will come through leasing and when I say leasing, in the leasing also we spend money on refurbishment and that depends on the type of the resort and we believe that whether it is built, whether it is buy or whether it is take it on lease or whether it is expand an existing resort and create capacity that is also area of investment that we engage in. So the good part is that we keep deploying the cash, but more cash gets generated, so it is nice and we need to see now the fact that we have built it up to this level and of course pandemic was one-off event. Once we come out of this definitely we are seeing opportunity as you mentioned coming to us, all we are doing is we are carefully evaluating them, we definitely want to see that the opportunities that are coming are value for money and more importantly they will need the requirements of our customers or members and that to us is paramount. It is not that we are not in the market to book for a cookie cutter hotel, we are looking in the market for a resort even if it is a smaller resort we can build it again, we want to see whether there is a possibility to expand and also at what price it will come to us, these are the criteria that we are using and we are definitely a buyer in the market.

Ankit Kanodia:

Thank you that has helped. The only point I wanted to make in response to this was that as we have already seen in the past, pre-COVID scenario when there is too much of a demand during the holiday season that is the only area where we probably need to improve the customer satisfaction in terms of getting the ideal room booked, so as we are already expecting the pent-up demand to come forward when this whole COVID gets over do not you think it would be wise for us to be a little aggressive right now with this cash on books?

Kavinder Singh:

You are right and I think this is the time to look ahead of our needs on inventory and I can confirm to you that is exactly the intention and the Board is completely supporting me on



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doing that and we are committed to run ahead than just being in line with our member additions, so that I think is a very definitive statement I am making and I agree with you.

Ankit Kanodia: That is very comforting, thank you so much and just one last point, if we are having such Rs.800 Crores of cash with us and when market is actually not valuing the company as per the real potential of this business why don't announce a buyback?

Kavinder Singh: I think we have a bit of an accounting issue there, Akhila would you like to explain why we cannot do the buyback or even, we have not been able to pay dividend. I will explain it, when we transition into Ind-AS 115 there was entry that we had to pass, if you look at our balance sheet you will see that entry and despite the fact that we revalued our land assets what happened is that as per the requirement under the Companies Act, we are not in a position to payout the dividend or even do a buyout because our net worth as per the calculation turns negative. Though we have had a dividend paying record, we are having cash on our books, you can see the assets that we have, replacement value upwards of Rs.3000 Crores about Rs.1600 Crores of receivables, Rs.800 Crores of cash but because of this accounting entry, which is not a loss but has ended up making our net worth negative but we are unable to reward shareholders. We have taken up this issue with Ministry of Corporate Affairs and we are representing to them saying that this intention of the act is correct, but I think it is not applicable in our case, because when probably the act was made nobody thought situation like this can develop wherein accounting entry can make a net worth negative when the company has assets in excess of about Rs.6000 Crores.

Ankit Kanodia: Thank you so much for answering my question.

Moderator: Thank you very much. Next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Just a few questions. Just wanted to understand you mentioned you are getting occupancy is back to 41% and you mentioned getting most of our resorts open now, Can you give a sense of what October looks like and leading into November, December given that our bookings are updated on forward looking basis even members booked their rooms quite ahead in advance, what they would look like for the holiday period and secondly what our outlook is on member adds, are we getting closer to the sort of 4000 per quarter member adds?

