

CMP: ₹ 310

Target: ₹ 400 (29%)

Target Period: 12 months

BUY

July 13, 2023

## Multiple levers in place to fuel growth...

**About the stock:** Mahindra Holiday's (MHRIL) enjoys a strong brand patronage through its brand 'Club Mahindra' and is one of the leaders in leisure hospitality space. **Over the years it has solidified its presence in a unique and sustainable Vacation Ownership (VO) business model with more than 25 years of track record.**

- MHRIL has a healthy base of more than **2.8 Lakh + members** who ensures steady cash flows and multi-year source of value creation across the tenure of membership. It has a robust room inventory of **4940 rooms at 102 resorts** (including 82 properties in India and 20 in South East Asia & Middle East)
- MHRIL enjoys a healthy balance sheet with strong cash & investments worth ₹ 647 crores. Despite being asset heavy, MHRIL continues to be debt free (at standalone level) which depicts inherent strength of the business model.

### Key Investment Thesis:

- Strong room inventory pipeline to perk membership:** MHRIL has significantly accelerated room inventory over the last three years with average annual key additions increasing from 221 during FY14-20 to 372 keys in FY21-23. Subsequently, member/room ratio enhanced from 71x in FY14 to 57x in FY23. **Going forward, company has envisaged to add more than 1600+ keys over the next 3-4 years** (visibility of 750 keys in FY24) **and has embarked capex of ₹ 1600-1700 crore** (~₹ 1 crore capex per key). We model in 800 rooms over the next two years taking the total count to 5740 rooms by FY25E. Healthy room addition trajectory would in-turn lead to increase in membership base over the same period. **Assuming member/room ratio will sustain at current levels (56-57x), we factor in ~19000 annual membership addition during FY24-25E taking the overall count to 3.2L+ members (CAGR: 6.5%).**
- Resort income to be the key growth driver:** For MHRIL, despite record number of room additions in FY22-23, it reported healthy occupancy rate of 84%. **As a result, MHRIL registered its highest ever resort income of ₹ 323 crore in FY23 (up 67% YoY) with share in overall revenue enhancing to 27% (20% in FY22, pre-covid levels: 24%).** With occupancy rate expected to sustain at healthy levels (86-88%) on a rising member base, we **expect resort income to grow at 19% CAGR** with share increasing to 30% in FY25E.

### Rating and Target Price

- MHRIL is expected to be a key beneficiary of strong industry tailwinds such as robust recovery in room occupancies, an expanding aspirational consumer segment and low penetration of VO market in India (~2% vs. 11% in USA) providing significant headroom for growth. Furthermore, sustained inflation in average room rates is expected to drive demand for VO model.
- We initiate coverage with a **BUY** rating
- We value MHRIL at ₹ 400 per share (based on 20x FY25E EV/EBITDA)



### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	6,221.6
Total Debt (FY23) (₹ crore)	-
Cash (FY23) (₹ crore)	647.6
EV (₹ crore)	5,574.0
52 Week H / L	318 / 221
Equity Capital (₹ crore)	200.7
Face Value (₹)	10.0

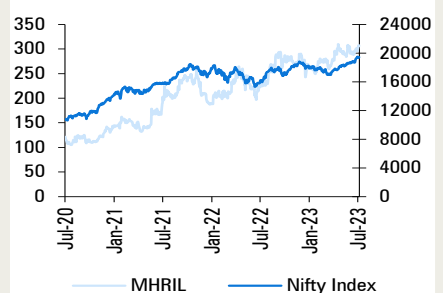
### Shareholding Pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	67.2	67.1	67.0	67.0
FII	4.9	5.1	5.0	5.1
DII	9.7	8.3	8.2	8.1
Others	18.2	19.5	19.8	19.7

### Risks to our call

- Delay in commissioning of new properties/resorts
- Lower than expected occupancy rate

