ClubMahindra

February 9, 2023

MHRIL/SE/22-23/104

Listing Compliance
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block
Bandra-Kurla Complex
Bandra E, Mumbai – 400 051
Scrip Code: MHRIL

Department of Corporate Services
BSE Limited
Floor 25, PJ Towers,
Dalal Street
Mumbai – 400 001
Scrip Code: 533088

Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call for the quarter ended December 31, 2022 - Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations")

Ref: Our letter no. MHRIL/SE/22-23/92 dated January 6, 2023

Dear Sir/ Madam,

This is furtherance to our letter no. MHRIL/SE/22-23/92 dated January 6, 2023, wherein the advance intimation of the earnings conference call scheduled to be held on Friday, February 3, 2023 with Several Funds/ Investors/ Analysts on the financial and operational performance of the Company for the quarter ended December 31, 2022 was submitted to the Stock Exchanges.

In compliance with SEBI Listing Regulations, please find enclosed the transcript of the aforesaid conference call which is also hosted on the website of the Company www.clubmahindra.com.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For **Mahindra Holidays & Resorts India Limited**

DHANRAJ NARSAPPA MULKI

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Dhanraj Mulki
General Counsel & Company Secretary

Encl: As above

Mahindra Holidays & Resorts India Ltd.

Q3 and 9M FY23 Earnings Conference Call

February 03, 2023

MANAGEMENT: MR. KAVINDER SINGH - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

MR. SUJIT VAIDYA - CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to the Mahindra Holidays & Resorts India Ltd. Q3 and 9M FY23 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 star, then zero 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 evening, everyone, and a very warm welcome to our Quarter 3 earnings call. On the call with me today, we have Mr. Sujit Vaidya, our CFO. I'm sure you have had a chance to look at our results and investor presentation, which has been uploaded yesterday both on our website as well as on the stock exchanges. I think what I will do is give you a quick update on the industry, which -- some of you who are tracking actively would know, so it might be a repetition. But we have seen in leisure, there is a significant rebound, as you can see in the past two quarters. And all of them, all the markets, we are seeing have outperformed their pre-pandemic level occupancies and ARRs. In fact, in November 2022, the Indian hotel industry recorded its best performance since the pandemic began with an occupancy of 70% and ARRs exceeding INR 7,000.

The budget 2023 indeed has been a very good news for our sector. As you know that the tourism sector has been now made to go on a mission mode, which is accelerated towards the goal of *Dekho Apna Desh*. The idea of developing 50 tourist destinations is something, again, it's music to our ears. As you know, we have been running a campaign 'We Cover India. You Discover India'. We have 74 resorts in India. So therefore, this kind of a push is definitely helpful. There will be improved discoverability of destinations through the unified app that was announced. Huge impetus towards infrastructure spends on highways, railways and airport development means that leisure travel will boom in the time to come. And we are obviously watching for many, many details that will come out as we move forward, and we will be looking at opportunities to participate in the PPP opportunities that may come.

Before I go further and talk about the performance, I just want to sort of spend a few minutes on explaining how our business model is extremely strong, extremely resilient versus traditional hospitality businesses. We have a large member base now of 2.8 lakhs, who have a strong desire to travel. And now we are seeing a track record of increasing spends at our resorts. We are focused on family leisure experiences and large room sizes, spacious resorts, plenty of outdoor activities makes our properties better suited for multigenerational family holidays. This is very, very unique to us. As you know, in the traditional hospitality business, the focus is on MICE, focus is on weddings, but we remain focused on holiday experiences for the family. So, it is a very, very clear differentiator for us. And the best part is that because of our business model, we witnessed consistently high occupancies across seasons. So we really don't have a low season in our business at the standalone level. And to take advantage of this growth potential, fortunately, we have now enough resources on our balance sheet with robust operating cash flows.

And as you know that we have been focusing on the quality of membership sales, we have seen significant improvement in members who are paying higher down payment at the time of enrolment. And because of the higher member additions, our operating cash in this quarter went up to INR 377 crores this quarter, sorry, not this quarter but for 9 months FY23, up from INR 252 crores for the 9-month period FY22.

You will also appreciate our business model has a cumulative effect with our large member base leading to deferred revenue and profits growing every quarter. And you may have noticed in the investor deck, we have shared the information that we have added INR 60 crores to our deferred revenue on a quarter-on-quarter basis and INR 152 crores to the deferred profits, which is net of deferred costs in the 9MFY23 versus the same period last year.

Our Q3 performance while being powered by the uptick in leisure travel is also going to our unique business model and our execution excellence. As I go on to talk about the fact that we had substantial top line and operating profit growth to deliver the highest ever income at INR 336 crores, which is 18% up on a Y-o-Y basis and the highest ever EBITDA at about INR 99 crores, which is 17% on a year-on-year basis. Our EBITDA margins have expanded compared to pre-pandemic levels and stand at a healthy 29.3% in Q3, which is up 300 basis points. And for the 9 months period, the EBITDA margin stand at 28.4%, which is up 500 basis points. This is significant as we are now in full flow in terms of routinization or regularization of all our operations and yet the margins that we have improved continue to be healthy, as I mentioned just now. Our focus as well as the fact that we have now members paying higher down payment who are having higher spending power. Our focus on monetization is also improving.

