



MAHINDRA HOLIDAYS & RESORTS

Execution of strategy on track

India Equity Research | Leisure and Travel



Edelweiss
Ideas create, values protect

In our follow-up interaction with Mr Kavinder Singh, MD & CEO, Mahindra Holidays (MHRL); (*refer note*), he reiterated MHRL's rising focus on digital and referral channels to target suitable member-set, which will reduce cancellations and thus spur annuity income as well. MHRL has also stepped up its room expansion spree (set a property-wise target to add ~600 rooms over next 2 years) and continues to scout for further room addition opportunities. We believe MHRL's focus on acquiring right quality members will bolster profitability along with moderation in receivables, in turn impelling cash generation. Maintain 'BUY'.

Digital/referrals to drive memberships; focus on annuity income

MHRL continues to focus its advertising spend on digital and referral channels, as these provide potent leads/reach and have maximum conversion potential. While the company continues to target its core customer segment (28 plus years of age, married, SEC A+ & A), digital/referral channels are helping it further improve its efforts to acquire the right members. Also, appropriate acquisition channels will help MHRL garner members who will stick with it thus reducing cancellations and driving annuity income. The company is also looking at increasing average spend per member at its resorts and has initiated various measures for same. Share of annuity income catapulted to 46% in FY17 from 32% in FY10 and is well poised to further scale up as members sustain.

Room additions on track, though pace needs to accelerate

MHRL maintained pace in room additions with 148 rooms added in Q4FY17 (FY17: 273 rooms) and 55 in Q1FY18. Going ahead, the company plans to add ~600 rooms at 4 locations (Naldhera: 110, Asanora: 250, Ashtamudi: 100, Kandaghat: 150) at an investment outlay of ~INR6bn. While this will create required capacity to drive further member growth, it will only suffice for next 2 years. Hence, MHRL remains open to take rooms on lease and is also looking at acquiring standalone properties to augment room addition. It is also checking out international destinations for future expansions.

Outlook and valuations: cash flow spurt; maintain 'BUY'

We believe MHRL's focus on attracting and adding right quality members will lend impetus to profitability along with moderation in receivables, in turn boosting cash generation. We value standalone business using average DCF and P/E with subsidiaries valued separately. We maintain 'BUY' with TP of INR444.

Financials (Consolidated)

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenues (INR mn)	15,501	22,517	24,240	26,258
EBITDA (INR mn)	2,113	2,914	3,512	4,025
Adjusted Profit (INR mn)	868	1,486	1,884	2,193
Diluted EPS (INR)	9.9	16.8	14.2	16.5
Diluted P/E (x)	35.4	20.7	24.6	21.1
EV/EBITDA (x)	16.9	12.0	13.9	11.8
ROAE (%)	16.1	25.0	27.7	27.2

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: MAHH.BO, B: MHRL IN)

CMP	: INR 347
Target Price	: INR 444
52-week range (INR)	: 490 / 240
Share in issue (mn)	: 133.3
M cap (INR bn/USD mn)	: 46 / 720
Avg. Daily Vol. BSE/NSE ('000)	: 171.0

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	67.5	67.5	75.0
MF's, FI's & BKs	14.1	14.6	8.4
FII's	7.3	6.8	6.3
Others	11.2	11.1	10.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	5.9	(5.4)	(11.3)
3 months	8.4	(13.2)	(21.7)
12 months	22.7	11.4	(11.3)

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Chart 1: Focus on digital & referral has spiked