### Price Performance



### Research Analyst

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### Key Financial Summary

Financials	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	977.0	822.2	960.7	1,196.2	7.0%	1,357.0	1,520.3	12.7%
EBITDA	181.5	199.6	234.5	272.9	14.6%	327.0	369.4	16.3%
EBITDA Margin (%)	18.6	24.3	24.4	22.8		24.1	24.3	
Net Profit	-108.2	125.8	151.3	158.6		187.8	210.8	15.3%
EPS (₹)	-8.1	9.5	7.6	7.9		9.4	10.5	
P/E (x)	-38.1	32.8	40.9	39.2		33.1	29.5	
EV/EBITDA (x)	19.4	18.6	23.6	20.4		17.1	15.1	
RoCE (%)	79.4	54.5	39.8	32.6		30.4	27.6	
RoE (%)	-61.4	37.6	26.8	21.3		20.1	18.4	

Source: Company, ICICI Direct Research

## Company Background

Mahindra Holidays & Resorts India (MHRIL) is a leading player in the leisure hospitality industry in India and market leader in vacation ownership (VO) business model. 'Club Mahindra (CM-25)' is the company's flagship product in the vacation ownership business, wherein the company sells vacation ownership and provides holiday facilities to members for a specified period each year, over a number of years. It has solidified its presence in a unique and sustainable business model with its membership base increasing by ~2x over the last decade (2.8L+ membership base). MHRIL has a complete product portfolio that covers all key life-stage segments — GoZest for young families (<30 years age group), longer term Club Mahindra (CMH25 and CMH15) for families in age group of 30+ years and Bliss for 50+ years. MHRIL has presence in overall 135 destinations including 82 properties in India and 20 properties in South-East Asia and Middle East. It also has 33 resorts in Europe across Finland, Sweden and Spain through its wholly owned subsidiary Holiday Club Resort Oy (HCR).

MHRIL has various revenue streams broadly classified into fixed (VO, ASF) and variable (Resort income, Interest income):

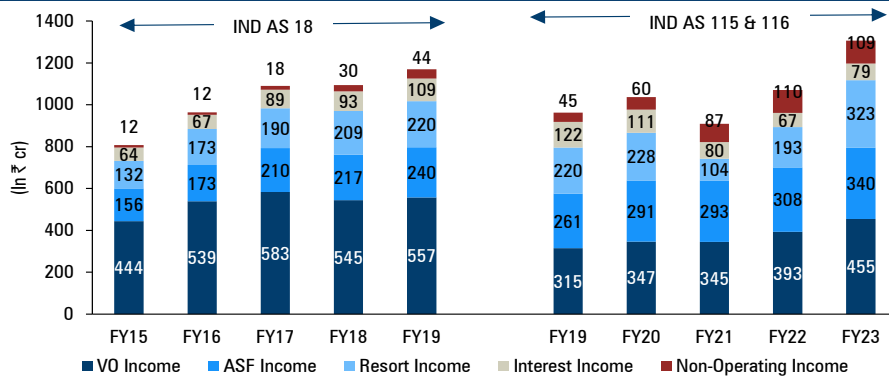
a) **Vacation Ownership:** The membership fee is collected either in full upfront or through EMI plans. Revenue will be recognised on a straight-line basis over the tenure of membership (VO forms 38% of revenues). The revenue which will be recognised in future periods are disclosed under other liabilities as deferred revenue.

As on FY23, company had deferred revenue pool worth ₹ 5326 crore which provides steady revenue visibility for the VO fees going forward. Cashflow from upfront payment enables MHRIL to fund its growth capex requirements

b) **Annual Subscription fee:** Members are charged an annual fee and the same is recognised as income on accrual basis. The cashflow from this stream is utilised towards incurring annual operating expenses for the resort (ASF forms 28% of revenue).

c) **Resort Income & other income:** Resort income majorly includes spends on F&B and other holiday activities (~27% of sales). Higher the occupancy rate, higher will be the resort income. Company in FY23 has carried out several resort and region-specific campaigns and personalised communication to drive member holidays. **Additionally, the company also encourages members to upgrade to higher tenure products as well as to higher seasons and room configuration within the same product (recorded highest ever upgrades in FY23 at ₹ 188 crore).**

Exhibit 1: Revenue break-up across various streams



Source: Company, ICICI Direct Research

Membership Plan for CM- 25 (₹)		
Product	Apartment Type	Upfront Premium
Purple	2 BR	22,66,520.0
Purple	1 BR	13,10,330.0
Purple	STU	10,20,370.0
Red	2 BR	15,74,810.0
Red	1 BR	9,06,920.0
Red	STU	6,79,800.0
White	2 BR	10,58,620.0
White	1 BR	6,85,980.0
White	STU	5,13,320.0
Blue	2 BR	8,50,030.0
Blue	1 BR	4,91,830.0
Blue	STU	3,71,980.0

