

MAHINDRA HOLIDAYS & RESORTS

Altered acquisition strategy impairs growth

India Equity Research | Leisure and Travel



Mahindra Holidays & Resorts' (MHRL) Q2FY18 revenue, at INR2.4bn, fell 6% YoY (16% below estimate) due to the 14% YoY fall in member addition to ~3,700 as MHRL increased focus on adding quality members along with higher down payments. EBITDA contracted 11% YoY, while PAT slipped by mere 4% YoY aided by higher other income. MHRL added 3 new resorts and 95 rooms this quarter (Q1FY18: 55 rooms). Factoring in the impact of change in member strategy, we lower our member addition growth estimate leading to 7%/6% cut in FY18/19E EPS. However, improvement in debtors will be value accretive over long term, if executed rightly. We maintain 'BUY' with a target price of INR425 (INR444 earlier).

Member addition contracts 14% YoY; focus on quality additions

MHRL added 3,705 members during Q2FY18, down 14% YoY. The decline in net member addition was primarily on account of its strategic focus on acquiring customers with proclivity towards making higher down payments. As part of this initiative, the company has also discontinued the 48-months EMI scheme for 'Blue' category memberships. As a result, VO income fell 14% YoY to INR1.2bn, while ASF dipped 2% YoY to INR542mn, resort income grew 17% YoY on higher room rentals and F&B. Employee expenses reduced by 13% QoQ, as MHRL rationalised employee costs and employee expenses increased only 1% YoY. EBITDA contracted 11% YoY while PAT fell by only 4% YoY, helped by higher other income. For H1FY18, subsidiary operations (Holiday Club) also saw turnaround in performance, reporting PAT of EUR2.7mn versus loss of EUR1.7mn.

Room expansion gathers pace, 95 rooms added

MHRL added 3 new resorts and 95 rooms at Cochin, Singapore and Srinagar. The company has significantly stepped up its room addition in past 3 quarters. Going ahead, it plans to add 600 rooms across 4 locations at an investment outlay of INR6bn.

Outlook and valuations: Member growth cut; maintain 'BUY'

Q2FY18 performance was below expectation as focus on acquiring quality members and increasing share of down payments will limit growth. We, therefore, adjust our member addition growth leading to 7%/6% cut in FY18/19E EPS. However, this bodes well for debtor reduction which was an issue with MHRL and improvement in same will be value accretive over long run. We value standalone business using average DCF and P/E with subsidiaries valued separately. We maintain 'BUY' with TP of INR425 (INR444 earlier).

Financials (Consolidated)						(INR mn)		
Year to March	Q2FY18	Q2FY17	YoY %	Q1FY18	QoQ %	FY17	FY18E	FY19E
Net revenues	2,433	2,581	(5.7)	2,702	(9.9)	22,517	23,273	25,126
EBITDA	543	611	(11.1)	573	(5.2)	2,914	3,265	3,748
Adj. profit	317	329	(3.5)	323	(2.0)	1,486	1,751	2,064
Diluted EPS (INR)	2.4	3.7	(35.9)	3.7	(34.6)	16.8	13.2	15.6
Diluted P/E (x)						21.2	27.1	23.0
EV/EBITDA (x)						12.3	15.3	12.9
ROAE (%)						25.0	26.0	26.2

Note: Quarterly financials are for standalone

Edelweiss Research is also available on www.edelresearch.com, Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

EDELWEISS RATINGS	
Absolute Rating	BUY
Investment Characteristics	Growth
MARKET DATA (R: MAHH.BO, B: MHRL IN)	
CMP	: INR 356
Target Price	: INR 425
52-week range (INR)	: 490 / 240
Share in issue (mn)	: 133.3
M cap (INR bn/USD mn)	: 47 / 735
Avg. Daily Vol. BSE/NSE ('000)	: 173.8

SHARE HOLDING PATTERN (%)			
	Current	Q1FY18	Q4FY17
Promoters *	67.5	67.5	67.5
MF's, FI's & BKs	13.5	14.1	14.6
FII's	7.5	7.3	6.8
Others	11.5	11.2	11.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)			
	BSE Midcap Index	Stock	Stock over Index
1 month	8.4	22.0	13.6
3 months	8.5	42.8	34.3
12 months	26.8	118.9	92.1

