

Mahindra Holidays

CMP : ₹357

Target price: ₹590

HP* : Upto 3 years

Our Vriddhi pick for the month of September 2017 is Mahindra Holidays & Resorts India Ltd. We see the leisure industry in India has come a full circle from a family outing to the expectations of leisure activities and entertainment-packed holidays. Also, the growing per capita income and growing economy has evolved the concept of holidays. Additionally, there has been more acceptance of the business model of Mahindra Holidays, which was earlier written off by many.

Investment Rationale

1) Better brand pull – The company is witnessing better brand pull which are increasing conversions for the company. The social media posts by members and higher digital promotions are also helping the company to increase the trust level among the customers. There has been consistent growth in the membership with the current membership count of 2.22 lakh as against 1.09 lakh 8 years back.

2) Digitisation changing the lead generation mix – The company has been seeing traction due to increased internet penetration. This is enabling the company to generate better leads and at low cost. The customer acquisitions through digital route in Q1FY18 made up 50% of the total sales, which is a big achievement considering the company believed that the direct sales route was the backbone of the business model. This transition is helping the company generate better leads, increase the penetration and lower the cost of acquisition of customers.

3) F&B and holiday activities seeing traction – The company has been packaging the holidays and designing leisure activities as per the age group. This is seeing increasing acceptance from the customer base and augmenting its margins.

4) Inventory addition – The company's current room inventory stands at 3,200 rooms and we expect the company to add 550 units over the next two years. This, along with room leasing, has been seeing improvement in the inventory, which indicates company's expected growth in the user base.

Valuation

With a great start to the Q1FY18 quarter with highest ever addition of ~4000 members, we expect the company to reach new membership of ~15,000 members. With the average membership rate of Rs 3.5 lakh, we feel the company should be able to clock sales growth of ~20% over FY18. We expect the company to grow at a CAGR of 19% CAGR over FY17-19. Hence, we expect 65% upside from the current levels with target price of Rs 590 for the period of three years.

Company Details

Industry	Hotel, Resort & Restaurants
Chairman	Arun Nanda
Managing Director	Kavinder Singh
Company Secretary	Dinesh Shetty
BSE Code	533088

Key Market Indicators (Standalone)

Latest Date	11-Sep-2017
Latest Price (Rs)	361.10
Previous Close (Rs)	363.85
1 Day Price Var%	-0.76
1 Year Price Var%	21.12
52 Week High (Rs)	469.00
52 Week Low (Rs)	257.37
Beta	0.99
Face Value (Rs)	10.00
Industry PE	52.29
TTM Period	201706
TTM EPS(Rs)	9.96
TTM CEPS(Rs)	14.45
Price/TTM CEPS(x)	25.24
TTM PE (x)	36.60
Price/BV(x)	6.46
EV/TTM EBITDA(x)	17.81
EV/TTM Sales(x)	4.42
Dividend Yield%	0.91
MCap/TTM Sales(x)	4.58
Latest Book Value (Rs)	56.42
Market Cap (Rs. In Crores)	4859.10
EV (Rs. In Crores)	4691.25
Latest no. of shares (In Crores)	13.33

Share Holding Pattern as on 201706

Promoter No of shares (In Crores)	8.99
Promoter %	67.46
FII No of Shares (In Crores)	0.97
FII %	7.27
Total No of Shares (In Crores)	13.33
Free Float %	32.54

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DSJ INVESTMENT ADVISORY UNIT (CRU)

Better Brand Pull

Mahindra Holidays has earned a name for itself in leisure industry. Due to its unique business model, it has been able to fund its growth internally. Also, vacation ownership model provides the capex to own and construct property at very low cost of capital.

The company took time to educate customers about the new concept and slowly this concept is finding takers in the market. The company is now reaping the benefits of first mover advantage. 'Club Mahindra' is now a well-established brand. Customers understand the business model and have faith in the company now.

With growing members and more people relishing the holidaying experience, the trust and image has steadily improved. This is visible in trip advisor rating which has paced higher. Also, the company's effort of creating holiday as an experience by investing more on in-house activities (sports, leisure, adventures and serenity) has enhanced its image and given it an edge over other competitors.

The company has been steadily able to increase its penetration and reach and has doubled its membership base in 8 years.

Digitisation changing the lead generation mix

With the launch of Reliance Jio services and higher internet penetration, the management has seen a change in sales mix tilting towards digital payments. The company saw its sales mix now having 50% of sales coming through digital channels. Also, the management feels that the lead generation through digital medium has given them strong leads leading to bettering conversions. This was seen in the high customer acquisition of ~4000 in Q1FY18.