Source: Company, ICICI Direct Research. Besides the membership fee, an individual needs to pay annual subscription fee of ₹ 19,823 for studio apartment & ₹ 27,852 for 1 bedroom

Product Description	
Product	Description
Purple	This membership provides the best of holiday adventures for the peak season as well as the non-peak season.
Red	The Red Club Mahindra membership too allows visitors to go on holiday whenever they want. However, super-peak seasons are off-limits for these members.
White	The White Club Mahindra membership is for those who want to enjoy a less crowded stay at the Club Mahindra resorts at times that are less 'peaky'. This includes national holidays, festival seasons, and vacation times.
Blue	The Blue Club Mahindra membership is for those who want to avoid all the peak seasons while on holiday.

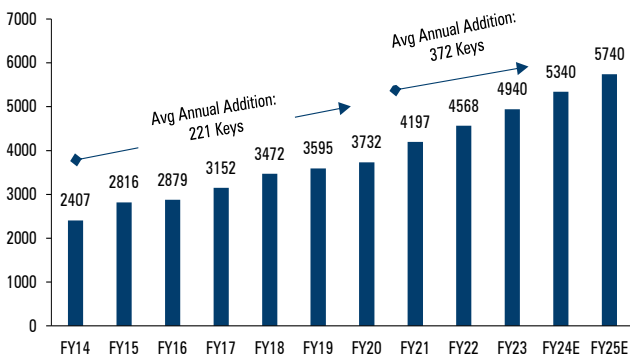
Source: Company, ICICI Direct Research

# Investment Rationale

## Strong room inventory pipeline to perk up membership

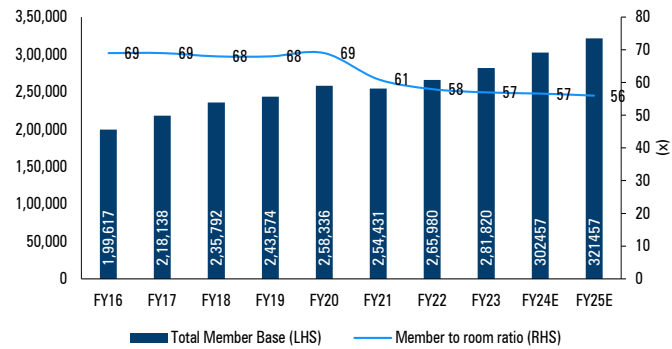
MHRIL has significantly accelerated room inventory over the last three years with average annual key additions increasing from 221 during FY14-20 to 372 keys in FY21-23. Subsequently, member/room ratio enhanced from 71x in FY14 to 57x in FY23. **Improvement in member/room ratio enables company to service clients better which in-turn leads to higher referrals.** Going forward, company has envisaged to add more than 1600+ keys over the next 3-4 years (visibility of 750 keys in FY24) and has embarked capex of ₹ 1600-1700 crore (~₹ 1 crore capex per key). Additions are planned through both greenfield and expansion projects. New projects are planned at Ganpatipule (Maharashtra) and Theog (Himachal Pradesh), whereas expansion projects include Kandaghat (Himachal Pradesh), Assonora (Goa) and Puducherry (exhibit: 4). It also has land bank at several other destinations, including at some of its existing resorts, which provides further flexibility in adding inventory on an ongoing basis. We model in 800 rooms over the next two years taking the total count to 5740 rooms by FY25E. Healthy room addition trajectory would in-turn lead to increase in membership base over the next two years. **Assuming member/room ratio will sustain at current levels, we factor in ~19000 annual membership addition during FY24-25E taking the overall count to 3.2L+ members (CAGR: 6.5%).**

Exhibit 2: Healthy inventory pipeline...



