

MHRIL Q2FY21

Financial Results & Highlights

Brief Company Introduction

Club Mahindra Holidays is an Indian travel company founded in 1996. It is a part of the Mahindra Group and provides holidays on a timeshare basis. Mahindra Holiday & Resorts India Limited (MHRIL) is a part of the Leisure and Hospitality sector of the Mahindra Group. Vacation ownership is its key offering and "Club Mahindra" is its flagship brand. MHRIL offers family holidays primarily through vacation ownership memberships for over a period of 25/10 years. Today The boast a fast growing customer base of over 235,000 members and 50+ resorts at some of the most exotic locations in both India and abroad.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	212	250	-15.20%	196	8.16%	408	514	-20.62%
PBT	46	28	64.29%	36	27.78%	82	56	46.43%
PAT	34	18	88.89%	27	25.93%	61	36	69.44%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	511	574	-10.98%	325	57.23%	836	1200	-30.33%
PBT	41	36	13.89%	-35	217.14%	6	46	-86.96%
PAT	29	24	20.83%	-32	190.63%	-4	25	-116.00%

Detailed Results

1. The quarter was down for the company with a fall in consolidated revenues of 11% YoY but PBT and PAT grew 14% and 21% YoY respectively.
2. H1 performance was down with 30% YoY revenue decline and PAT loss of nearly Rs 4 Cr mainly due to the fall in Q1.
3. QoQ performance was phenomenal for the company.
4. The deferred revenue pool was at Rs 5376 Cr.
5. Strong cash position at Rs 791 Cr and receivables were at Rs 1596 Cr.
6. Occupancy was at 30% for Q2. As of 30th Sep 2020, 37 resorts are operational.
7. The member additions in Q2 were at 2681. Net member additions in H1 were at 3951 with the member base rising to 2,60,955.

8. Digital referral and member engagement rose to an all-time high of 53% in Q2 FY21.
9. The company reduced overall costs by 29% YoY with a major reduction of 36% and 41% in Sales & Marketing and Other Expenses respectively.
10. The company is continuing with planned Capital investments in two ongoing projects at Goa & Ashtamudi, Kerala.
11. In HCRO, 30 out of the 33 resorts are operational.
12. The company saw 90%+ in key resorts during the holiday season.
13. Revenues for HCRO were down 19% YoY. The company saw a cost reduction of 16% YoY. The unit delivered positive PBT in Q2 and PAT of 0.55 million euros.
14. The company also had a forex loss of Rs 9.11 Cr in Q2.
15. Consolidated EBITDA margin improved 356 bps YoY to 24.1% in Q2.

Investors conference call Highlights

1. The company has 80% of its resorts in about 6 to 7 hours from the metro or big cities.
2. Through Great Rockport investment, MHRIL is looking to introduce soft adventure-related experiences for its members in its resorts.
3. The management believes in the growth potential for the company as its target market is the 17 million to 20 million households having an income of INR 15 lakhs and more. The number of households who own vacation ownerships is approximately 350,000, which translates to barely 2% penetration. Thus there is a big room for market expansion and capture for the whole industry here.
4. The major savings in other expenses have come due to a reduction in resort consumption, energy, and travel expenses. These include waivers received by minimum electricity demand charges from various state electricity boards as well.
5. As of date, MHRIL has 26 resorts which are Bureau Veritas platinum-certified as COVID-safe and 15 resorts are ISO 22000 under food and food safety management system-certified.
6. Resort occupancy in Sep was at 41% and is expected to rise with the onset of the festive season in Q3.
7. The states of Maharashtra, Uttarakhand, and Himachal have seen occupancies shooting upwards of 75%.
8. At present, 52 resorts are operational.
9. The company has continued on with its Capex plan despite the disruption from COVID-19.
10. In Q1, the majority of additions were in GoZest while in Q2 the majority of additions have shifted to the flagship 25-year product.

11. The major strategy for GoZest is to create a funnel for future conversion and getting a younger audience for the company. The cost of acquisitions during the upgrade to the 25-year product is almost nil. This should help to bring down the weighted average cost of acquisition going forward.
12. Video sales have proved to be more efficient for the company since the volumes of meetings have gone up as compared to in-person meetings. The company is also offering an option to the customers to be able to lock-in their 25 years of holidays or 10 years of holidays at the current prices which has been very helpful in improving conversion given the uncertainty.
13. The company hasn't seen any defaults in its VO business due to the pandemic. Some people have requested deferral which comes with a penalty but it is a very small portion of the set.
14. The ultimate goal for sales in MHRIL is to sell the flagship CMH25 product. The lower tenure products also are mostly geared to convert into CMH25 at the end.
15. In the company's portfolio, the dominant part comes from the 25-year product, followed by 10 and followed by 3 and this is the way the management wants it to be.
16. Although Rocksport was a small investment for MHRIL, it is considered to be a strategic one as it creates an option for member engagement in cities and offers something unique which has not been offered by MHRIL before. This new channel can also act as a source for lead generation for the company. The company has only bought 7% of the equity as of now.
17. Despite the big cash reserves, the company is not in a position to pay out the dividend or even do a buyout because its net worth is negative according to Ind AS 115 due to an accounting entry called transition reserve. The company is taking this matter up with the Ministry of Corporate Affairs.
18. The inventory addition of 152 rooms in Goa is expected to be completed by Q4. MHRIL is also looking to add 57 more rooms to this location. The company is also looking at expansion opportunities in some of its existing resorts.

Analyst's View

MHRIL is the leading vacation ownership company in India. It has a unique business model where the company funds its Capex from customer's advance money. Because of this model, they are in a much better position against other hotels in terms of Balance Sheet strength. The cash of around 791 Cr on the books gives them the comfort to tide the storm of COVID. The company is doing well to expand on its short term offering of Gozest which can be used to convert to 25-year memberships in the future and on its online referral and user engagement growth. The company has also done strategic investments into Rocksport which should help increase user engagement in cities and also provide a source for lead generation. Moreover, HCRO is doing much better with a swift come back to profitability in Q2. Even though travel and tourism is a sector that seems to take a long time to recover and come back to normalcy, MHRIL is utilizing its firepower (read Balance Sheet strength) to continue its expansion plans in Goa and other sites. It remains to be seen how long will it take for sentiments to normalize in the travel sector and whether the company will be able to capitalize on its resilient balance sheet and cash reserves to make



any aggressive move on Capex. Nonetheless, given the company's resilient model and the current valuation is not too far from its replacement cost, MHRIL can turn out to be a pivotal travel sector stock in the times ahead.

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