

MAHINDRA HOLIDAYS & RESORTS INDIA

MISCELLANEOUS

31 MAY 2017

Quarterly Update

BUY

Target Price: Rs 600

Strong member adds, HCR now profitable

Benefits of several on-ground initiatives are now visible in the member growth rate (9% YoY), resulting in revenue growth of ~26% YoY in Q4. Excluding a one time provision of ~Rs 200 mn for expected credit loss

(aligning with IND AS), EBITDA growth would have been 34% YoY. Hence, PAT grew only ~4% YoY at ~Rs 0.3 bn. 150 rooms were added in Q4; management maintained its guidance of adding 600 rooms over 12 -18 months. This will help maintain member/room dynamics stable at 65-70. HCR (Finland acquisition) turned profitable in Q4 and, the management expects further improvement going forward.

MHRL remains one of our **top midcap ideas** due to (a) an exceptional business model (with both capex and opex being funded by members) and (b) demonstrated benefits (membership growth + referrals) from well executed on-the-ground initiatives. **Maintain BUY.**

CMP : Rs 460
Potential Upside : 31%

MARKET DATA

No. of Shares : 89 mn
Free Float : 33%
Market Cap : Rs 41 bn
52-week High / Low : Rs 513 / Rs 383
Avg. Daily vol. (6mth) : 138,376 shares
Bloomberg Code : MHRL IB Equity
Promoters Holding : 67%
FII / DII : 7% / 15%

- Standalone revenue growth was strong at 26% YoY to Rs ~3 bn led by 9% YoY growth in membership additions (ahead of our estimate of 8% YoY growth) and the effect of 7-8% price hikes taken during the year. 6,200 members were added during the quarter and 18,000 members during FY17
- Other revenue streams fired well with income from Vacation Ownership (VO, ~50% of the revenue) increasing ~40% YoY. While ASF income grew at only 5% YoY, this may not fully reflect the price hikes taken during H2FY17. Resort income grew well at 15% YoY with occupancy remaining strong at 86%
- Operating costs increased ~50% YoY to ~Rs 0.9 bn; however, this included a one-time provision of ~Rs 200 mn for Expected Credit Loss (this was done to align with IND AS). Excluding this one-time impact, the EBITDA would have demonstrated a growth of ~34% YoY. Reported EBITDA at Rs 592 mn was flat YoY with margin at 19% as against 24% in the base quarter. Benefits of lower depreciation and interest costs were partially offset by higher tax burden. This resulted in PAT growth of 4% YoY to ~Rs 0.3 bn

Financial summary (Consolidated)

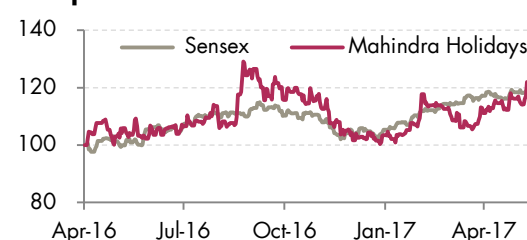
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	16,021	22,822	24,484	26,891
PAT (Rs mn)	1,050	1,455	1,981	2,456
Con. EPS* (Rs)	-	-	15.8	18.0
EPS (Rs)	9.6	13.2	22.5	27.8
Change YOY (%)	3.5	38.6	69.6	24.0
P/E (x)	48.1	34.7	20.5	16.5
RoE (%)	13.7	21.2	28.4	27.9
RoCE (%)	17.3	19.2	22.6	26.7
EV/E (x)	17.5	14.3	10.9	9.0
DPS (Rs)	5.0	6.2	7.4	8.7

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY16	FY17	FY18E	FY19E
Mem. addn. growth	9%	10%	8%	8%
Mem./Room	67	69	65	65