Source: Company, ICICI Direct Research \*As of FY23

Exhibit 3: ... to enhance membership base



Source: Company, ICICI Direct Research \*As of FY23

Exhibit 4: Upcoming projects for MHRIL

## Greenfield/Brownfield/Acquisition in FY24: 6 Projects/ 740 Keys



### Expansion Projects (~ 290 keys)

### Greenfield (~380 keys)

**Ongoing**

**Kandaghat, HP**

72-key resort - being expanded by 185 keys to make a 257-key flagship resort. Construction commenced in Feb'22

**Ongoing**

**Assonora, Goa**

3<sup>rd</sup> Phase of constructing 44 keys commenced in Oct'22 to make this a 244-key resort.

**New**

**Puducherry**

Expansion of 62 keys to make this a 187 key resort. Construction expected to commence in Q1 of FY24

**New**

**Ganpatipule, MH**

Abutting sea coast of the Arabian Sea in the Konkan region. 236 keys resort. Expected commencement of construction in April'23

Construction to commence for 141 Keys Resort at Theog, HP

**New**

**Acquisition**

**Tree House, Jaipur**

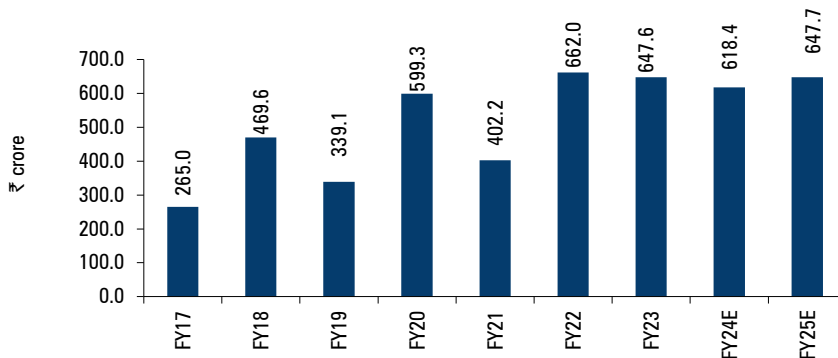
73 Keys Resort Acquisition & upgradation to be completed in Q1 of FY24

Source: Company, ICICI Direct Research \*As of FY23

## Health B/S to drive the aforesaid capex requirements...

MHRIL enjoys a healthy balance sheet and has strong cash & investments worth ₹ 650 crore (as on FY23). Company's unique business model of charging upfront membership fees has been of great strength especially during the downcycles. Its strategy has been to own a significant part of the room inventory which entails higher capex requirements (cost of development per key: ~₹ 1 crore). Nonetheless, despite being asset heavy, company continues to be debt free indicating inherent strength of the business model. **We model in capex of ₹ 900 crore in FY24-25E (nearly equivalent to last 8 years capex) which would be funded mainly through internal accruals (Cumulative OCF: ₹ 1120 crore in FY24-25E).**

Exhibit 5: Cash & Cash investment trend over the years



Source: Company, ICICI Direct Research

## Resort income to be the key growth driver for MHRIL

As on FY23, company has deferred revenue pool of ₹ 5326 crore which provides steady revenue visibility for the VO segment (38% of revenues). We expect this segment to grow at CAGR of 11% in FY23-25E, as we bake in 19000 annual membership addition and 3% CAGR in AUR (~₹ 450000 by FY25E). Revenue from annual subscription fees (ASF) to replicate similar revenue CAGR of 11% in FY23-25E, with moderate 4% growth in assumption of ASF/Member ratio (~₹ 12980 by FY25E). We expect resort income (which is the only variable income) to be the fastest growing segment for the company. Despite record number of room additions in FY22-23, company recorded healthy occupancy rate of 84% in FY23. **As a result, MHRIL registered its highest ever resort income of ₹ 323 crore (up 67% YoY) with share in overall revenue enhancing to 27% (20% in FY22, pre-covid levels: 24%).** With occupancy rate expected to sustain at healthy levels (86-88%) on a rising member base, **we expect resort income to grow at 19% CAGR with share increasing to 30% in FY25E.** Hence, we expect overall revenues to increase by 13% in FY23-25E. With enhanced cost efficiencies & increase in higher gross margin business (F&B), we expect EBITDA margins to improve 150 bps in FY23-25E.

