

MHRIL Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	246	267	-7.87%	212	16.04%	654	782	-16.37%
PBT	55	39	41.03%	46	19.57%	137	95	44.21%
PAT	41	25	64.00%	34	20.59%	101	61	65.57%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	515	600	-14.17%	511	0.78%	1351	1800	-24.94%
PBT	7	14	-50.00%	41	-82.93%	13	60	-78.33%
PAT	-1	2	-150.00%	29	-103.45%	-4	27	-114.81%

Detailed Results

1. The quarter was down for the company with a fall in consolidated revenues of 14% YoY while PBT fell 50% YoY and PAT was at a loss of Rs 0.67 Cr.
2. 9M performance was down with 25% YoY revenue decline and PAT loss of nearly Rs 4 Cr mainly due to the fall in Q1.
3. The deferred revenue pool was at Rs 5388 Cr.
4. Strong cash position at Rs 848 Cr and receivables were at Rs 1585 Cr.
5. Occupancy was at 75% for Q3. As of 31st Dec 2020, 2 new resorts were added taking the total room inventory up to 3776 rooms. Resort occupancy was at 85% in Dec.
6. The member additions in Q3 were at 3291. The cumulative member base was at 2,63,952.
7. Digital referral and member engagement rose to an all-time high of 56% in Q3 FY21.
8. The company reduced overall costs by 17% YoY with a major reduction of 13% and 21% in Sales & Marketing and Other Expenses respectively while rent & employee expenses were down 27% and 14% respectively.

9. The company is continuing with planned Capital investments in two ongoing projects at Goa & Ashtamudi, Kerala.
10. 9M Standalone EBITDA margin improved 750 bps YoY to 33.8% in Q3.
11. Standalone revenues were down 8% YoY while PBT and PAT rose 41% YoY and 64% YoY respectively.
12. Revenues for HCRO were down 26% YoY. The unit delivered an operating loss in Q3 of 1.57 million euros and PAT loss of 2.54 million euros.
13. Resort occupancy started falling due to the second wave and went from 71% in Oct to 37% in Dec.
14. The main drop was in Spa Hotels which saw revenue fall of 40% YoY. HCRO also saw cost savings of 19% YoY.
15. The company also had a forex loss of Rs 7.05 Cr in Q3.
16. Consolidated EBITDA margin improved 300 bps YoY to 19.6% in Q3.

Investors conference call Highlights

1. The management has stated that the focus on acquiring members with higher down payment continues.
2. The company has also launched the 'Travel with Confidence' campaign in Q3 where it offers members discounted COVID tests, travel, and COVID insurance, special discounts for renting a car from Mahindra First Choice Wheels alliance along with sanitizing the car.
3. The company has introduced new resort experiences and thematic evenings to ensure physical distancing and has also re-engineered menus with in-room dining services.
4. The company has also completed the stake purchase of 6.67% in Great Rockspport.
5. The company also added a new resort in Jaipur. This facility has been leased and operated by MHRIL.
6. The sales of the 25-year product have been coming back to normal levels in Q3 and the product mix is shifting more towards the long end.
7. Digital marketing and adoption have indeed risen fast in FY21 and the high referral % has helped keep the cost of customer acquisition low for the company.
8. There was indeed a dip in the deferred revenue pool in YTD FY21 as a large number of member additions in the first 6 months were in lower tenured products. But this situation was abnormal and has seen reversal already in Q3.
9. The management has refrained from providing any specific guidance but has stated that member additions and resort occupancy trends are expected to continue at current momentum.
10. The management expects the situation in HCRO to improve in the next quarter when the second wave subsides and businesses start opening up as usual.
11. The management expects HCRO to bounce back fast in FY22 once things normalize.
12. On a broad level, the management is looking to utilize the cash in books to fund room inventory expansion in the next 3-4 years through greenfield, brownfield, and expansion through acquisition. The plan is to add roughly 1500+ rooms for Rs 1200 Cr.
13. The management remains confident of retaining HCRO and its prospects in the future despite the Mahindra Group's announcement that it will be looking to exit low ROI and low profitable businesses.
14. The management expects the Finland business to start its resurgence in FY22 and make a full turnaround in the next 2-3 years.

15. The management has clarified that a member cannot start holidaying till full payment has been received and thus no issues arise in case of a member default as no services have been rendered at that point.

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 company saw a good standalone performance in India with resort occupancy rising to 85% in Dec. the company is also seeing the long duration products come back to normalcy and product mix shifting towards the long end. It has a big cash chest of above Rs 800 Cr which it plans to utilize to expand room inventory in the next 3-4 years. On the other hand, HCRO has seen performance fall due to the second wave coming back to Europe. But the management remains confident of HCRO's prospects in the near future. 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 moves 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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