We have delivered the best ever resort income at INR 91 crores, which is up 30% Y-o-Y. Our room nights, again were the highest ever, and they grew by about 16% Y-o-Y. And our occupancies remained again very high at 85%. And we have noticed that there has been an increase in the way members have spent at our resorts. So this is a very, very good news. And by the way, the momentum in occupancy has continued in January '23 as well with occupancy at 86%. Forward bookings for February, March and even April remained very, very strong. And based on these signs as the year continues to play out, we are confident that occupancies will continue to build. We are delighted to see our members and guests going on vacations, and we are happy to share that we are continuously adding magical moments to their lives.

There is strong demand from our members, even with the increased inventory. In the 9 months FY '23, we expanded our inventory by 300+ keys. And over the 2 years of the pandemic, we have added about 1,000+ keys. With this, we remain on track to achieve our guidance of 5,500+ rooms by FY '25. Our efforts towards strengthening our business through a multiproduct portfolio strategy continues as we strive to meet the expectations of today's travellers through enhanced benefits, omnichannel engagement and focus on immersive experiences.

We have added new experiences in food and beverage, spa and holiday activities, which have been very well received by both our members and guests reflecting in our robust member spends that we are seeing at our resorts. Also, there is a huge endorsement from our happy customers about our differentiated experience. Happy to share that 57% of our member additions are coming through referral and digital routes. We had launched a loyalty program few months ago. We have reached a milestone of 1 lakh plus members. This is a loyalty program for our existing members who are referring, who are upgrading, and who are enjoying the benefits of the loyalty program. Our ability to upgrade members based on the experience is really helping us to move our average unit realization and we had the highest ever upgrades in this quarter at INR 49 crores.

Membership sales also remained healthy. We had member additions of 4,176 , which is 13% on Y-o-Y basis. Membership sales value of INR 188 crores is up by 20% Y-o-Y. This is a testament in a way to see how strongly our VO product, our vacation ownership product continues to resonate with customers.

In the high inflation environment with leisure commanding high ARRs, our vacation ownership business is even more desirable from a customer standpoint or view. Club Mahindra membership is seen as a long-term tool. It's a very good long-term tool to secure vacations as our members lock in their future vacation costs when they purchase a membership and they do not have to pay the room rent that would go up over the coming years. This is helping them to spend money on F&B and holiday activities, which is what we are seeing as a benefit accruing to us in the quarter that you saw.

Overall, the momentum for the domestic passenger air traffic is pretty high. High demand for domestic travel continues. And as I mentioned earlier, leisure accommodation is garnering high ARRs and RevPARs compared to the business hotels. We are also noticing that people are willing to increase their holiday spends. And we believe leisure travel is all set to expand even this year as people continue to go on holidays with family and friends.

In terms of inventory, we have added 80 rooms in this quarter. We added 2 resorts in Ranthambore, one in Koyna and the other one in Khopoli. Again, we are getting very good response to these resorts. As I have mentioned earlier that we will continue to follow the strategy of build, buy, lease. We have commenced construction already to expand our existing resort at Kandaghat by about 185 keys, and that construction is going on very well. Most likely, in this quarter, we will be breaking ground subject to one last final approval for a 236-key greenfield resort at Ganpatipule overlooking the beautiful Arabian Sea.

Assonora, Goa 44 rooms in addition to 200 rooms already there are currently being added. We have, we are evaluating acquisitions at few destinations, which are critical for us. PPP projects, I mentioned, we have done a soft launch at Janjehli in Himachal Pradesh, and we will be able to get it live by April. This is a 24-room boutique property, which has been handed over by Himachal Pradesh government for us to build it to a certain level and also operate it on a long-term lease. We have also been awarded the Harihareshwar project by MTDC, Maharashtra. The final stages are also going on in terms of the actual handover of the site to us.

We have expanded choice. We believe that our Horizons program is a great step in this direction. For our club members we are providing access to 400 partner hotels. Beyond Club Mahindra resorts, we have partnered with 308 domestic, 92 international hotels. And this is an exchange program. We are very happy to share that you name a city in Europe, and we are present, whether it is Paris, Frankfurt, Berlin, Athens, Budapest, Rome, Venice, Milan, Barcelona, Madrid, London. This program is also seeing huge traction where members can exchange their room nights and go to these cities and international cities and also domestic hotels. And they'll have to pay a small access fee for doing that. So this is expanding choice for our members.

Our in-resort experiences have done extremely well during October, November, December. We had a lot of festival-related theme nights as well as very unique dining experiences. I will not spend time too much on that.

Member additions, I'll spend a few minutes on that. Our AUR, which is the average unit realization is up to about INR 4.5 lakhs in Q3 FY23 versus INR 4.2 lakhs in Q3 FY22. The cumulative member base of 2.77 lakhs is with 85% fully paid members. Our strategy of multiproduct portfolio is working very, very well. As you know that during the pandemic, we had launched few products, and they're doing extremely well.