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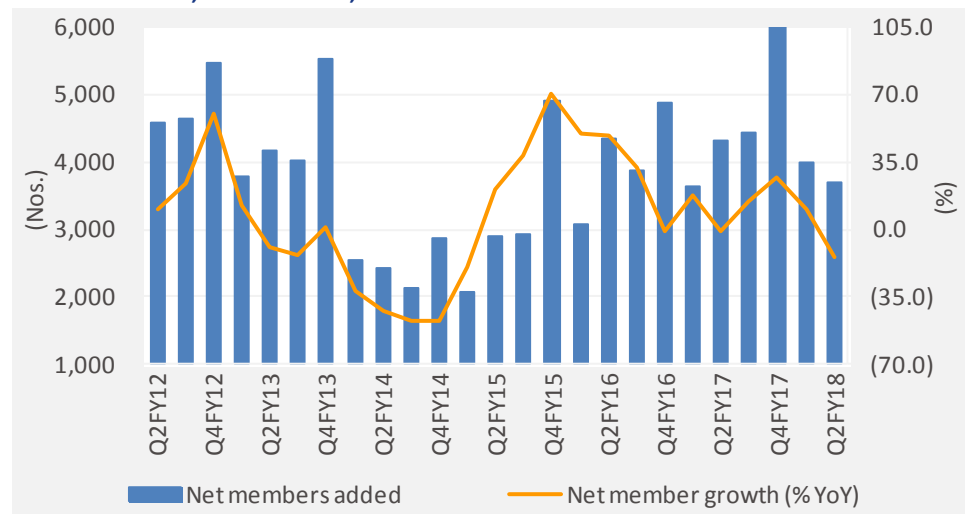
Q2FY18 Concall highlights:

Q2FY18

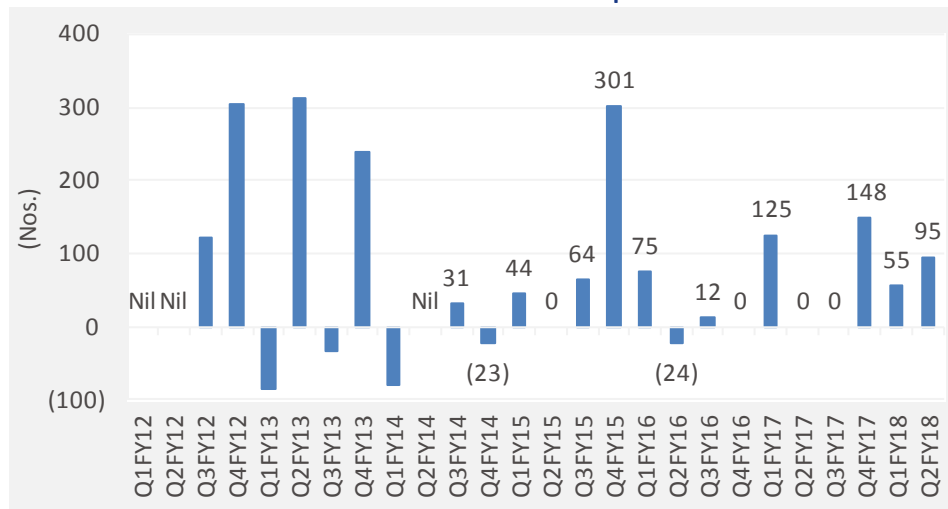
- Customer as a promoter score (CAPS) stood at 58% versus 51% last year
- MHRL launched a new product '*Club Mahindra Bliss*' this quarter
- Expense break-up:
 - Previous quarter saw significant increase as the company shifted off roll employees to company's pay roll. Recently, it has rationalised certain employee related costs which helped contain employee expenses.
- **Members**
 - Decline in net member additions was primarily on account of the company's strategic focus towards acquiring customers who are comfortable making higher down payments.
 - The main focus in member addition going forward will be towards:
 - Attracting the right profile of members
 - Make members do higher down payments
 - Use credit cards
 - MHRL has scrapped the 48 EMI Blue Studio Product
 - 48 EMIs in Blue category was leading to members exiting their memberships
 - The company has also driven higher collection of membership payments by customers through credit cards
 - This quarter, MHRL made progress in adding members who made higher down payments. Number of members who are making 50% down payment increased significantly over the quarter
 - Significant improvement was seen in credit card payments
 - Company doesn't believe the 3% increase in GST rate would have impacted member additions
 - While it has discontinued Blue EMI scheme, there has been no fall in share of Blue category
 - MHRL has also added another point based product called "Mahindra Bliss". The product is targeted at members aged over 50 years. Bliss is priced at INR1.8-1.9lakh
- **Marketing**
 - MHRL is tracking consumer behavior through ZoZo Days, Case in point the Rann of Kutchh event was offered to members and met with great response as the company had seen increased member interest for ZoZo Day
 - Acquisition cost stood significantly lower. Resort expenses also fell
 - Cost of acquisition was 23-24% dipping from around 25%
 - There are 3 components in cost of acquisition:

