

25th January 2024

Mahindra Holidays & Resorts India – BUY

CMP : Rs.396.0
Target Price : Rs.520.0
Upside : 30%+
Stop Loss : Rs.340.0 (Closing basis)

Investment Thesis

- Club Mahindra is the flagship brand of Mahindra Holidays & Resorts India Limited (MHRIL). It is part of the Mahindra Group's Leisure and Hospitality sector and offers family holidays based on a timeshare model.
- MHRIL operates on a vacation ownership model, which is relatively unique in the Indian market. This model provides a predictable and stable revenue stream through membership fees and annual maintenance charges. The long-term nature of these memberships (typically 25 years) ensures a sustained cash flow.
- With over 125 resorts in India and abroad, MHRIL offers a wide range of holiday experiences. This diversity appeals to a broad customer base and reduces dependence on any single location or market segment.
- India's growing middle class and increasing disposable income are significant growth drivers for the leisure and hospitality sector. As more families seek quality vacation experiences, MHRIL is well-positioned to capture this growing market.
- The company has been steadily expanding its resort portfolio, both domestically and internationally. This expansion is not just in numbers but also in the variety of experiences offered, which enhances its appeal to a wider audience. The scalability of its business model presents opportunities for growth in new markets.
- MHRIL is leveraging technology to enhance customer experience and operational efficiency. From digital booking platforms to AI-driven customer service, technology integration is a key aspect of its strategy.
- MHRIL is exploring expansion into new segments such as wellness retreats and adventure tourism, catering to evolving consumer preferences. This diversification can open up additional revenue streams and reduce market risks.
- MHRIL has strong distribution network including 120+ branch offices, sales offices & channel partners and leads are generated through digital route, referrals, etc. It also has 192 partners hotels across 100+ destinations.

Financials

- MHRIL's revenue and PAT grew by CAGR of 7.8% and 150.7%, respectively during FY21-23 led by strong demand and expanding its resort portfolio, both domestically and internationally.

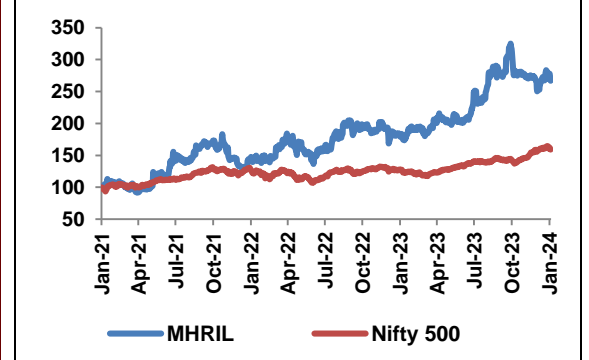
Consl. (Rs.Cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,730	2,013	2,517	2,970	3,445
EBITDA	241	323	481	563	658
EBITDA Margin (%)	13.9%	16.0%	19.1%	18.9%	19.1%
PAT	-14	68	114	130	149
EPS (Rs.)	-0.3	1.7	2.8	3.2	3.7
P/E (x)	-1132.5	233.2	139.1	122.0	106.6
RoE (%)	-10.3%	29.5%	31.4%	34.2%	37.4%

Stock Data	
Market Cap (Rs. Cr)	7,754
Market Cap (\$ Mn)	934.2
Shares O/S (in Cr)	20.20
Avg. Volume (3 month)	3,31,074
52-Week Range (Rs.)	470 / 245

Shareholding Pattern	
Promoters	66.77%
FII's	5.23%
Institutions	10.59%
Others (incl. body corporate)	17.41%

Key Ratios	
Div Yield	0.1%
TTM PE	120.4x
ROE	35.9%
TTM EPS (Rs.)	3.28/-

Stock Performance			
Performance (%)	1M	6M	1Yr
ABSOLUTE	-4.1	-3.4	42.0
NIFTY 500	5.8	4.8	12.2



- Annuity-based Vacation ownership (VO) and annual subscription fee (ASF) of MHRIL grew by 10.1/12.5% YoY, respectively, despite a modest 5.9% YoY growth in member base. PAT remained negative for FY21 due to low discretionary spendings and floods at uttharakhand which resulted in low occupancy levels.
- EBITDA growth was healthy driven by lower opex across line items. Operating leverage due to finance costs and D&A on higher room additions YoY (+11% YoY) lead to growth in PAT in FY23.
- It is expected that growth in MHRIL over the next 1-2 years would be driven by healthy room additions and consequent member additions (5k -10k for FY23-30) due to which value unlocking is expected to be seen in returns.