We have really been improving on the digital side. We have introduced fresh and relevant content and member-generated content and testimonials have also been uploaded and they are increasing. We did a very interesting show with Times Network called Magical Trails, which comprises of 6 episodes. They are all on YouTube. Please do watch them, where celebrities travel to our select resorts and experience a Club Mahindra holiday. We also did a co-branded movie association with film Uunchai, which also brought Club Mahindra proposition in the fore.

I would like to spend a minute on the new, refreshed, Rise philosophy. We have this #TogetherWeRise is something that you will notice. But the Rise philosophy in a nutshell is that what is good for the world is good for business. What creates value also creates profit and what enriches the planet, enriches the company too. So we have 3 enablers for Rise - Rise for a more equal world, Rise to be future-ready, and Rise to create value. In line with the Rise philosophy, we have signed multiple commitments on EP100, RE100 and Carbon Neutrality by 2040 using science-based targets. We are the first hospitality player, definitely in India who had signed up these targets.

Good news, progress against that. Nine of Mahindra Holidays resorts are green resorts, platinum certified by IGBC. We have made excellent progress in Net Zero waste, water and energy commitments, and we are very confident that lot of our resorts by 2025 would be Net Zero waste, water and energy certified. Currently, we have 4 resorts which are Net Zero on waste. We have 3 resorts, which are Net Zero on water and about 4 resorts on Net Zero and energy. We have installed solar panels at 22 resorts with a cumulative capacity of 4.1 megawatts. We are very confident, next year 35% of our energy requirement would be met through solar energy. Rainwater harvesting, structures have helped us save 750 million litres of water over the last 3 years, 259 million litres or almost 58% of the total water consumed by our resorts was recycled in the period 9MFY23.

Under the Project Haryali, Mahindra Haryali, we have planted 16,000 trees in 9MFY23, and we have completed the mark of 0.5 million trees since we started this initiative.

Having talked about the planet, I must now move on to the financial performance. Strong third quarter results, which I briefly gave you the details. But I would like to start by saying most of our results, we have used this excluding one-offs. What are these one-offs? Our consolidated performance, as you know, is impacted by the fact that the rupee depreciated versus euro by more than 10% and also Thai Baht also again rupee depreciated against Thai Baht. This led to a forex adverse movement. And what we have, therefore done in the investor deck is very clearly defined what these one-offs are. And therefore, everywhere where we've shown our operational performance, we have said excluding these one-offs. And if I were to give you the total impact, which is a mark-to-market impact at the consolidated PBT level, in Q3, this has been impacted by about INR 35.66 crores. This is the forex adverse impact. But at a YTD level, only INR 14 crores because first two quarters, we had INR 21 crores positive as a result of these forex movements.

I must now move on to standalone performance. Our revenue, our EBITDA, our PBT are at the highest levels in terms of the absolute numbers. And the total income at the 9-month level is up by 26%, excluding one-offs. Resort income is up by about 79% on a Y-o-Y basis. Margins, again, very healthy, which I talked about. Even at a 9 months level.\, Our EBITDA is up by 18% Y-o-Y, obviously, excluding one-offs. And if I were to look at our profit before tax on a 9 months basis, it is at INR 145 crores, which is a 17% Y-o-Y movement over the same period last year.

In terms of explaining the variances, I would like to mention that the employee benefit expenses increased due to the additional headcount on account of higher room inventory, resumption of full scale of operations and annual increment. Sales and marketing expenses increased largely due to the spends on brand marketing because we are building the brand. After COVID, we needed to spend some money on that. Increase in the lease rent, of course, is due to the higher room inventory. Depreciation increased due to capitalization of rooms at our Goa, Assonora and Ashtamudi Resorts. Finally, it is important to note that as we accelerate room inventory and member additions, certain costs are expected to increase. However, we are confident of achieving consistently high margins as we have demonstrated.

In view of the inflationary pressures, we have managed our resort costs extremely well. We took some minor price increases where required, such as in F&B. We have also taken two price increases in April and November as for as membership fees is concerned. We have been tightly managing operating costs, and also we used alternative energies like solar power to also save costs, as I mentioned earlier. Our cash position stays extremely healthy at INR 1,089 crores, which is up by INR 71 crores during the quarter.

Let me move on to Holiday Club Resorts. During the quarter, the ongoing geopolitical situation has definitely led to pressure on Finnish economy, which has actually been affected by decade high inflation levels, energy crisis as well as the collapse of its housing market there. However, the good news is we have seen energy prices coming down in January '23 after peaking.

Before I go even further, I have explained earlier in earlier quarters, Holiday Club Resorts experiences two very good quarters, Q2 and Q4. Q3 has an in-built seasonality due to the distinctive pattern where there is not much of holidaying in Q3. And also the fact that there are no winter holidays in this period, there is really, the summer has already gone. And therefore, Q3 is a lean season, much like Q1. And if you were to keep this background in mind, despite this low season, Q3 revenue from Spa hotels grew by 4.4%. Revenue from Timeshare grew by 3.8%. Spa Hotels have delivered 56% occupancies. Our total revenue at the 9-month level, has grown by 23% Y-o-Y, excluding the one-offs. If I were to highlight the reason the profitability has been impacted in HCR, it is due to the high Spa hotel operating costs caused by largely the energy cost and the finance cost slightly, which rose due to the EURIBOR rates which went up.