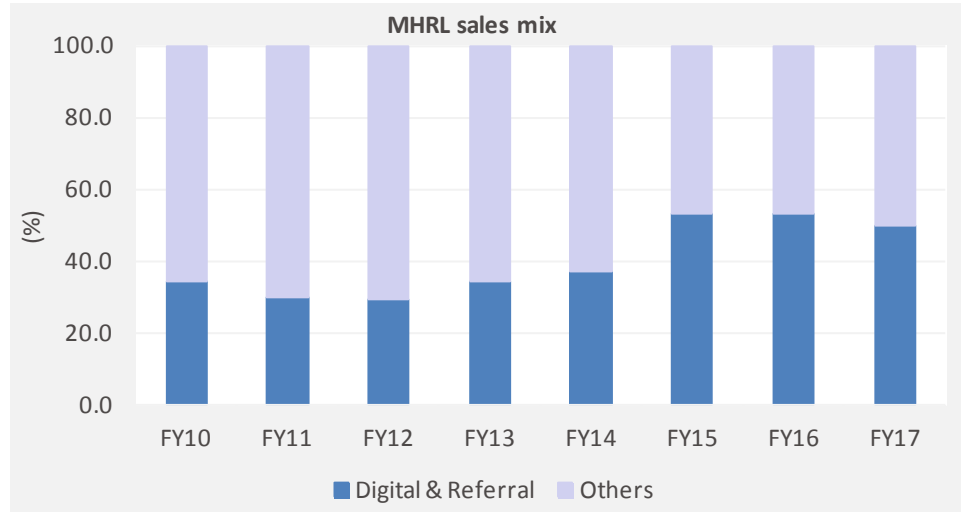


Chart 2: Share of annuity based revenues has increased from 32% to 46%

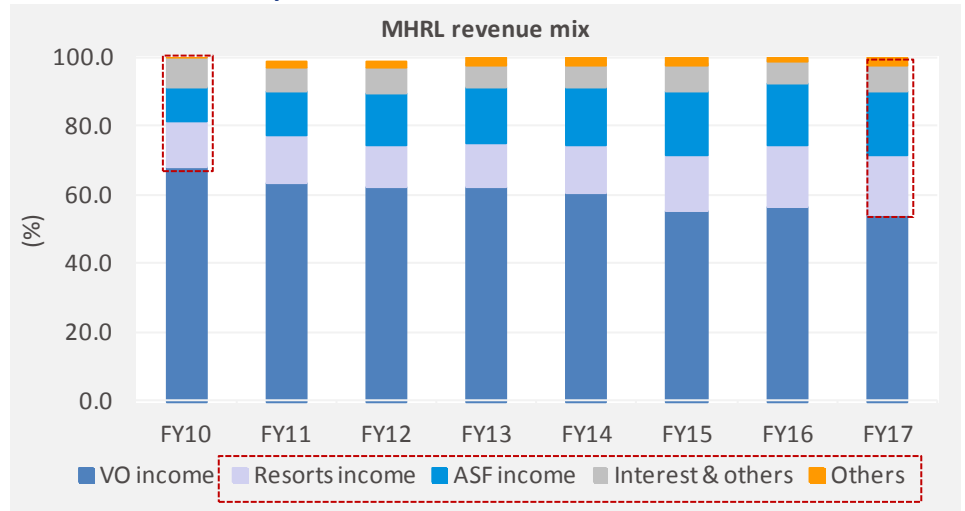
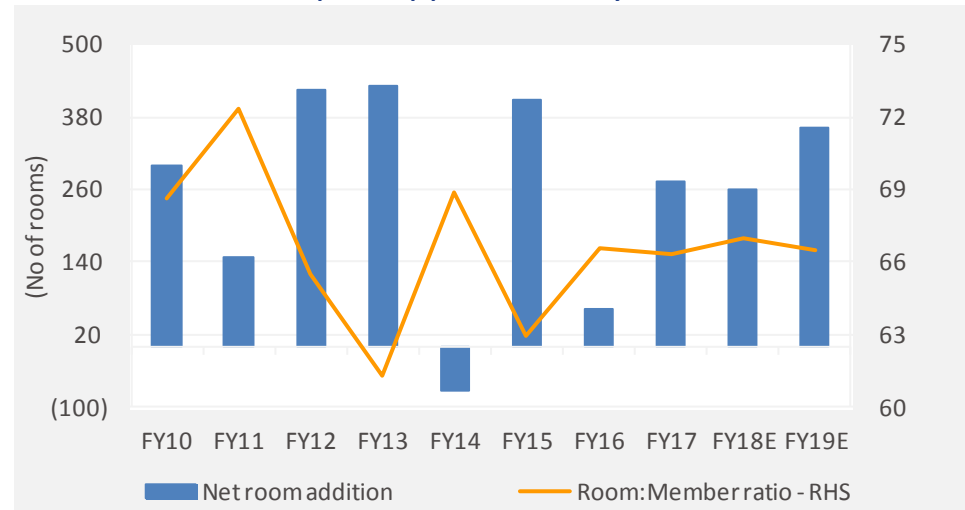


