MHRIL Q1FY21

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)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	196	265	-26.04%	256	-23.44%
PBT	36	29	24.14%	29	24.14%
PAT	27	18	50.00%	-169*	-115.98%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	325	626	-48.08%	631	-48.49%
PBT	-35	10	-450.00%	41	-185.37%
PAT	-32	8	-500.00%	-161*	80.12%

*Includes a onetime impact on taxes of Rs 199.7 Cr

Detailed Results

1. The quarter was dismal for the company with a fall in consolidated revenues of 48% YoY and negative PBT of Rs 35 Cr.
2. Deferred revenue pool was at Rs 5430 Cr.
3. Strong cash position at Rs 776 Cr and receivables were at Rs 1636 Cr.
4. Occupancy was at 0% for Q1. As of 31st July 2020, 20 resorts are operational.
5. The member base was at 258,528 with net additions of 1270 in Q1.
6. One-off overdue cancellation of 820 members was done in this quarter.
7. The company saw consumer preference shift towards Gozest which is the 3-year membership due to its lower transaction value.

8. The company reduced overall costs by 37% YoY with a major reduction of 57% and 55% in Sales & Marketing and Other Expenses respectively.
9. The company partnered with Bureau Veritas, a global leader in Testing, Inspection, and Certification of 'CovidSafe' protocols.
10. In HCRO, 30 out of the 33 resorts are operational.
11. The company saw 90%+ in key resorts from mid-June. The company expects significant growth in performance in Q2.
12. Revenues for HCRo were down 66% YoY. The company saw a cost reduction of 53% YoY. Overall loss after tax for the unit was at 4.78 million euros.
13. The company also had a forex loss of Rs 8.6 Cr in Q1.
14. Consolidated EBITDA margin improved 67 bps YoY to 15.3% in Q1.

Investors conference call Highlights

1. 19 out of the company's resorts are already certified COVID Safe from Bureau Veritas.
2. The company has moved on to a 100% virtual sales mechanism.
3. Despite no resort income in Q1 at Mahindra Holidays, the company delivered profit before tax growth of 27.3% YoY.
4. HCRO was EBITDA positive in June.
5. The company saw occupancies of 35-40% in Rajasthan in July.
6. The company's capex plans to reach 5000 units by FY24 remains on track.
7. The management has stated that the company will continue to follow the partly owned partly leased model to maintain enough room inventory to service the growing member base and will look to invest in distressed assets if the opportunity arises.
8. The current ratio of owned to leased is at 60:40.
9. The management's primary aim is to maintain cumulative member base growth of 8-9% per year.
10. The management believes that once member growth comes to 20,000, resort income will also start to contribute significantly.
11. The dominant product sold in Q1 was the 3-year membership Gozest.
12. The management insists that the customer acquisition costs for Gozest is significantly lower than that for the flagship 25-year product. This is mainly because the company is doing simple low-cost digital campaigns only for the 3-year product on its existing database which has a significant number leads.

13. The management has stated that the customer does not need to worry about any lost holidays in the current period as the company allows for holiday accumulation for up to 3 years.

14. Almost 7 of the company's resorts are now running on solar power.

15. The management is confident that some of the cost savings in Q1 are sustainable and can persist in the long term.

16. The net impact on deferred revenue from the cancellations in Q1 was at Rs 100 Cr.

17. The company's primary aim for the Gozest product is to use this as an entry-level product and convert these customers into 25-year members. This is the way short term products are utilized across the industry.

18. The 820 cancellations done in Q1 was done by the company itself and is one time only. This was done as the company felt that it couldn't collect from these members due to COVID-19 so it took the step to directly cancel these memberships.

19. The company is adding 150 rooms in a Goa project while 57 rooms are to be added to another project in Goa. Another project for 33 rooms is going on in Ashtamundi. The company is also looking to add 150 rooms to Ganpatipule in phases and 160 units to an existing lot in Kandaghat, Shimla.

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 776 Cr on the books gives them the comfort to tide the storm of COVID. The company is looking to use this cash to buy out good properties at distressed valuations in the current COVID pandemic. The company is also doing well to expand on its short term offering of Gozest which can be used to convert to 25-year memberships in the future. Moreover, HCRO is doing much better with a swift come back to normalcy in June. Even though travel and tourism is a sector which seems to take a long time to recover and come back to normalcy, MHRIL has the firepower (read Balance Sheet strength) to make some interesting moves. 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. Nonetheless, given the company's resilient model and the current valuation being close to its replacement cost, MHRIL can turn out to be a pivotal travel sector in the times ahead.