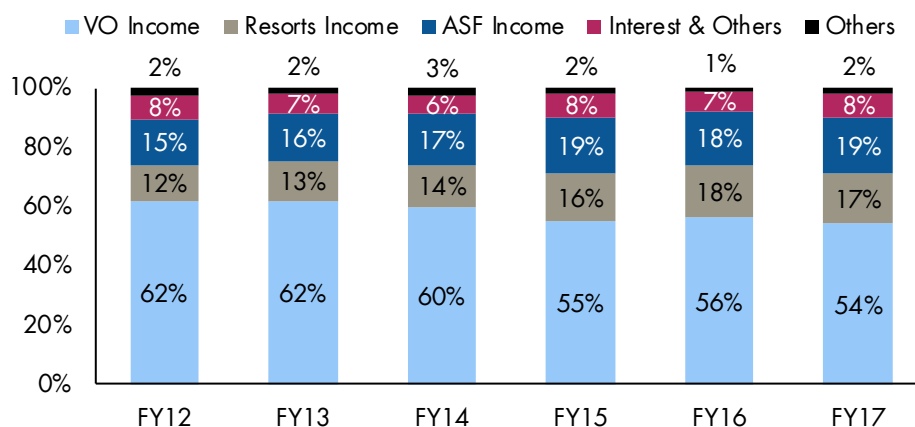
Price performance



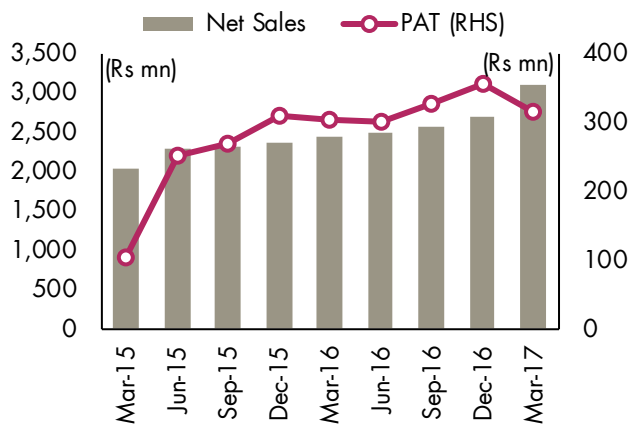
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- ♦ The company added ~150 rooms this quarter which includes 120 rooms taken at Jodhpur, Nadiad and Wayanad on a long term lease. The management's previous guidance on room addition pipeline of 600 rooms (to be added in the next 12-18 months) remains on track with ~150 rooms getting operational in H1FY18. This room addition plan is in calibration with new member additions, keeping the member/room dynamics broadly stable at 65 members/room. New projects in pipeline include those at Goa (250 rooms); Ashtamudi (100 rooms), Kandhaghat (140 rooms) and Naldehera (130 rooms)
- ♦ During FY17, the company added ~18,000 members, taking the count to ~2.2 lakh (9% growth YoY – ahead of our expectation of 8% growth). Standalone revenue grew 14% YoY on strong growth in all revenue streams. Standalone profits grew ~30% YoY (excluding one-time provision for ECL). On a consolidated basis, HCR Finland started to contribute to profits of MHRL. This was despite the operations of the Swedish resort being closed for renovations for most part of the year. The management indicated improvement in profitability of the subsidiary going forward
- ♦ To showcase its resorts and increase customer interaction beyond resorts, the company over past few quarters has adopted several innovative methods: (a) Heart to Heart program (carnivals), (b) India Travelogue (TV Show), and (c) Shikara rides and Diu beach festivals etc. The management also indicated that the recently-launched brand advertisement ([click here](#)) has garnered a strong audience. Benefits of these on-ground initiatives are clearly visible in the sustained member growth rate (9% YoY growth in FY17) and referral/ digital led new member additions (50% of new member additions)
- ♦ One of the hallmarks of MHRL's journey over the past few years has been the increasing contribution of annuity streams to revenue. Reliance on VO income is gradually declining with resort revenue and ASF gaining momentum. This shift enables to sustain revenue momentum incase of a drop in membership growth rate

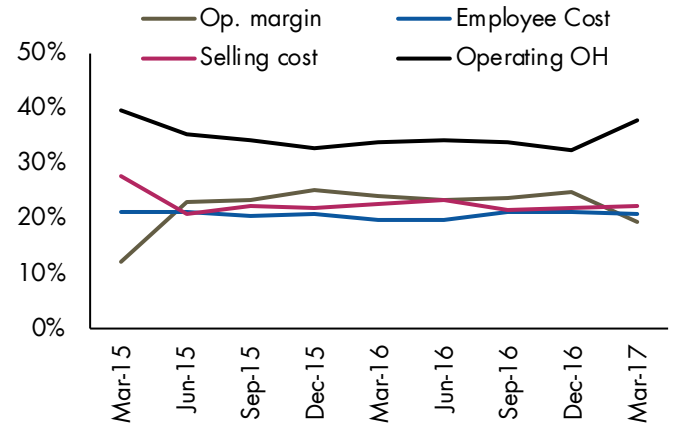
Exhibit 1: Improving granularity of the income streams