Room occupancy trend (%)

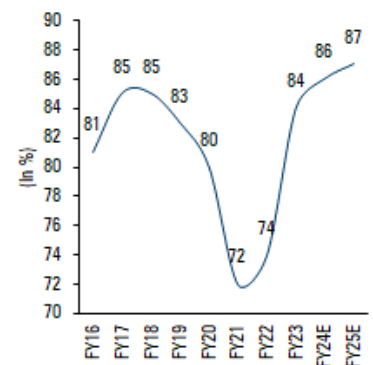
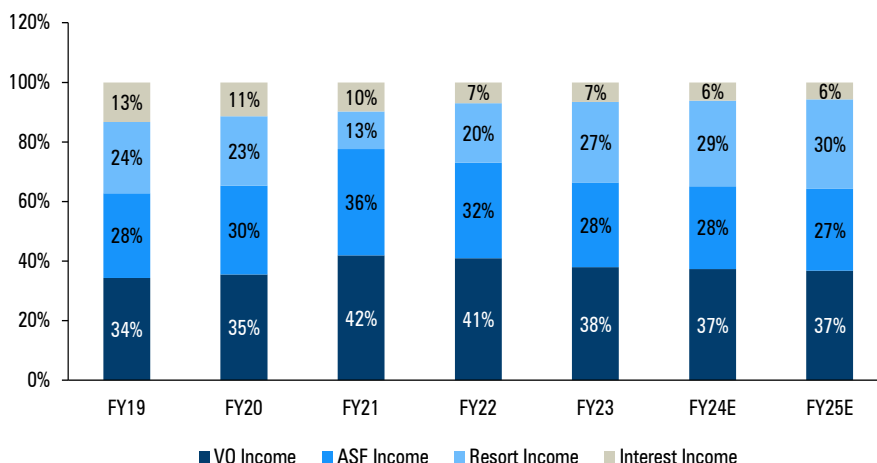
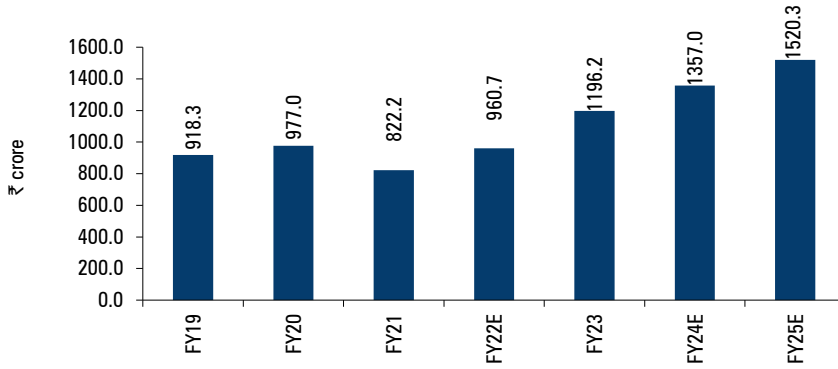


