



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## MAHINDRA HOLIDAYS & RESORTS INDIA LTD

### WHAT WE LIKE

#### LARGEST VACATION OWNERSHIP COMPANY OUTSIDE THE USA

Founded in 1996, MHRIL has established a vacation ownership business in India and is the market leader with over 2.62 lakhs members and 100+ resorts globally. Together with its Finnish subsidiary, Holiday Club Resorts (HCR), Mahindra Holidays has over 3 lakhs members and a bouquet of 111 resorts in Asia and Europe, making it the largest vacation ownership company outside the USA.

#### LONG TERM TAILWINDS FOR THE TRAVEL INDUSTRY & MHRIL

The industry is expected to effectively grow 4x in size to \$512 billion in 2028 from the low base of \$122 billion in 2020 due to COVID. Adding to the steady economic growth prospects and expanding young population in India, the long-term demand for travel remains resilient.

The onset of COVID-19 has sparked a transformation in travel with an emphasis on hygiene, safety, and staycations at resorts which should provide MHRIL with an additional edge due to its great resort variety and quality of services on site.

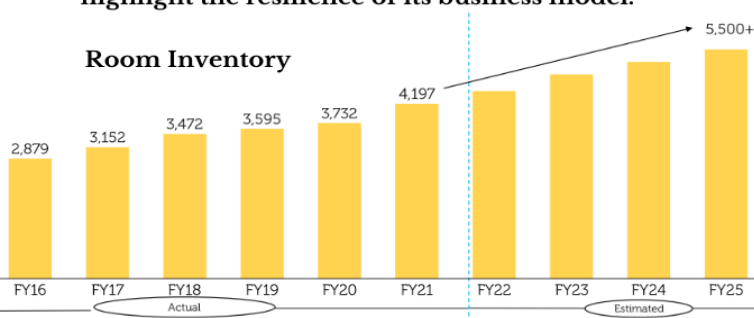
MHRIL is also looking to expand its set of offerings by going beyond the resort and curating other experiences like golfing, rock climbing & yoga through products like Club M Select.

#### DIFFERENTIATED BUSINESS MODEL

MHRIL's VO business model enables it to collect membership fees upfront which serves as a guarantee of future revenues and a ready asset base. This has helped MHRIL to expand to 4356 rooms currently, all the while maintaining a debt-free balance sheet, cash chest of Rs 1108 Cr, receivables of Rs 1135 Cr and a deferred revenue pool of Rs 5052 Cr as of Dec 2021.

The company has added 624 rooms since the start of COVID-19 and plans to add 1200+ more rooms which highlight the resilience of its business model.

Room Inventory



### WHAT WE DON'T LIKE

#### POOR CAPITAL ALLOCATION

When MHRIL is not being able to satisfy its customers' demand in terms of requisite inventory in the domestic business, it should not have invested in another VO company HCRO. This is a Classic case of Peter Lynch's "Diworsification". Poor capital allocation is also evident in the constant high level of cash that should have been invested in growing the inventory and resort counts. However, we at SSS believe that with Dr. Anish Shah at the helm of M&M, the capital allocation strategy at MHRIL is showing some improvement and much-needed aggression in building up the inventory.

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

The company continues to be in need of new members as old members retire or leave after a point. Additionally, they need to continuously look to grow their inventory as with increasing number of members. So inventory management is critical especially considering that demand is almost always outpacing supply for room inventory for MHRIL.

#### PUSH PRODUCT WHICH NEEDS LONG TERM COMMITMENT FROM CUSTOMERS

Vacation ownership is a long-term commitment of 10 years or 25 years. We are in a world where attention spans and consumer preferences are changing faster and faster and long term commitments are rare. With the rise of multiple options and choices in holidaying, the company has to maintain high A&P to sell these products and customer acquisition cost remains high.

#### MEETING CUSTOMER EXPECTATIONS REMAINS A CHALLENGE

MHRIL has to maintain a balance between the inventory of resorts and growth of customers. These assume significance given the long service duration of the key products. As there are multiple choices of locations and seasons, there are occasions where the first choice of holiday requested by the customers are not available, resulting in customer dissatisfaction.

#### UKRAINE RUSSIA WAR

Travel and Tourism sentiment in all of Europe particularly Northern Europe countries should stay down due to the ongoing war between Russia & Ukraine. This should put pressure on HCR which was finally turning profitable for MHRIL.

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