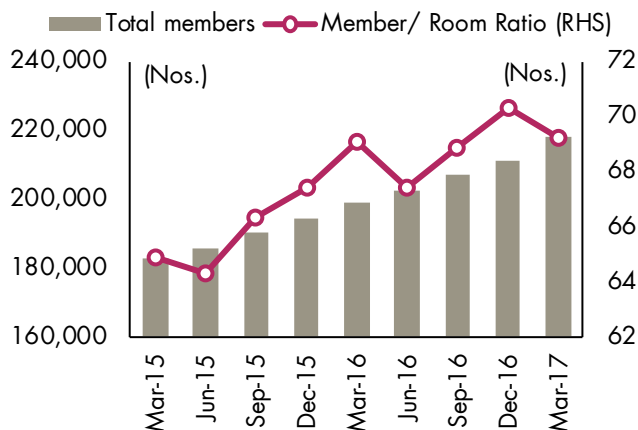
Source: Company, Axis Capital

Exhibit 2: Consistent revenue and PAT growth


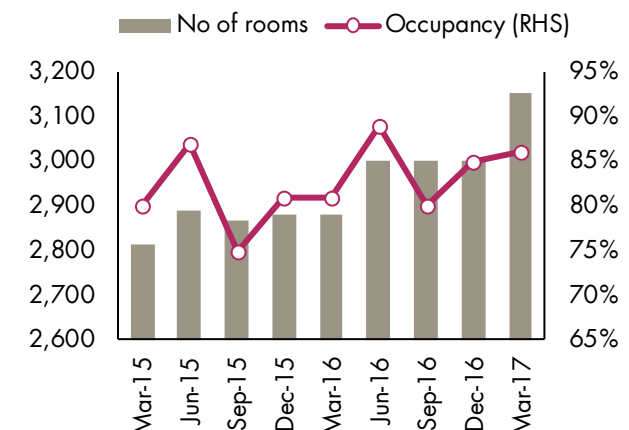
Source: Company, Axis Capital

Exhibit 3: Improving operating profitability


Source: Company, Axis Capital

Exhibit 4: Stablenumber/room ratio with consistent growth in member addition


Source: Company, Axis Capital

Exhibit 5: Occupancy levels maintained, room addition in line with membership growth


Source: Company, Axis Capital

Exhibit 6: Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net sales	3,105	2,455	26.4	2,705	14.8	24,484	22,822	7.3
EBITDA	592	592	(0.1)	664	(10.9)	4,216	3,219	31.0
Other income	53	44	18.5	43	23.1	158	278	(43.4)
PBIDT	644	637	1.2	707	(8.9)	4,373	3,497	25.0
Depreciation	148	186	(20.2)	154	(3.8)	1,326	1,059	25.2
Interest	0	0	(67.7)	0	122.0	212	197	7.6
PBT	496	451	10.1	553	(10.3)	2,835	2,241	26.5
Tax	178	146	21.8	196	(9.2)	854	786	8.7
Reported PAT	318	305	4.5	357	(10.9)	1,981	1,455	36.2
No. of shares (mn)	88	88	-	88	-	88	88	-
EBITDA margin (%)	19.1	24.1	-	24.6	-	17.2	14.1	-
PBIDT margin (%)	20.8	25.9	-	26.1	-	17.9	15.3	-
EPS - annualized (Rs.)	14.5	13.8	4.5	16.2	(10.9)	22.5	16.5	36.2

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	16,021	22,822	24,484	26,891
Other operating income	-	-	-	-
Total operating income	16,021	22,822	24,484	26,891
Total operating expenses	(13,389)	(19,603)	(20,269)	(21,885)
EBITDA	2,633	3,219	4,216	5,006
<i>EBITDA margin (%)</i>	<i>16.4</i>	<i>14.1</i>	<i>17.2</i>	<i>18.6</i>
Depreciation	(976)	(1,059)	(1,326)	(1,435)
EBIT	1,657	2,160	2,890	3,571
<i>Net interest</i>	<i>(152)</i>	<i>(197)</i>	<i>(212)</i>	<i>(185)</i>
Other income	108	278	158	165
Profit before tax	1,614	2,241	2,835	3,551
Total taxation	(564)	(786)	(854)	(1,094)
<i>Tax rate (%)</i>	<i>34.9</i>	<i>35.1</i>	<i>30.1</i>	<i>30.8</i>
Profit after tax	1,050	1,455	1,981	2,456
Minorities	(209)	(287)	-	-
<i>Profit/ Loss associate co(s)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Adjusted net profit	841	1,168	1,981	2,456
<i>Adj. PAT margin (%)</i>	<i>5.3</i>	<i>5.1</i>	<i>8.1</i>	<i>9.1</i>
Net non-recurring items	-	-	-	-
Reported net profit	841	1,168	1,981	2,456