Going forward, our outlook is positive. Spa Hotel occupancies are picking up. Winter holidaying season has started. There is not only domestic demand, there are international visitors. Britishers, Germans, Dutch, they are all coming in. And we know that our HCR assets will get hugely monetized in the high season of Q4. Therefore, we expect a much higher top line growth. Focus on cost management actions should help in profit margin improvement at HCR level.

If I were to now conclude by talking about the consolidated numbers, the numbers are all out there, so I won't read them all now. Our PBT at INR 23 crores is up by 104% Y-o-Y, excluding one-offs at consolidated level. Even on a 9-month basis, PBT is up at 91% Y-o-Y, a total of about INR 97 crores, excluding one-offs.

If I were to just quickly conclude, domestic tourism is booming. Our business model is robust and resilient. Higher occupancies across season is something that we are very confident of delivering. Our members endorsing us, whether it is the holiday, whether it's the Happy Family Referral program, whether it's the loyalty program, whether it is the upgrades, which the momentum that we have seen is absolutely, has never been seen before.

Our focus on adding inventory augurs very well for our resort incomes and also the other impacts that it will have on our business. As you can see, we have a multitude of incomes. As we keep adding members, we add all the incomes and the annuity streams also kick in.

The Club Mahindra Horizons is a great program. It is helping us give choice. Club M Select is also doing extremely well. More on that later. Our data science and analytics capabilities are helping us predict behavior as well as target higher occupancies at our resorts. This is an extremely strong quarter for us, the highest ever numbers that I talked about.

On the HCR, I would like to once again mention that business model and strategy is extremely robust despite the macroeconomic backdrop. With the onset of the winter season, we are looking for good times ahead. I'm very, very confident with the macroeconomic situation improving as it has already started. HCR will definitely be benefiting with the positive consumer sentiment, and we remain optimistic in terms of in the near term about the trajectory of Holiday Club Resorts. And therefore, at a consolidated level, this should reflect as we move forward.

Thank you for your time this evening. I will now open the floor for the questions and answers.

Moderator: First question is from Himanshu Shah from Dolat Capital.

Himanshu Shah: Congratulations for good set of numbers. Sir, just quickly couple of questions. Resort income, very healthy growth, 30% year-on-year. Sir, you already highlighted 16.7% growth in room nights. Can you provide some more color like, what is the price increase we have taken? And are members is the -- are the number of members who are having F&B within the resorts higher than the room night occupancy growth...

Kavinder Singh: Okay. So Himanshu, the question is a very, very relevant and a good one. You see what is happening is that since our base has expanded in terms of the room nights, and that is what I was highlighting that on the occupied room night, we had 16% growth. Now what happens is when the occupied room nights grow, the kicker comes in, in the overall resort revenues. But apart from that, you may have seen the income has grown by 30%, which means members are spending more on per available room night basis. And that is something that we have noticed. People are spending more because we have created during this holiday season, lot of festive opportunities we used. I mean, for example, there was a Kathiawadi food festival that we did in some of our resorts. For example, we created a Barbecue Bay in some of the new resorts that we have recently opened. So the idea is that you keep creating food festivals, you create new experiences, which increases the average per cover, APC, as we call it, that keeps moving up when people spend because, as you know, in our resorts, families come, and they do look at food as a very integral part of their holiday experience. So that is the cumulative effect that you saw. There is a base effect and there is an effect caused by higher spends.

We had a very minor increase in the F&B, which is not significant. We just did a minor correction on few items, which are there present in our menus across the resorts. So it wasn't as though price increase is not the reason for this kind of a kicker in the resort revenue.

Himanshu Shah: Sure, sir. And sir, on a long-term sustainable basis, fair to assume this line item because this is the variable line item in our business model other than membership plan, member based linked growth. It should grow in healthy double digits?

Kavinder Singh: Yes. So Himanshu fortunately, I must say that we have a track record of growing this revenue at a double digit, even if you were to look at previous 5-6 years prior to the pandemic, obviously, don't look at the pandemic period because resorts were not even running.

So if you just go prior to the pandemic for 5 years CAGR to the best of my knowledge, has been around 13%-14%. Obviously, this is a function of how many rooms you add, what kind of spends you increase. And by the way, we are using a lot of data science and analytics capabilities to be able to suggest to you what you could be doing at the resort. We have pre-arrival call. We have a pre-booking online. There are lots of initiatives that are firing to ensure that people enjoy the options that we create for them. There is a communication that the marketing team does. All of that put together, I mean, I think I'm not just saying that double-digit or otherwise, but I think I'm very, very confident that this is one line item, which is likely to grow very fast.

Himanshu Shah: Sure, sir. Very helpful. Sir, second question is on membership addition trends. We have seen the impact in the range of net member adds of 3,500 to 4,000 on a quarterly basis for a significantly longer period of time. I definitely agree the quality of member addition is significantly improving which is getting reflected in membership sale value, cash balance accruals, the upgrade numbers, which we have started disclosing from this quarter. So no denial on that. But when shall we expect the overall member adds without compromise on quality of members also getting accelerated? Some color, some guidance, if you can provide.