- Discounts
- Lead generation: That is an area the company is constantly trying to optimise. Some campaigns run, some don't
- Incentives
- **Holiday Club:**
 - There was a turnaround in the Finland property, from a loss of Euro1.7mn last year to Euro2.7mn this year.
 - Management stated the following reasons for same:
 - There has been added Russian tourist movement which had slowed down last year
 - The Spa hotel segment did considerably well. The Spa hotels business is expected to create opportunity for prospective members
 - Top line grew 13% YoY on constant currency basis
- **Capex/room expansion:**
 - The company added 150 units in Inventory for H1FY18 taking the total to 3,302 units, the same was driven by resort additions at 3 locations including:
 - Cochin
 - Singapore
 - Shrinagar
 - MHRL has also entered into an arrangement with various third party resorts across Europe and South-East Asia through which their members can exchange the Mahindra Room/Nights at a nominal fee and gain access to third party resorts. Likewise, International Cruise Option has also been started.
 - The company has an arrangement with various high-end properties in Sri Lanka (3), Thailand (3) and across Europe

Chart 1: Added 3,705 members; down 14% YoY



Source: Company, Edelweiss research

Chart 2: MHRL added 3 new resorts and 95 rooms this quarter


Source: Company, Edelweiss research

Table 1: Valuation of MHRL

DCF Value (INR/share)	539
P/E ratio (INR/share)	247
Target value of standalone operations (INR/share)	393
Add: Valuation of Holiday Club + Other sub(INR/share)	32
Target price (INR/share)	425
CMP (INR/share)	356
upside/downside (%)	19.4

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Net revenues	2,433	2,581	(5.7)	2,702	(9.9)	5,136	23,273	25,126
Staff costs	547	543	0.7	629	(13.0)	1,176	5,211	5,632
S&m expenses	-	556	(100.0)	531	(100.0)	531	3,340	3,763
Other expenses	1,343	870	54.4	970	38.5	2,313	11,456	11,984
Operating expenses	1,890	1,970	(4.0)	2,129	(11.2)	4,019	20,007	21,379
EBITDA	543	611	(11.1)	573	(5.2)	1,116	3,265	3,748
Depreciation	141	153	(7.5)	143	(1.0)	284	1,057	664
EBIT	402	458	(12.3)	430	(6.6)	832	2,208	3,084
Other income	86	34	154.9	65	32.9	151	652	712
Interest	-	-	211.4	-	(2.7)	-	206	197
Profit before tax	488	492	(0.8)	495	(1.4)	983	2,655	3,599
Provision for taxes	171	163	4.7	172	(0.4)	343	871	981
Reported net profit	317	329	(3.5)	323	(2.0)	640	1,751	2,064
Adjusted Profit	317	329	(3.5)	323	(2.0)	640	1,751	2,064
Diluted shares (mn)	132	88		88		132	133	133
Diluted EPS (INR)	2.4	3.7	(35.9)	3.7	(34.6)	6.1	13.2	15.6
Diluted P/E (x)	-	-		-		-	27.1	23.0
EV/EBITDA (x)	-	-		-		-	15.3	12.9
ROAE (%)	-	-		-		-	26.0	26.2
Employee cost	22.5	21.1		23.3		22.9	22.4	22.4
Other expenditure	55.2	33.7		35.9		45.0	49.2	47.7
Selling & marketing exp	-	21.6		19.6		10.3	14.4	15.0
Operating expenses	77.7	76.3		78.8		78.3	86.0	85.1
EBITDA	22.3	23.7		21.2		21.7	14.0	14.9
Reported net profit	13.0	12.7		12.0		12.5	7.5	8.2
Tax rate	35.1	33.2		34.7		34.9	32.8	27.3

Change in Estimates

	FY18E			FY19E			
	New	Old	% change	New	Old	% change	Comments
Net Revenue	23,273	24,240	(4.0)	25,126	26,258	(4.3)	Lower growth in member addition
EBITDA	3,265	3,512	(7.0)	3,748	4,025	(6.9)	
EBITDA Margin	14.0	14.5		14.9	15.3		
Adjusted PAT	1,751	1,884	(7.1)	2,064	2,193	(5.9)	
Net Profit Margin	7.5	7.8		8.2	8.4		
Capex	2,100	2,153	(2.4)	2,366	2,481	(4.6)	