Kavinder Singh: You would appreciate that the environment is uncertain but I can definitely make an attempt to answer you and definitely able to see bookings ahead as you rightly said because we do



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booking in advance and we are definitely seeing very good bookings. October has been good. November and December are looking even better, so as I was mentioning in my opening remarks that we have seen and I also gave the names of the resorts where there is a big draw that we are hitting and we believe that occupancies will definitely be better than Q2. In any case Q3 is a seasonally good quarter and in that Q3 occupancies will be good and it could very well exceed, this is the time people are heading out for vacation and the good part is that we have taken a lot of steps in travel with confidence, safety program that has given them the confidence so that is helping us. I think there is a very positive momentum on the occupancy side. Coming back to the member additions, I am seeing a very interesting positive correlation with the occupancies, with the member additions and also we are finding a good correlation with our collections whether it is the annual fee or the EMIs of the people who have signed up with us and finding that these three are very beautifully and positively correlated. I am seeing momentum in Q3, already one month is more or less done so I am able to make the statement because I am seeing October, I am seeing November and December ahead from whatever data I have in and of course I am assuming that the travel restrictions will not come back I am assuming that the second wave or whatever we are seeing in Europe may not happen here because I think we have done a better job than what probably has been done elsewhere, so these are assumptions built in but yes the answer is a solid yes.

Nagraj Chandrasekar: That is good to hear. I just wanted to get a sense of you mentioned a few new projects now obviously we come into the close of Goa and Ashtamudi, so if you give a sense of capex this half year and for the FY and the capex you envisage for the new projects, which you are announcing in Alleppey and couple of other names?

Kavinder Singh: As we speak Goa definitely should come to an end in Q4 and by the way Goa also has a second phase to it while 152 rooms will definitely get deliver, there are another 57 rooms. As we speak we have already started, so the next year that 57 will come in, the Ashtamudi 33 would also come into the next year maybe in Q2. As we speak we should break ground in Ganpatipule in one or two months maybe before December or January and that will be another 150 room project and we are already awaiting approvals in that area. We have an existing resort in Kandaghat, which is near Shimla, there is another 160 units that we are putting up if I add 160 plus 150 plus another 57 plus 33, it is about Rs.400 Crores, 500 Crores kind of a capex that we think is in play as we speak and that has been always the case Rs.400 Crores, Rs.500 Crores kind of a plan in play. Having said that we are also looking at expansion opportunities in some of our existing resorts. We are on the drawing table for that. We have also been able to acquire an extremely beautiful piece of land very



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recently in Maharashtra and that will also help us to look at things into the future in terms of planning for more resorts, so acquisition would definitely be in play apart from a core investment for our own resorts. So I think capital expenditure and acquisition put together since we do not see any constraint, if there is any constraint it will be an execution constraint, it would not be constraint on capital, so that is how we see capital expenditure in our company and pandemic has not changed our position on that.

Nagraj Chandrasekar: Understood and just on the previous participant's question just expanding that you have clearly explained to us the difficulty we face on returning capital because of this the way the structure around our entity and you also mentioned that timeline by which book value would be positive and maybe you can start returning capital. Any thoughts or any methods you might have discussed on being able to potentially accelerate that perhaps from a sale leaseback of one of our projects because our units would be quite attractive than the other hotel units for a potential buyer given the annuity revenues and the parentage we have, so this could be a good method of freeing up some capital and potentially getting our book value back in the black, any thoughts it all to this?

Kavinder Singh: I would say that obviously we want to do it ideally the right way by going through Ministry of Corporate Affairs with our thoughts. In our opinion this is a problem which does not reflect the intrinsic strength of the company, so our energies are definitely focused on the MCA representation and we have made some headway there. But we do not have any timelines here for this. Now talking about the second point which you mentioned on structuring, how do you do structuring to be able to do that I would say all options are on the table, but I must say that we are currently focused more on the MCA representation rather than on the structuring, but it is definitely on our mind to see how we can reward shareholders as we have in the past where we had a dividend paying record from the time we got listed. So we would definitely want to go back to those days and that is definitely on our agenda. I think beyond this I wont to be able to say because there are obviously a lot of things that we are trying to do, which will help us to do that.

Nagraj Chandrasekar: Thank you so much and all the best.

Moderator: Thank you very much. Next question is from the line of V P Rajesh from Banyan Capital Advisors. Please go ahead.