Kavinder Singh: Yes. So the way to answer this question, Himanshu for us is, we will, we have been, of course, sharing that how much inventory we want to add. If we add inventory, roughly 100-odd rooms every quarter, that's been the run rate in this last 3 quarters. And if you go back 2 years, we ended up adding actually even more in terms of more than 400 rooms in the last 2 years. So which means we have added around now already 1,100, 1,200 odd rooms in the last 2.5, 3 years.

Now when you add these many rooms and if you do a simple ballpark calculation, you know how many members we can accommodate, which means we are internally aiming to increase our member addition rate to at least count closer to the level of, see, we were always lagging behind in inventory. Now that's not the case. Now we need to catch up with the inventory that we are adding and ensure that our member additions catches up to that. So, and in this business, this is bound to happen because inventory comes sometimes in lumpy form and member additions can be fairly linear. So these strategies on member addition are more important. I think I want to just highlight what are we doing to increase the member addition is actually a very, very relevant question. What we are doing is to see what we can do to target our prospects better. So we are using, again, data science and analytics capability to see how we can funnel the right prospect in front of us. Because once the person comes in front of us and has decided to hear us, our conversion rates are very good.

So our real challenge is to get the right person on the table. And that is where a lot of energies are going on right now. The second area where we are focusing on is that we have traditionally had lot of businessmen as our customers. We are going to focus on corporate in a big way. So we have a corporate sales vertical that we have created very, very recently. And obviously, that will be a kicker.

Third, the DSA program did not do very well during the pandemic. The distributor -- that is distribution sales agents who could acquire basically outsiders, who could sell our memberships on commission. So that's one program we have, again, accelerated. So there is a very senior leadership team member who is driving this agenda of driving the DSA sales up.

The fourth one is how do we leverage the opportunity in the small towns because there are a lot of people who have very good disposable income, qualified professionals: doctors, engineers, lawyers, everyone. They are all there in small towns, but they don't have access to Club Mahindra's -- buying the Club Mahindra membership. So one thing that we are doing is seeing if we can reach out to them whether digitally or physically, and there are various ways that are being attempted to do that. Plus, we are also focusing on being able to sell digitally, particularly to these small towns by creating a new interface, which actually handle the person to co-browse with us and take a decision.

So there are some very interesting initiatives to tap the opportunity that lies because of our multiproduct portfolio, we have the opportunity to achieve what we have, what we are aiming to and data science and analytics is just a step in that direction to move forward. So yes, answer is, yes, we are aiming to be higher than where we are.

Himanshu Shah: So this is very, very helpful. Quite elaborative. And hope we see, start seeing the result of this strategic measures that we are taking. Sir, couple of questions, if I can...

Sujit Vaidya: Himanshu, just wanted to -- just one additional data point. When we, when you look at 9 months membership addition, which itself has jumped by 42%. The value growth is 82% of the sales value. So just an additional data point there. It's not just the member net addition but also the value which the new members have been added, which not only shows the quality, but the value which we will see in the P&L coming in, in the year. As you know, it all goes to deferred revenue.

Himanshu Shah: Sure, Sujit. Totally agree with that note on that front. So, one more thing, we have added three resorts, but the overall room count addition is 80 rooms. We were under the impression that we are looking to build large size resort, which brings in more cost efficiencies when some amount of fixed costs get spread on a larger room base at the same location. Any specific reasons then why we are going to support such smaller size resorts, average 25-30 room per resort, so this particular quarter?

Kavinder Singh: Yes. So the answer is very simple. These are not 20-30 room size resorts. These are associate resorts where we have taken inventory. The resorts are of a certain size. And our idea is to test the destination. And then take the entire resort on lease. And that is where the kicker will further come. And this is what we have done in many destinations.

Also, I would hasten to add that there is a 185-room expansion plan going on in Kandaghat right now as we speak. We have built, as you know, 200 room resort in Assonora. So 260 rooms in Kandaghat, 250 rooms in Assonora, and new Ganpatipule resort that we are going to break ground, which I mentioned in my opening remarks, would be another 236 room resorts. So we are looking at 180, 200, 250 kind. Yes, for testing destinations, we don't take this kind of bets, and we start small, and then once we see there is an opportunity, either we buy the land or buy the resort or take over the entire resort on lease, which would be 70, 80, 100 rooms in destinations that I just mentioned like Ranthambore or some other places like Koyna, etc. By the way just to let you know in a place like Koyna, we took a very small inventory. And idea here is to test the destination because, as you know, we keep doing land banking. And once we find that the destination is good, we actually buy land around in that area and then we actually build a resort. So there is – there are multiple ways we test the market, and that is how we build such high occupancies that we are able to deliver at an overall level.

Moderator: The next question is from the line of Dhruvesh Sanghvi from Prospero Tree.