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 95.1% stake 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	19,105	21,882
Resorts operational (#)	45	49	53	57
Net rooms addition (#)	63	273	246	334
Members: Room ratio (x)	67	66	67	67
Occupancy (%)	81.0	82.0	82.5	82.5
Capex/net room (INR mn)	32	1	6	6
Tax rate (%)	32.4	35.0	32.0	31.0
Dividend payout (%)	61.5	35.9	37.9	32.1
Capex (INR bn)	2	1	1	2

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	15,501	22,517	23,273	25,126
Employee costs	3,622	5,128	5,211	5,632
S&M expenses	2,516	3,328	3,340	3,763
Other Expenses	7,250	11,147	11,456	11,984
Operating expenses	13,389	19,603	20,007	21,379
EBITDA	2,113	2,914	3,265	3,748
Depreciation	976	1,059	1,057	1,189
EBIT	1,137	1,855	2,208	2,558
Add: Other income	628.57	582.84	652.14	712.03
Less: Interest Expense	152	197	206	197
Profit Before Tax	1,614	2,241	2,655	3,073
Less: Provision for Tax	564	786	871	981
Associate profit share	(149)	-	-	-
Reported Profit	868	1,486	1,751	2,064
Adjusted Profit	868	1,486	1,751	2,064
Shares o/s (mn)	88	88	133	133
Basic EPS (INR)	9.9	16.8	13.2	15.6
Diluted shares o/s (mn)	88	88	133	133
Adj. Diluted EPS (INR)	9.9	16.8	13.2	15.6
Adjusted Cash EPS	21.6	28.8	22.8	26.1
Dividend per share (DPS)	5.0	5.0	5.0	5.0
Dividend Payout Ratio(%)	61.5	35.9	37.9	32.1

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	86.4	87.1	86.0	85.1
EBITDA margins	13.6	12.9	14.0	14.9
EBIT margins	7.3	8.2	9.5	10.2
Net Profit margins	5.6	6.6	7.5	8.2

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	91.1	45.3	3.4	8.0
EBITDA	17.5	37.9	12.0	14.8
Adjusted Profit	(11.0)	71.2	17.9	17.8
EPS	(11.1)	70.8	(21.6)	17.8

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	5,596	6,857	
Shareholders' funds	5,061	5,974	6,923	8,184	
Minority Interest	307	283	315	343	
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	20,833	22,776	
Def. Tax Liability (net)	(456)	(440)	(226)	(15)	
Sources of funds	28,716	32,191	34,426	37,869	
Gross Block	15,319	15,247	16,293	18,149	
Net Block	12,115	11,577	12,374	13,506	
Capital work in progress	718	1,692	645	682	
Intangible Assets	1,310	1,174	2,468	2,477	
Total net fixed assets	14,143	14,443	15,487	16,664	
Non current investments	32	65	80	80	
Cash and Equivalents	1,693	3,113	4,435	5,885	
Inventories	3,794	3,954	3,994	4,085	
Sundry Debtors	9,344	10,200	17,487	19,102	
Loans & Advances	2,363	2,301	2,116	1,904	
Other Current Assets	4,430	5,052	12	12	
Current Assets (ex cash)	19,931	21,507	23,609	25,103	
Trade payable	2,577	2,749	3,405	3,648	
Other Current Liab	4,506	4,187	5,778	6,213	
Total Current Liab	7,083	6,937	9,184	9,862	
Net Curr Assets-ex cash	12,848	14,570	14,425	15,241	
Uses of funds	28,716	32,191	34,426	37,869	
BVPS (INR)	57.5	67.7	52.2	61.7	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	868	1,486	1,751	2,064	
Add: Depreciation	976	1,059	1,057	1,189	
Interest (Net of Tax)	99	128	214	211	
Others	326	307	2,640	1,868	
Less: Changes in WC	(150)	221	1,331	1,227	
Operating cash flow	2,418	2,759	4,331	4,104	
Less: Capex	1,741	1,478	2,101	2,366	
Free Cash Flow	678	1,281	2,230	1,738	

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	735	27.0	22.9	15.2	12.9	26.0	26.2
Cox & Kings	718	12.1		7.4		12.2	
ElH Ltd	1,345	72.4	47.5	30.3	21.9	4.6	5.8
Indian Hotels Co Ltd	1,841	89.1	51.0	20.4	17.3	5.4	8.8
Median	-	49.7	49.3	17.8	19.6	8.8	17.5
AVERAGE	-	50.1	40.5	18.3	17.3	12.0	13.6