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- V P Rajesh:** Thanks for the opportunity. You mentioned that you revalued your land and some of the properties, so if you can just put some more colour as to when it was done and what was the original value and now what is the capex guidance?
- Kavinder Singh:** I think these are a fairly detailed questions maybe we can answer you offline and I think if Akhila is there maybe she can give you a ballpark number.
- Akhila Balachandar:** We have done this around two years back, it is not something that we did recently and this added around Rs.700 Crores plus to our revaluation reserve.
- V P Rajesh:** The way to understand your deferred revenue is that these are the members who are going to take fees contractually over the period of the contractor and we are just essentially looking at the sum total of that value is the right way to think about the deferred revenue?
- Kavinder Singh:** You are talking about deferred revenue?
- V P Rajesh:** Yes.
- Kavinder Singh:** I think the deferred value, the way to think about is that if I am getting Rs.100 for selling a membership I can only recognize Rs. 4 this year, I have to defer Rs.96 into the deferred revenue pool and that has to keep coming in every year. There is a very small cost which is directly attributable to the contract which is also deferred there, but almost all the cost of getting the contract is accounted for, only a cost which can be directly attributable let us say the incentive paid to a salesman that can possibly be deferred. So if you read it, think about it, it is an income earned, but coming in every year, with minimal cost. It is actually a profit sitting there that is the way to think about it.
- V P Rajesh:** My question was as you are saying that you sold it for Rs.100 I was just clarifying that Rs.100 that you are getting today, cash in the bank account is that right understanding?
- Kavinder Singh:** You are right, we definitely have more cash as down payment because obviously we also sell on EMI, it is not that the entire 100 comes in and of course some people do full payments also, but if you take yes, if someone has done a full payment I have Rs.100, but income will get recognized over 25 years that is true.
- V P Rajesh:** The renewal rate, I did not see it in the debt, so what is the renewal rate that you getting, the people who are continuing to be with you or there is a drop of rate because you have signed the transfer but they do not want to get out of it?



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Kavinder Singh: I would say renewal rate is not relevant for us because in our business we anyway have longer term duration. There is definitely an upgrade happening both from people who have signed in as a blue member, blue is the lowest which is more off the season, and for purple member which is the super peak season, so people are constantly upgrading. They keep going up on the curve and that is a part of the income that we get on the VO side vacation ownership and of course they can upgrade from suites to one bedroom to two bedroom apartment, so those opportunities are upgrade like this. You have an opportunity to upgrade from a three year product to 10 year to 25 year product, three is very recent, so the point is that the upgrade opportunities exist and if you call that as renewal then we are doing fine. If you were to talk in terms of the drop off rates first of all whatever drop off may have happened, in the past has been negligible in fact if I were to call it, if I were to put a number on it, it will be probably be in low single digits and that also it is something that we have a retention team which constantly working on getting people to think about not leaving us, so that is not an area of concern for us. What is of importance for us is to get people to regularly holiday, which helps us to get our resort incomes and once they are at the resort, if they can be at the resort and enjoy the food and beverage offering, it helps us to boost our resort revenue. If you go back in time, you will see our resort incomes have grown by at least 15%, 16% CAGR over the last five, six years.

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

Kavinder Singh: Thank you for patiently listening, and talking to us and I want to just confirm to you that, as I mentioned in my opening remarks the uniqueness and resilience of our business model coupled with the fact that we have been focused on cost management, which is the need of the hour has helped us deliver this excellent performance in Q2 and even in Q1. The turnaround of Holiday Club also augurs well for us. We are on the lookout for inventories and as I have mentioned that we are active buyer in the market, we are looking at opportunities and we believe that the good opportunities will come at the right price and meeting our investment criteria and we would be ready to see the opportunity. On that note I would like to say thank you very much and we always learn whenever from these interactions we get to understand your concerns, issues and clarifications. For any questions please feel free to contact us or SGA our Investor Relations advisors. Thank you very much.



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Moderator:

Thank you very much. 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.