Dhruvesh Sanghvi: I have two sets of questions. One for HCR and the other is for the standalone operations. I'll start with the standalone. Suppose in case if our member additions over the next 2 years with whatever strategy that we are trying and we have been trying very well of course, market should also respond a little bit in your favour. If it doesn't succeed us getting more than 4,000, 4,500 per quarter or maybe 15,000, 17,000 per year, do we still see beyond FY25 the room additions continuing, which we would hope, but I would want your broader thought. And of course, nothing is finalized. I just want a broader thought around it.

Kavinder Singh: Yes. To be honest, it's a bit of a hypothetical question, so very difficult to answer what one would do. As far as I'm concerned, if I look at all the factors, whether it is the budget announcements made, whether it is the fact that even today, we see huge momentum despite adding 1,200-1,300 rooms over the last 3 years, we are seeing our occupancy is not dipping at all in fact is increasing. So we believe that leisure is a mega trend. And as the leisure travel, particularly travel with extended families, friends increases, the need for inventory is probably a foregone conclusion. Let's come to now member additions, which is your core question.

So here is the thing that, we have today, even a 3-year product called Go Zest. Our idea is very simple that if in the short run, there are people who want to come in with a 3-year product because they are youngsters, they haven't yet got the affordability. And then we start upgrading them. So the good news is that when I talk of upgrades, they don't just mean season upgrade, they mean apartment upgrades, they mean product upgrades. The whole business is about extracting lifetime value by upgrading members to go on to a higher tier. And since people commit because they realize they don't have to pay for the room, they realize it's a high inflation environment. And they realize that the property and experiences are good, that is the virtuous cycle that we are banking on. And we have actually -- you could see that even post Ind-As 115, which came in, I mean, we had at that time INR 240 crores PBT, which is in the IND AS 18, it came down to INR 100 crores. And now you can see, last year itself, we delivered about INR 200 crores PBT. Of course, there was a one-off about INR 30 crores there.

But the main point here is that we are now and when I said the total income as well as the EBITDA was the highest ever, that means highest ever in our history, when we used to do 60% income accounting versus now, today we do 4%. So the good news is the cumulative effect is playing up. Member additions will be obviously a function of how members talk about the experience. So there is a lot of focus on HFRP, which is the Happy Family Referral Program, lot of focus on digitization. I enumerated the strategy that we have for increasing the member base. My view is that in a country like India where the GDP growth is something that you are familiar with, where the disposable incomes are going to increase, where our target households are roughly 30 million with low penetration levels. I don't see any reason why we should be not able to add members beyond the numbers that you mentioned.

Dhruvesh Sanghvi: So then in that case, if the strategy has to work, is 2 to 3 years as a timeline, a good decent timeline that we should as investors look at. Is that correct?

Kavinder Singh: I think in our business, the best part, which I would say and of course, I would not be able to tell you what you should be doing, but I can tell you the way I see the business. It is a business where compounding and cumulative part is built in, which is what I've said in my opening remarks, and this is the first time I spent so much time explaining that how our profits actually will increase by design quarter-on-quarter and how this is a multiyear value generational, value creation idea because there is cumulation of members, there's cumulation of resorts, there's cumulation of resort revenues, there is cumulation of annual fee. There's constant cumulation happening and we are anyway adding more to deferred revenue than we are pulling out. We are already building a deferred profit corpus of INR 4,500 crores. So the whole idea is that as you just keep seeing this growth, the execution has to be obviously superlative. The whole game is in very high level of customer experience, excellent execution, which goes without saying. And obviously, putting properties where members would want to go, the newer properties, I'm talking about. If you keep doing these things right, there is no reason why our top line, bottom line and the fact that the cash has also grown. I mean cash is a function of how you deploy. I mean if you deploy big time fast, then, of course, for the time cash may come down, but the operating cash is something by design comes through, if you do everything right.

There are a lot of moving parts here, which we have been able to demonstrate and actually bring them in control. And that is why you are seeing both cash moving up, profits moving up. So I think it's a multiyear value creation idea. And therefore, we actually ourselves internally don't see it as a quarter-to-quarter business, anyway.

Dhruvesh Sanghvi: Question was not quarter-to-quarter, but it was -- I get it. So I'll move to the next part. Sir, just one suggestion. I mean, I don't require any comments, just one suggestion. In the last few years, it is very clear that by strategy, by design or by market conditions, whatsoever we may say, there are more additions happening in lower end of the time horizon product, I believe the 3 years rather than the 25 years. I would request, if possible at some point in time, please start disclosing the lower end versus the higher end product additions within this 3,000, 4,000, 5,000 range that we are having. That's a suggestion That is one.

And sir, one more part is again, as an outsider from a consumer outsider person, you have been improving dramatically on the platform and a lot of things are going right. So I think that's a very positive thing that you are doing and listening to the people.

So one, a couple of questions related to HCR is, can you just give a number on the cash flow trend for the 9 months so far? I mean, if it is handy, what is the cash flow generated or lost in the 9 months so far in HCR.

Kavinder Singh: Sujit, would you like to answer?