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		2,418	2,759	4,331	4,104
Investing cash flow		(3,857)	(1,426)	(1,467)	(1,654)
Financing cash flow		2,744	(57)	(1,546)	(1,000)
Net cash Flow		1,306	1,275	1,317	1,450
Capex		(1,741)	(1,478)	(2,101)	(2,366)
Dividend paid		(427)	(546)	(803)	(803)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	16.1	25.0	26.0	26.2
ROACE (%)	13.7	16.3	17.8	19.1
Inventory Days	97	63	62	59
Debtors Days	194	158	217	266
Payable Days	69	67	56	60
Cash Conversion Cycle	222	154	223	264
Current Ratio	3.1	3.5	3.1	3.1
Gross Debt/EBITDA	3.0	2.4	2.0	1.8
Gross Debt/Equity	1.2	1.1	0.9	0.8
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	10.7	13.0

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	1.7	1.6
Equity Turnover	2.8	3.9	3.4	3.2

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	9.9	16.8	13.2	15.6
Y-o-Y growth (%)	(11.1)	70.8	(21.6)	17.8
Adjusted Cash EPS (INR)	21.6	28.8	22.8	26.1
Diluted P/E (x)	36.2	21.2	27.0	22.9
P/B (x)	6.2	5.3	6.8	5.8
EV / Sales (x)	2.4	1.6	2.1	1.9
EV / EBITDA (x)	17.2	12.3	15.2	12.9
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 Shastri	Director
Kavinder Singh	Managing Director & CEO	S. Krishnan	CFO & Whole time Director

Auditors - Deloitte Haskins & Sells

**as per last available data*

Holding - Top 10

	Perc. Holding		Perc. Holding
Norges Bank Invst Mgmt	6.01	HDFC Asset Mgmt	5.40
Government Pension Fund - Norway	3.94	SBI Funds Mgmt	2.82
Sundaram Asset Mgmt	1.58	Mirae Global Asset Mgmt	1.24
Reliance Capital	1.19	BNP Paribas	0.97
BNP Paribas Asset Mgmt	0.72	PPFAS Asset Mgmt	0.65

**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

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Coverage group(s) of stocks by primary analyst(s):

Cox & Kings, Mahindra Holidays & Resorts

Recent Research

Date	Company	Title	Price (INR)	Recos
20-Sep-17	Mahindra Holidays & Resorts (Coffee With CEO)	Execution of strategy on track; Visit Note	347	Buy
03-Aug-17	Mahindra Holidays & Resorts	Stable quarter; inventory addition continues; Result Update	379	Buy
23-May-17	Mahindra	Members swell; rooms	473	Buy

Distribution of Ratings / Market Cap

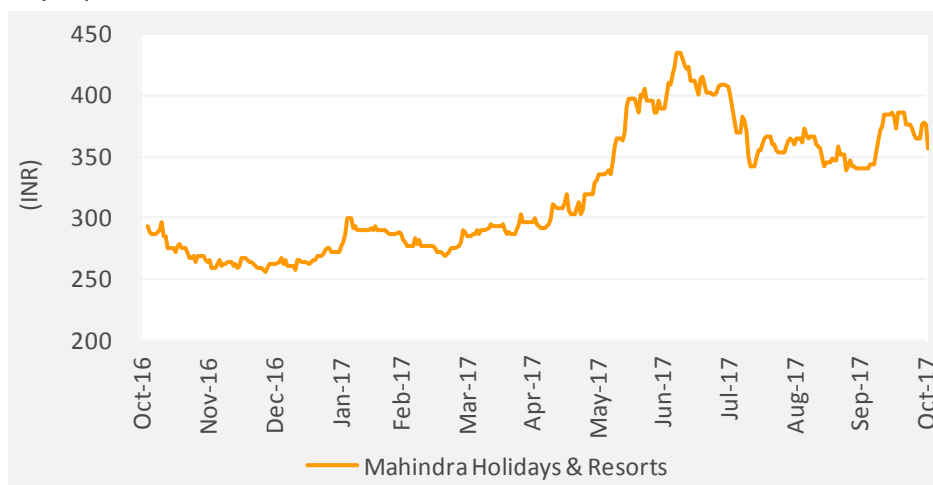
Edelweiss Research Coverage Universe

	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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