Chart 3: Room addition has picked up pace but will only suffice till FY19E



Source: Company, Edelweiss research

Table 1: Valuation

DCF Value (INR/share)	558
P/E ratio (INR/share)	272
Target value of standalone operations (INR/share)	415
Add: Valuation of Holiday Club + Other sub(INR/share)	29
Target price (INR/share)	444
CMP (INR/share)	347
upside/downside (%)	28.1

Source: Edelweiss research

Company Description

MHRL is a leading player in leisure and hospitality sector in India and offers a unique vacation ownership model to Indian consumers with resorts spread across India and abroad. Company provides holiday resorts over a period of time to members by charging an upfront membership fee and an annual charge, while retaining the title of the property. Members can avail a week of holiday annually for 25 continuous years, across any of the resorts based on certain preconditions. The company uses the upfront membership fee charged from members to build resorts. The company has almost 180,000 members spread across different membership schemes.

Club Mahindra is the flagship brand of the company along with Club Mahindra Fundays and Club Mahindra Travel. MHRL has also invested and now owns 86.4% stake (18.8% earlier) in Holiday Club resorts, Finland. Holiday Club offers conventional vacation ownership program and also engages in resort management contracts earning fee from managing resorts.

Investment Theme

Domestic Tourism boom: MHRL with its unique business model is in a sweet spot to gain from growth in the Indian domestic tourism.

Rising Resort level Income: Rising food & beverage and holiday activity revenue from members will increase profitability at resort level.

Asset ownership: Ownership rights of resort property partly financed with upfront payment from members lies with MHRL.

Key Risks

Low net member addition: New member addition member cancellations and consumer dissatisfaction are some of the factors that could provide risk to our estimates.

Aggressive accounting policy: Company follows an aggressive revenue recognition policy with 60% revenue being recognized upfront and services being offered over 25 years.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Company				
Net members added (#)	16,185	18,420	20,915	23,713
Resorts operational (#)	45	49	53	57
Net rooms addition (#)	63	273	260	361
Members: Room ratio (x)	67	66	67	67
Occupancy (%)	81.0	85.0	82.5	82.5
Room nights occupied (#)	742,685	861,227	947,551	1,040,688
Adm.fees/member (INR mn)	0.3	0.4	0.4	0.4
Ad spend/member (INR mn)				
Capex/net room (INR mn)	6	7	7	8
Tax rate (%)	32.4	35.0	32.0	31.0
Dividend payout (%)	50.7	35.9	28.9	22.4
Capex (INR bn)	2	2	2	4
Debtors (% of revenues)	94.2	90.2	97.8	94.7
Dep. (% gross block)	6.2	4.5	4.7	4.7
Yield on cash	28.8	35.8	12.0	15.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	15,501	22,517	24,240	26,258
Employee costs	3,622	5,128	5,340	5,844
S&M expenses	2,516	3,328	3,693	4,096
Other Expenses	7,250	11,147	11,695	12,293
Operating expenses	13,389	19,603	20,728	22,232
EBITDA	2,113	2,914	3,512	4,025
Depreciation	976	1,059	1,099	1,270
EBIT	1,137	1,855	2,413	2,755
Add: Other income	629	583	636	696
Less: Interest Expense	152	197	206	197
Profit Before Tax	1,614	2,241	2,844	3,253
Less: Provision for Tax	564	786	929	1,035
Associate profit share	(149)	-	-	-
Reported Profit	868	1,486	1,884	2,193
Adjusted Profit	868	1,486	1,884	2,193
Shares o/s (mn)	88	88	133	133
Basic EPS (INR)	9.9	16.8	14.2	16.5
Diluted shares o/s (mn)	88	88	133	133
Adj. Diluted EPS (INR)	9.9	16.8	14.2	16.5
Adjusted Cash EPS	21.6	28.8	24.1	27.7
Dividend per share (DPS)	5.0	5.0	5.0	5.0
Dividend Payout Ratio(%)	61.5	35.9	35.2	30.2