Sujit Vaidya: I don't have the ready numbers available with me. But on the 9-month basis, we would have pretty much a marginally negative cash flow, largely reflected into the numbers. The PBT numbers as they are negative, especially in the Q3 and Q1, which are their low seasons. And this is the seasonality which you would have seen in the previous years also, even prior to pandemic. The cash flows overall in HCR, we look at it on an annual basis after their best quarter, which happens to be always Q4, a winter season one, skiing season one. So obviously, first 9 months are always usually marginal we really get which would be also in this case.

Moderator: We'll take the next question from the line of Shivan Sarvaiya from JHP Securities.

Shivan Sarvaiya: Sir, one question around HCR. Sir, so what I wanted to know is that when we look at HCR, there has always been tremendous volatility in its earnings when we see it on a quarter-on-quarter basis and even on a yearly basis. There are certain quarters where we feel that it's started breaking, even, started making profits and then suddenly, it goes back in losses for a considerable period of time. So on a broad basis, what is the management thought process here to normalize and stabilize that business? And we had -- while this asset was acquired, it was thought that it would be a funnel basically for the local tourism, the local tourists in India to go there and vice versa. So where are we in that process? And the third one is that has the management thought about divesting its stake here since, considerable period of time has gone by. And the things have not or maybe must have not gone as per plan.

Kavinder Singh: Yes. So I think it's important to understand the HCR business model. HCR business model definitely has a built-in seasonality. That's without a doubt, and we know about it. And the seasonality comes from their holidaying season. And because the business model has certain level of fixed cost, whether it is the hotel rentals because the hotels are on rent, they don't own the hotels or because of the other fixed costs. So there is a seasonality, which reflects in the profit performance.

Actually, if you recall, we had hit a EBITDA of about EUR 12 million, which is just after us taking over. Even if you were to look at the enterprise value, their debt at some point of time when we acquired was about EUR 51 million. It's significantly down to about EUR 21 million or thereabouts. Few million here and there could be the situation now. So the main point here is that the enterprise value has definitely gone up, and HCR demonstrated the capability to deliver double digits EBITDA.

Yes, last 3 years, COVID, 2 years back-to-back and the Russia-Ukraine war, which was absolutely not anticipated, has definitely led to a situation where the question that you are asking does become relevant that there has been a yo-yoing of performance. In reality, the movement up and down of the performance is largely seasonal. And that is what -- and by the way, the good news is that in these two seasons, which in Q2 and Q4, they are able to not only take care of the financials of Q1 and Q3, but actually deliver a healthy profit. By the way, even during the pandemic, the second year of pandemic, which is the FY22 they broke even at EBITDA level. And this year also, if I were to look at the performance, the way they are going, we will have significantly positive EBITDA at the operational level, particularly at HCR. So it is not a business where cash needs to be injected. It is a business which has to grow and it can grow because Finland has this unique advantage of these two very sharp weathers where there is a midnight sun, and then you have these northern lights. These phenomena's are something which are around the world people want to go.

As far as Indians traveling, your question of Indians traveling is concerned, Indians would travel to this place because this is very, very exotic. It is just that because of the last three years of COVID as well as Russia situation and the availability of Schengen Visas, we haven't seen much traction. However, I can confirm to you that there is a huge work going on to ensure, by the way, the Finnair, seeing the potential, and we are working with Finnair. They have launched a flight from Mumbai to Helsinki direct, which wasn't there. So there is work going on to visit Finland, to actually make Finland as a destination. There are a lot of destination management companies who are working to get Finland pushed as a destination of choice for Indian families. So that is something that is work which is ongoing. Yes, see as far as the divestment is concerned, I think as far as our interest in the company is purely strategic. We are not, we didn't enter into this company from a purely investment perspective. We are trying to see how we can work with this company and create a large timeshare play for us as Mahindra Holidays. And that was the reason. It was a great opportunistic buy, great brand, which continues to be so.

And it's unfortunate that we have had three years in a row, these problems, which are coming. Yes, seasonality does create a bit of a confusion, but we are very happy to sit offline with you and explain what the seasonality means. They have also multiple streams of income which come from the Timeshare as well as Spa hotels as well as renting.

So there is a lot of natural hedge within the business. And that is why we have not seen it sort of creating any big trouble. Yes, this time, the one-offs have been caused by the forex movement more than anything else. And I have mentioned that very clearly. So yes, this is a business which in the time to come, should generate significantly positive EBITDA. And with the lower debt levels, it will be a significant enterprise value.

And as far as we are concerned, we want to support this business to build the business to the next level and support doesn't mean that we are spending too much time or money. The management is quite competent. They are doing the job extremely well. They know the business. And it is just we are very confident that this can be a significant additive incremental addition to our overall bottom line as well as top line. So that is where we are right now on this subject.

Shivan Sarvaiya: Okay. Sir, my question was -- thank for you the detailed answer. Sir, just one question here. When we consider from an ROCE perspective, this business can give a tremendous drag on the consolidated ROCE. So sir, my question was around that. And that is what, at the end of the day, the market looks at that - what has the business generated in terms of ROCE over the years, and that has been pretty suboptimal. So sir, any comments there?