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	881	882	882	882
Reserves & surplus	4,181	5,092	7,089	8,747
Net worth	5,061	5,974	7,971	9,629
Borrowing	6,842	7,509	5,546	4,796
Other non-current liabilities	18,984	21,181	22,903	25,235
Total liabilities	31,170	34,971	37,171	40,411
Gross fixed assets	19,365	19,829	23,644	25,549
Less: Depreciation	(5,940)	(7,078)	(8,388)	(9,824)
Net fixed assets	13,425	12,751	15,256	15,725
Add: Capital WIP	718	1,692	810	830
Total fixed assets	14,143	14,443	16,066	16,555
Other Investment	-	-	-	-
Inventory	3,794	3,954	5,049	5,302
Debtors	13,774	15,252	13,868	15,792
Cash & bank	1,115	2,142	153	433
Loans & advances	1,003	1,025	495	585
Current liabilities	5,093	4,639	5,760	6,368
Net current assets	14,590	17,734	13,806	15,743
Other non-current assets	1,826	1,757	6,695	7,509
Total assets	31,170	34,971	37,171	40,412

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,614	2,241	2,835	3,551
Depreciation & Amortisation	976	1,059	1,326	1,435
<i>Chg in working capital</i>	<i>(655)</i>	<i>355</i>	<i>(172)</i>	<i>(140)</i>
Cash flow from operations	1,079	3,038	3,157	3,738
<i>Capital expenditure</i>	<i>(938)</i>	<i>(1,835)</i>	<i>(2,512)</i>	<i>(1,924)</i>
Cash flow from investing	(129)	(1,234)	(2,784)	(1,759)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>-</i>	<i>(740)</i>	<i>(760)</i>	<i>(750)</i>
<i>Dividend paid</i>	<i>(355)</i>	<i>(548)</i>	<i>(650)</i>	<i>(764)</i>
Cash flow from financing	(476)	(1,527)	(1,622)	(1,699)
Net chg in cash	474	277	(1,249)	280

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	9.6	13.2	22.5	27.8
CEPS (Rs)	20.6	25.2	37.5	44.1
DPS (Rs)	5.0	6.2	7.4	8.7
Dividend payout ratio (%)	52.8	46.9	32.8	31.1
GROWTH				
Net sales (%)	97.3	42.4	7.3	9.8
EBITDA (%)	57.7	22.3	31.0	18.7
Adj net profit (%)	3.6	38.8	69.6	24.0
FDEPS (%)	3.5	38.6	69.6	24.0
PERFORMANCE				
RoE (%)	13.7	21.2	28.4	27.9
RoCE (%)	17.3	19.2	22.6	26.7
EFFICIENCY				
Asset turnover (x)	1.7	2.0	1.9	1.9
Sales/ total assets (x)	0.5	0.6	0.6	0.6
Working capital/ sales (x)	0.6	0.6	0.6	0.5
Receivable days	313.8	243.9	206.7	214.3
Inventory days	103.4	73.6	90.9	88.4
Payable days	136.9	84.5	74.5	75.1
FINANCIAL STABILITY				
Total debt/ equity (x)	1.1	1.3	0.7	0.5
Net debt/ equity (x)	0.9	0.9	0.7	0.5
Current ratio (x)	3.9	4.8	3.4	3.5
Interest cover (x)	10.9	11.0	13.6	19.3
VALUATION				
PE (x)	48.1	34.7	20.5	16.5
EV/ EBITDA (x)	17.5	14.3	10.9	9.0
EV/ Net sales (x)	2.9	2.0	1.9	1.7
PB (x)	8.0	6.8	5.1	4.2
Dividend yield (%)	1.1	1.4	1.6	1.9
Free cash flow yield (%)	2.3	4.4	0.9	4.9

Source: Company, Axis Capital

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Research Team

Sr. No	Name	Designation	E-mail
1	Poonam Darade	Research Associate	poonam.darade@axissecurities.in
2	Pankaj Bobade	Research Analyst	pankaj.bobade@axissecurities.in

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HOLD	Between 10% and -10%
SELL	Less than -10%

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