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	86.4	87.1	85.5	84.7
EBITDA margins	13.6	12.9	14.5	15.3
EBIT margins	7.3	8.2	10.0	10.5
Net Profit margins	5.6	6.6	7.8	8.4

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	91.1	45.3	7.7	8.3
EBITDA	17.5	37.9	20.5	14.6
Adjusted Profit	(11.0)	71.2	26.8	16.4
EPS	(11.1)	70.8	(15.6)	16.4

Leisure and Travel

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	881	882	1,327	1,327	
Reserves & Surplus	4,181	5,092	5,729	7,119	
Shareholders' funds	5,061	5,974	7,056	8,446	
Minority Interest	307	283	312	338	
Short term borrowings	112	182	182	182	
Long term borrowings	6,321	6,938	6,400	6,400	
Total Borrowings	6,434	7,120	6,582	6,582	
Long Term Liabilities	17,369	19,255	21,158	23,442	
Def. Tax Liability (net)	(456)	(440)	(228)	(22)	
Sources of funds	28,716	32,191	34,880	38,786	
Gross Block	15,319	15,247	16,344	18,313	
Net Block	12,115	11,577	12,384	13,546	
Capital work in progress	718	1,692	646	685	
Intangible Assets	1,310	1,174	2,468	2,477	
Total net fixed assets	14,143	14,443	15,498	16,708	
Non current investments	32	65	80	80	
Cash and Equivalents	1,693	3,113	4,275	5,759	
Inventories	3,794	3,954	3,999	4,092	
Sundry Debtors	9,344	10,200	18,143	20,252	
Loans & Advances	2,363	2,301	2,353	2,119	
Other Current Assets	4,430	5,052	12	12	
Current Assets (ex cash)	19,931	21,507	24,507	26,475	
Trade payable	2,577	2,749	3,525	3,791	
Other Current Liab	4,506	4,187	5,955	6,444	
Total Current Liab	7,083	6,937	9,479	10,236	
Net Curr Assets-ex cash	12,848	14,570	15,028	16,239	
Uses of funds	28,716	32,191	34,880	38,786	
BVPS (INR)	57.5	67.7	53.2	63.7	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	868	1,486	1,884	2,193	
Add: Depreciation	976	1,059	1,099	1,270	
Interest (Net of Tax)	99	128	212	206	
Others	326	307	2,387	1,850	
Less: Changes in WC	(150)	221	1,343	1,251	
Operating cash flow	2,418	2,759	4,239	4,269	
Less: Capex	1,741	1,478	2,153	2,481	
Free Cash Flow	678	1,281	2,086	1,788	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Mahindra Holidays & Resorts	720	24.5	21.0	13.9	11.7	27.7	27.2
Cox & Kings	749	12.6	-	7.6	-	12.2	-
EIH Ltd	1,262	67.6	45.8	26.0	18.7	4.8	5.6
Indian Hotels Co Ltd	1,771	79.3	45.7	19.7	16.7	5.4	8.8
Median	-	46.0	45.8	16.8	17.7	8.8	18.0
AVERAGE	-	46.0	37.5	16.8	15.7	12.5	13.8

Source: Edelweiss research

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	2,418	2,759	4,239	4,269
Investing cash flow	(3,857)	(1,426)	(1,536)	(1,785)
Financing cash flow	2,744	(57)	(1,546)	(1,000)
Net cash Flow	1,306	1,275	1,157	1,484
Capex	(1,741)	(1,478)	(2,153)	(2,481)
Dividend paid	(427)	(546)	(803)	(803)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	16.1	25.0	27.7	27.2
ROACE (%)	13.7	16.3	19.2	20.1
Inventory Days	97	63	60	56
Debtors Days	194	158	213	267
Payable Days	69	67	55	60
Cash Conversion Cycle	222	154	218	263
Current Ratio	3.1	3.5	3.0	3.1
Gross Debt/EBITDA	3.0	2.4	1.9	1.6
Gross Debt/Equity	1.2	1.1	0.9	0.7
Adjusted Debt/Equity	2.5	2.4	2.0	1.7
Net Debt/Equity	0.9	0.7	0.3	0.1
Interest Coverage Ratio	7.5	9.4	11.7	14.0