Kavinder Singh: So I'm definitely not taking away the point that you made. And therefore, my response earlier covers it all that, there were 3 years. However, as I mentioned, and I'm staying pure play on P&L where I'm saying that first year of pandemic, obviously, there was an EBITDA level loss. Second year, they broke even. Third year, which is this year, with Russia-Ukraine war, they'll be positive EBITDA. Next year, we are looking forward to because they have flexed their costs down, the margins are improving. They are obviously much, much agile than what they were before. And by the way, the good news continues to be that the Timeshare sales in Finland continues to be robust. People continue to invest in buying Timeshare. They continue to holiday despite the situation of high inflation. And that is one thing that bodes well for us. And I'm not definitely responding to your question of return on capital, etc, because, first thing is to get the performance back on track and then probably talk about return on capital.

So I'm focused on ensuring that the debt levels come down, which are coming down and ensuring that the EBITDA levels keep moving up, which are moving up as we speak. So obviously, return on capital employed is a result of all these actions, and therefore in indirect way I am trying to answer your question.

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

Ankit Kanodia: Congratulations for a good set of numbers. Sir, I had just one question. We have such a good customer base, so many resorts, so many rooms. And our footing is more into providing excellent experience to our customers. And when we have excellent travel tech companies in the market, why can't we outsource this work to them and probably get more valuable insights as to how to tap into our rich customer base and make our business even more stronger. Any thought on that?

Kavinder Singh: Yes, there is an idea internally that we are working on. I think you should see some action on that part. How can we tap into our member base and actually, so let me give you a bit of a flavor. This Horizon idea actually comes from there that how can we use our member base and monetize them more by creating this Horizon product, which we have done. It is showing good sign. I think I have talked earlier about Club M Select. This is the product which actually allows them to buy this membership and this membership is also growing internally. We are noticing that.

We are seeing people buy into this product and actually go around the world with significant discounts on the cruises as well as the stays, as well as other experiences. There are a whole lot of experiences that we have bundled. The idea is that can we create an opportunity for our members who actually primarily join us for the resort experience. They might be open to another set of experiences that we can aggregate using the travel technology platform that you are talking about. So we indeed have a platform called Club M Select. It is right now, as we say, is in a bit of beta mode because it got affected because of COVID, since we just got one year. We are seeing already momentum building up. And we have plans to see how we can accelerate that travel tech platform, which you talked about, to monetize the existing member base that we have, which is something that you alluded to.

Ankit Kanodia: That really helped. One just follow-up for that, follow-up question on the same. Sir, what I was suggesting was, is there taking a third-party service as in the third-party travel tech platform service, who might have experience of so many different hotels and hotel properties all over the world. And they can probably give us a far better choice of suites or services, which we can or the way, which might be much more -- which can put us into a completely different orbit, positively. So that is what I was...

Kavinder Singh: No, no. So this is a suggestion well noted. I wouldn't respond beyond that. This is a suggestion well noted.

Moderator: The next question is from the line of Bimal Sampat, an individual investor.

Bimal Sampat: The question is mainly related to this HCR. Now since we are having this debt, how, I mean when do you think this debt will be cleared with their own cash flows? And if there is an option -- Hello.

Kavinder Singh: Yes, we are listening.

Bimal Sampat: Yes, so if there is an option, whether we can pump in money from here to reduce the debt because I mean there is a rupee depreciation plus interest rates are high there also. So does it, I mean how long it is going to take? Because every year, this drag will keep on coming. So instead of that onetime or we can sell part of the stake, get money and repay the debt, have you thought on those lines?

Kavinder Singh: Actually, whatever you are seeing was one of the reasons we paid off EUR 25 million of debt in July when the euro INR ratio had come down to INR 79.91. So that is the lowest that INR euro has gone against the INR. And we took an advantage of that and repatriated EUR 25 million of debt. So at the consolidated level, yes, there is still some debt. And these are questions which are discussed, decided at the finance, the group CFO level, our CFO level and at the Board level. We obviously keep an eye on the suggestions that you have made.

And we will take it up internally. But rest assured, the conversations go on to see how this whole thing can be the best situation. Of course, these three years, we had never anticipated you would appreciate of two years of pandemic, and Russia-Ukraine war. If these three were not there, obviously, by now, the situation would have been a very, very good situation. So yes, these are unique situations. And that is why we took a bet of EUR 25 million paying off part of the debt. So we have actually taken action, as you suggested, in a way.

Moderator: Ladies and gentlemen, due to time constraint, we will take that as the last question. I would now like to hand the conference over to Mr. Kavinder Singh for closing comments. Thank you, and over to you, sir.

Kavinder Singh: Thank you very much for patient listening. As I always mentioned, we in management are very conscious of your feedback and the suggestions that come. We make note of all of them. You have seen that how we have increased our disclosures, including this time, the upgrades, deferred profit, etc.

So there is a lot of visibility on the way the business model works. We do our best to explain the business model and the work that we are doing. We remain consistent in what we say and what we do. And this is something that is valuable. These interactions with you are very valuable to us, and we remain open to suggestions and discussions as we keep moving in our journey together.

Thank you so much. And once again, from the bottom of heart from Sujit and me, and all of our management team, for being here and listening to us and asking questions to us, thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Mahindra Holidays and Resorts India Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect your lines.