F&B and holiday activities seeing traction

The company's resorts have holiday activities built around learning, adventure, relaxation and local experiences, depending on the terrain and type of holiday the destination offers. It has institutionalised 'Thrill Zones' (outdoor games and adventure activities). It has 'Toddler's Space' for infants and 'Crocodile Club' for kids which provide a range of activities that combine learning and entertainment. In F&B segment, the company has introduced speciality restaurants, theme dining and events such as Barbeque Bay, Cruise Dining and Celebrity Chef. All these facilities are offered to the members under combo offers at attractive prices. These activities included in the packages have attracted new members and renewals have also seen traction.

Inventory addition

Mahindra Holidays added 273 new units to its room inventory, taking the total room inventory to 3,152 units across its 49 resorts in FY17. Also, 55 units got added in Q1FY18, which has taken the total room inventory to 3207 units. This includes new destinations such as Hatgad (near Saputara in Maharashtra), Wayanad (Kerala), Jodhpur and Jaipur (Rajasthan) as well as existing locations where further inventory was added. New international destinations include Malaysia, Thailand, Dubai and Austria.

The company is planning for greenfield expansion at four locations with capex of Rs 600 crore. Around 600 rooms would be added to the inventory over the next 2-3 years. The projected four locations include Naldehra (Himachal Pradesh), Assanora (Goa), Ashtamudi (Kerala) and Kandaghat (Himachal Pradesh).



Consistent growth in membership from last 8 years



Customer acquisitions through digital route reached 50% of total sales



F&B and holiday activities attracting new customers

Industry growth outlook

According to a report by BCG and Google India titled 'Demystifying the Indian Online Traveller', Indian passenger travel market is expected to grow at 11-11.5% by 2020. Also, the hotel industry's growth is also expected to be buoyant at 13% to \$13bn by 2020.

We see higher interest among youth in adventure tourism and water sports. These avenues and good locations are attracting families to new holiday spots.

We see strategic locations of Mahindra's resorts near beach, hill, Himalayas or jungle provides ample scope to expand its offering and F&B services.

Also, a survey by 'Make my trip' in late 2016 suggests that 30% of new travellers fall in the age group of 18 to 24 years. Also, spending has increased to Rs 50,000 for short haul and Rs 1 lakh for the long haul. Also, the frequency of vacationing has increased to 3-4 weekend combined with a long holiday.

Financial Performance

In FY17, revenue grew by 42.4% to Rs 2282 cr from 1602.12 cr on YoY basis. EBITDA margin declined from 17.04% to 14.6% YoY due to high operating expenses. PAT rose by 71.16% YoY in FY17 to Rs 148.58 cr. Total income in Q1FY18 was Rs 276.7 cr as against Rs 253.9 cr in Q1FY17. PAT in Q1FY18 rose by 6.9% YoY to Rs 32.34 cr.

For FY17, company delivered ROE and ROCE of 20.67% and 33.72% respectively. For FY16 and FY17, company's debt-equity ratio has improved to zero, which was 2.07x in FY15. Interest coverage ratio in FY17 was 17.25x. Company has paid dividend of Rs 5 per equity share in FY17.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	1088.73	951.53	794.85	777.52	701.55
Total Income	1105.93	963.94	807.56	798.93	715.94
Total Expenditure	832.09	714.86	606.76	612.19	528.23
PBITD	273.85	249.08	200.80	186.74	187.71
PAT	130.65	113.59	79.02	94.53	106.98
Dividend %	50.00	50.00	40.00	40.00	40.00
Adj. EPS(Rs)	9.87	8.60	5.98	7.16	8.50

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201706	201703	Q on Q Var%	201606	Y on Y Var%
Net Sales	270.22	310.47	-12.96	249.67	8.23
Total Expenditure	212.91	251.30	-15.27	192.09	10.84
PBITD (Excl OI)	57.31	59.17	-3.15	57.58	-0.47
PAT	32.34	31.82	1.63	30.24	6.93
PBITDM% (Excl OI)	21.21	19.06	11.28	23.06	-8.02
PBITDM%	23.61	20.76	13.73	24.77	-4.68
PATM%	11.97	10.25	16.78	12.11	-1.16
Adj. EPS(Rs)	2.44	2.40	1.67	2.29	6.55



**600 new units (rooms)
to be added over next
2-3 years**



**Resort income grew
by 10% and F&B
segment's income
grew by 12% YoY**



**Hotel industry to
grow at 13% to \$13bn
by 2020**

About the company

Mahindra Holidays & Resorts India Limited is one of the prominent players in the leisure hospitality industry. Mahindra Holidays, which was founded in 1996, has by now become the market leader in the leisure hospitality

business in India. Apart from providing quality rooms in the form of furnished apartments and cottages at resorts in unique and popular destinations, the company offers its vacation ownership members family-friendly amenities, including dining, holiday activities, spa and wellness facilities for a complete holiday experience.