Exhibit 6: Share of resort income to improve going forward



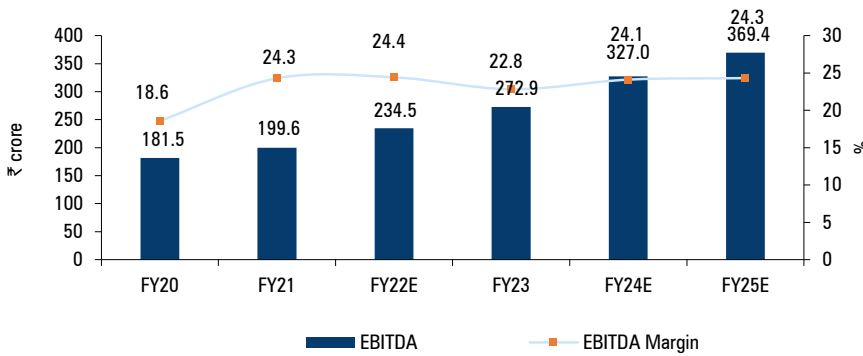
Source: Company, ICICI Direct Research

Exhibit 7: Overall Revenue Trend



Source: Company, ICICI Direct Research

Exhibit 8: EBITDA Trend

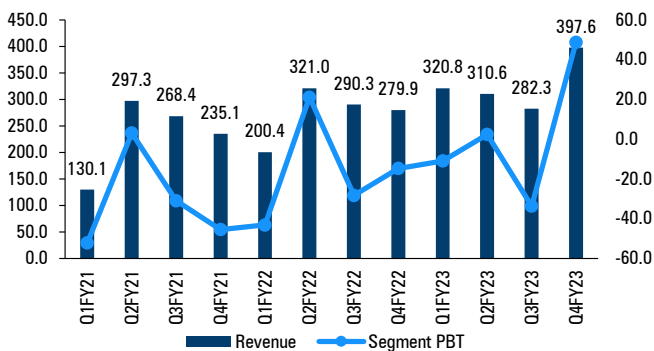


Source: Company, ICICI Direct Research

### Recovery of European subsidiary (HCR) on the cards...

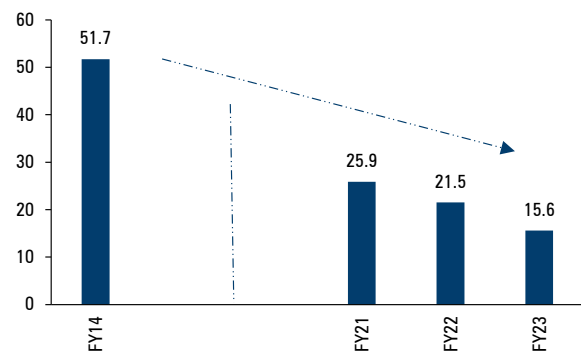
Holiday Club Resorts Oy (HCR) is Europe’s leading Time-Share management company with 33 timeshare destination (in Finland, Sweden & Spain), 9 large spa resorts and wide variety of resort activities and services. The segment has been marred by various challenges (covid-19, Russia-Ukraine war); however, HCR is gradually on path of scripting a turnaround with enhanced operational performance in Q4FY23. Despite challenging environment, revenue grew by 24% YoY led by strong winter season in Q4FY23. Several cost optimisation measures led to company reporting operating profits of Euro 6.4 million vs. Euro 0.6 million YoY. HCR has significantly reduced debt since acquisition and from Euro 51.7 million in FY14 to 15.6 million by as on FY23, mainly through sustained positive operating cashflows (generated ~ Euro 45 million OCF since acquisition despite several challenges in FY21/22). Sustained recovery in HCR business segment would entail better profitability going forward and subsequent deleveraging of its subsidiary.

Exhibit 9: Sustained improvement in operational performance (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Debt declining steadily over the years (Euro million)



Source: Company, ICICI Direct Research

## Key risk and concerns

### Lower than expected occupancy rate

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Lower than expected occupancy rate could pose a downside risk for our estimates of resort income. Further, given the high fixed cost nature of the business, reduced occupancy rate could result in negative operating leverage.

### Delay in commissioning of new properties

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Delay in commissioning of new properties may result in unfavourable member/room ratio which may lead to customer dissatisfaction and lower referrals. Also delay may result in increase in development cost.

