



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## MAHINDRA HOLIDAYS RESORTS INDIA LIMITED

### WHAT WE LIKE

#### LARGEST VACATION OWNERSHIP COMPANY OUTSIDE USA

Founded in 1996, MHRIL has established vacation ownership business in India and is the market leader in the business — with over **2.43 lakh members** and **61 resorts**. Together with its Finnish subsidiary, Holiday Club Resorts (HCR), Mahindra Holidays has over **3 lakhs members** and **94 resorts** in Asia and Europe, making it the largest vacation ownership company outside the USA and among the Top 7 vacation ownership companies in the world, in terms of member base.

#### TRAVEL INDUSTRY TAILWINDS

**Indian Travel Industry Size:** \$ 247 billion  
**CAGR expected till 2028:** 7%

**Key Emerging Trends:** Explosive growth in outbound travel, rise in weekend travel, high propensity to spend on in-trip experience, increase in average travel budget.

#### STEADY GROWTH IN MEMBERSHIP AND ROOM INVENTORY

The cumulative vacation ownership membership for MHRIL has more than **doubled** in the past 9 years to **2,43,574 members** in FY19 from **1,09,884** in FY10. In the same period, room inventory has doubled to **3593** in FY19 from **1476** in FY10 and no of resorts has also risen to **61** from **30** in the same period.

#### STEADY & RISING FLOAT THROUGH MEMBER ADVANCES

Members of MHRIL pay their membership fees in advance. This acts like a float for the company for building its inventory and maintaining its resort operation efficiently. Even after having a good capex program of increasing room inventory, MHRIL has cash reserves of **Rs 572 Cr**.

#### F&B INCOME GROWING @ 19% CAGR IN PAST 10 YEARS

F&B income has risen to **Rs 130 Cr** in FY19 from **Rs 23 Cr** in FY09 @ **CAGR of 19%**. It now forms **15%** of the total standalone revenue of MHRIL. This ratio is going to increase further going ahead and enhance profitability.

### WHAT WE DON'T LIKE

#### ACQUISITION OF FINLAND BASED HOLIDAY CLUB RESORTS (HCR)

On a standalone level MHRIL is debt free with lots of cash on the books. But this acquisition has put a lot of debt in the consolidated books. Consolidated debt in MHRIL is **Rs 830 Cr** in FY19. HCR has been facing a lot of pressure in its business and is **yet to turn profitable** since MHRIL took first stake in it. It is yet to be seen how this acquisition pans out for the company in the long run.

#### AGGRESSIVE ACCOUNTING IN THE PAST

MHRIL used to book **60%** of its vacation ownership income in the first year. Only **40%** of the income used to be equally distributed over the life of the membership (25 years). This led to a higher revenue booking in the accounts. However, Ind-AS115 became applicable from FY19, the revenue has been adjusted accordingly which represent the true picture.

#### SLOW GROWTH IN STANDALONE REVENUES

Company has not been able to grow standalone revenues at a decent rate in the last few years. Part of the reason is the change in accounting policy in the last year. However, things are looking bright for FY20 and beyond.

#### CONSTANT NEED OF NEW MEMBERS AND ROOM INVENTORY TO FUEL GROWTH

Company continues to be in need of new members as old member retire or leave after a point. Additionally, they need to continuously look to grow their inventory as with increasing number of members, critical inventory management becomes difficult.

#### MEETING CUSTOMER EXPECTATION IS A CONTINUOUS CHALLENGE

MHRIL has to maintain a balance between the inventory of resorts and growth of customers. This is of great importance due to the long service duration. As there are multiple choices of locations and seasons, there could be occasions where the first choice of holiday requested by the customers may not be available, which may result in dissatisfaction.

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