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.6	0.7	0.7	0.7
Fixed Asset Turnover	1.3	1.7	1.8	1.7
Equity Turnover	2.8	3.9	3.6	3.3

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	9.9	16.8	14.2	16.5
Y-o-Y growth (%)	(11.1)	70.8	(15.6)	16.4
Adjusted Cash EPS (INR)	21.6	28.8	24.1	27.7
Diluted P/E (x)	35.2	20.6	24.5	21.0
P/B (x)	6.0	5.1	6.5	5.5
EV / Sales (x)	2.3	1.6	2.0	1.8
EV / EBITDA (x)	16.9	12.0	13.9	11.7
Dividend Yield (%)	1.4	1.4	1.4	1.4

Additional Data

Directors Data

A K Nanda	Non-Executive Chairman	Cyrus J Guzder	Independent Director
Vineet Nayyar	Non-Executive Director	Rohit Khattar	Independent Director
Sridar A Iyengar	Independent Director	Sanjeev Aga	Director
V. S. Parthasarathy	Director	Radhika Shastry	Director
Kavinder Singh	Managing Director & CEO	S. Krishnan	CFO & Whole time Director

Auditors - Deloitte Haskins & Sells

**as per last available data*

Holding – Top10

	Perc. Holding		Perc. Holding
Norges Bank Invst Mgmt	6.01	HDFC Asset Mgmt	5.40
Government Pension Fund - Norway	3.94	SBI Funds Mgmt	3.12
Sundaram Asset Mgmt	1.57	Mirae Global Asset Mgmt	1.24
Reliance Capital	1.19	BNP Paribas Asset Mgmt	0.72
PPFAS Asset Mgmt	0.65	Dimensional Fund Advisors	0.54

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
10 Mar 2017	Mahindra & Mahindra Ltd	Sell	6658565	412.12
10 Mar 2017	Sbi Mutual Fund	Buy	2892221	410.00
10 Mar 2017	Hdfc Trustee Co.Ltd A/C Hdfc Midcap Opp Fund	Buy	2439000	410.00

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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Aditya Narain

Head of Research

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Coverage group(s) of stocks by primary analyst(s): Leisure and Travel

Cox & Kings, Mahindra Holidays & Resorts

Recent Research

Date	Company	Title	Price (INR)	Recos
03-Aug-17	Mahindra Holidays & Resorts	Stable quarter; inventory addition continues; <i>Result Update</i>	444	Buy
23-May-17	Mahindra Holidays & Resorts	Members swell; rooms expand; <i>Result Update</i>	473	Buy
02-Feb-17	Mahindra Holidays & Resorts	Unscathed by demonetisation; <i>Result Update</i>	434	Buy

Distribution of Ratings / Market Cap

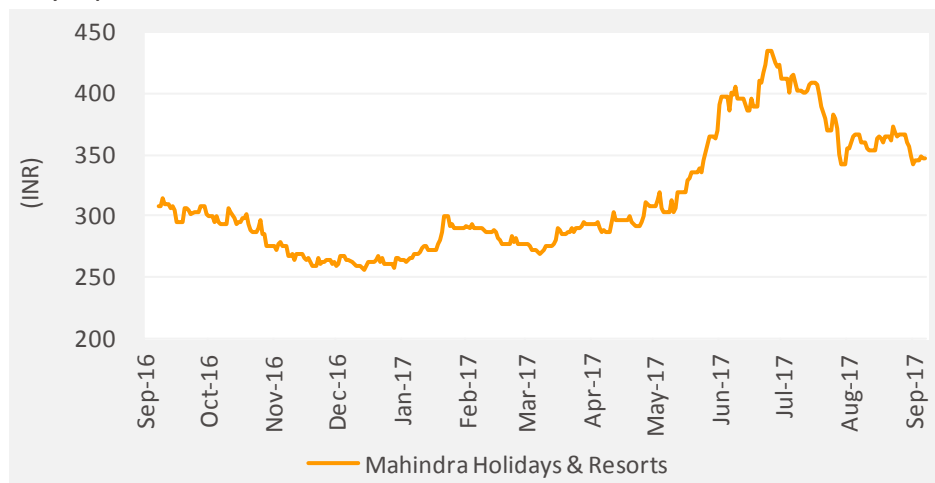
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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