## Financial summary-Standalone

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Net Sales	960.7	1,196.2	1,357.0	1,520.3
Growth (%)	16.8	24.5	13.4	12.0
Total Raw Material Cost	31.2	47.4	48.9	57.8
Gross Margins (%)	96.8	96.0	96.4	96.2
Employee Expenses	248.6	301.9	339.3	374.0
Other Expenses	446.4	574.0	641.9	719.1
Total Operating Expenditure	726.2	923.3	1,030.0	1,150.8
<b>EBITDA</b>	<b>234.5</b>	<b>272.9</b>	<b>327.0</b>	<b>369.4</b>
EBITDA Margin	24.4	22.8	24.1	24.3
Interest	21.2	29.1	32.6	34.6
Depreciation	119.9	139.1	158.4	172.5
Other Income	110.0	109.4	114.8	119.4
Exceptional Expense	-	-	-	-
PBT	203.5	214.1	251.0	281.7
Total Tax*	52.2	55.5	63.2	70.9
<b>Profit After Tax</b>	<b>151.3</b>	<b>158.6</b>	<b>187.8</b>	<b>210.8</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit/(Loss) after taxation	151.3	158.6	187.8	210.8
Add: Depreciation	119.9	139.1	158.4	172.5
Net Increase in Current Assets	101.0	-160.9	-187.6	-206.7
Net Increase in Current Liabilities	19.9	-26.2	50.4	36.7
Others	-77.5	277.7	304.0	394.1
<b>CF from operating activities</b>	<b>314.6</b>	<b>388.3</b>	<b>513.0</b>	<b>607.5</b>
(Inc)/dec in Investments	-218.8	-269.1	53.4	48.0
(Inc)/dec in Fixed Assets	-127.3	-156.3	-421.7	-450.0
Others	-80.1	-171.4	-36.8	-40.5
<b>CF from investing activities</b>	<b>-426.2</b>	<b>-596.8</b>	<b>-405.1</b>	<b>-442.4</b>
Inc / (Dec) in Equity Capital	66.9	0.8	0.0	0.0
Inc / (Dec) in Loan	0.0	0.0	0.0	0.0
Others	84.4	-60.9	-83.8	-87.6
<b>CF from financing activities</b>	<b>151.4</b>	<b>-60.0</b>	<b>-83.8</b>	<b>-87.6</b>
Net Cash flow	39.8	-268.6	24.1	77.4
Opening Cash	342.8	382.6	114.0	138.1
<b>Closing Cash</b>	<b>383</b>	<b>114</b>	<b>138</b>	<b>215</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	199.8	200.7	200.7	200.7
Reserve and Surplus	364.5	545.0	732.8	943.7
Total Shareholders funds	564.4	745.7	933.5	1,144.4
Total Debt	-	-	-	-
Non Current Liabilities	5,016.7	5,303.1	5,574.9	5,921.7
<b>Source of Funds</b>	<b>5,581.0</b>	<b>6,048.8</b>	<b>6,508.4</b>	<b>7,066.1</b>
Gross block	2,696.8	2,791.6	3,241.6	3,691.6
Less: Accum depreciation	534.2	594.2	668.7	753.6
Net Fixed Assets	2,162.6	2,197.5	2,572.9	2,938.0
Capital WIP	107.4	128.3	100.0	100.0
Intangible assets	22.0	23.7	23.7	23.7
Investments	380.6	649.7	596.3	548.3
Inventory	6.3	5.6	7.4	8.3
Cash	382.6	114.0	138.1	215.5
Debtors	1,128.2	1,160.3	1,301.2	1,457.8
Loans & Advances & Other CA	267.2	816.8	898.4	988.2
Total Current Assets	1,784.2	2,096.7	2,345.2	2,669.8
Creditors	217.7	215.0	260.2	291.6
Provisions & Other CL	705.2	750.5	787.9	840.6
Total Current Liabilities	923.0	965.5	1,048.1	1,132.1
Net Current Assets	861.3	1,131.2	1,297.0	1,537.6
LT L& A, Other Assets	2,047.2	1,918.4	1,918.4	1,918.4
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>5,581.0</b>	<b>6,048.8</b>	<b>6,508.4</b>	<b>7,066.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	7.6	7.9	9.4	10.5
Cash EPS	13.6	14.8	17.2	19.1
BV	28.2	37.2	46.5	57.0
DPS	0.0	0.0	0.0	0.0
Cash Per Share	19.1	5.7	6.9	10.7
<b>Operating Ratios (%)</b>				
EBITDA margins	24.4	22.8	24.1	24.3
PBT margins	21.2	17.9	18.5	18.5
Net Profit margins	15.7	13.3	13.8	13.9
Inventory days	2.4	1.7	2.0	2.0
Debtor days	428.6	354.1	350.0	350.0
Creditor days	82.7	65.6	70.0	70.0
<b>Return Ratios (%)</b>				
RoE	26.8	21.3	20.1	18.4
RoCE	39.8	32.6	30.4	27.6
<b>Valuation Ratios (x)</b>				
P/E	40.9	39.2	33.1	29.5
EV / EBITDA	23.6	20.4	17.1	15.1
EV / Sales	5.8	4.7	4.1	3.7
Market Cap / Revenues	6.4	5.2	4.6	4.1
Price to Book Value	11.0	8.3	6.7	5.4
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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