Key Business Highlights

- MHRIL is a leader and monopoly player in the Vacation Ownership (VO) space. Vacation is 4th-5th priority item for a family after house, car, durables and basic savings. MHRIL is in a sweet spot to exploit growth in the Indian domestic tourism.
- With rise in income levels customer stands awakened and are willing to pay a reasonable premium for high quality experience that 'Club Mahindra' offers. Wide variety of leisure resorts makes 'Club M' a preferred choice for unparalleled family vacationing experiences. It is a play on discretionary consumption. Demand for VO is likely to see a significant pick-up especially in the current inflationary environment.
- MHRIL has significantly improved consumer proposition, availability of rooms for customers and thus cash flows over trailing 7-years. As of Mar'23, the company has 2.89+ lac members. The paid member base contributes 14% of revenue.
- Club Mahindra membership for 25-years (CM-25) is the flagship product of MHRIL that offers seven days of holidays every year. 25-year long commitment act as a setback in certain cases especially to tap young millennials (28-35 years), thus, MHRIL introduced 'Go Zest' – a 3-year product in 2021. Eventually, MHRIL plans to upgrade the Go Zest member into CM-25.

Valuation

We believe, overall demand environment continues to remain stabilized. The occupancy rate of 84% in FY23 versus 74% in FY22 shows a strong recovery trajectory. This trend is a positive indicator for future revenue stability and growth.

The ongoing CapEx of Rs. 835 crores for various projects reflects the company's commitment to growth and expansion. The plan to double room inventory from 5,000 to 10,000 keys by FY30 demonstrates a long-term growth strategy. This expansion should be analyzed in terms of potential revenue increase, market share growth, and long-term return on investment. The visibility of about 750 keys in FY24 and the planned investment of Rs. 1,600-1,700 crores over three to four years indicate a robust pipeline of projects. This should be evaluated for its impact on the company's financials, including debt levels, interest coverage, and cash flow implications.

The specific investments in Kandaghat (Rs. 200 crore) and Ganpatipule (Rs. 250 crore) for FY24 should be assessed for their individual return potentials, market positioning, and competitive advantages.

We are assigning BUY rating to Mahindra Holidays & Resorts India Limited (MHRIL) and value at 140.5x FY25E EPS of Rs.3.70 to arrive at target price of Rs.520.00, an upside of ~30.0%+.

Risk & Concern

- Managing a large number of resorts across various locations poses operational challenges. Any lapse in service quality can affect the brand's reputation.
- Trends in travel and tourism can change rapidly. The company needs to continuously adapt to evolving consumer preferences, such as the growing demand for eco-friendly and sustainable tourism options.

Graphs & Charts

Figure 1: Net Sales Trend

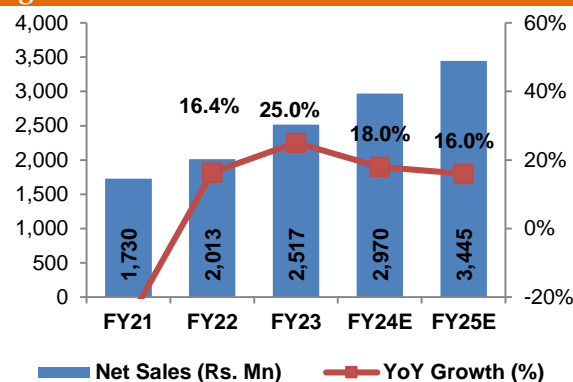


Figure 2: EBITDA & EBITDA Margin Trend

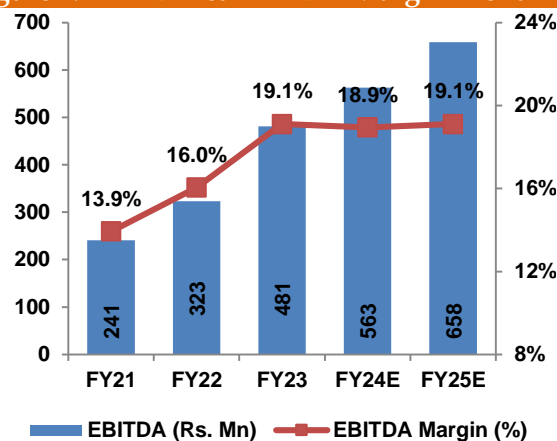


Figure 3: PAT Trend

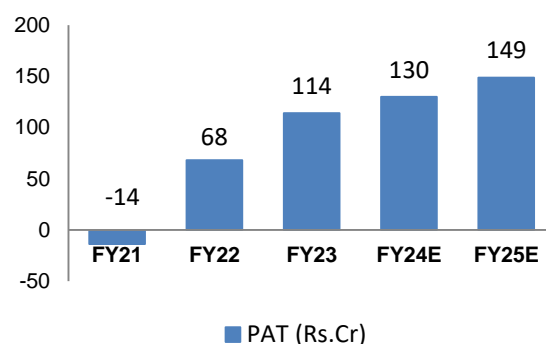
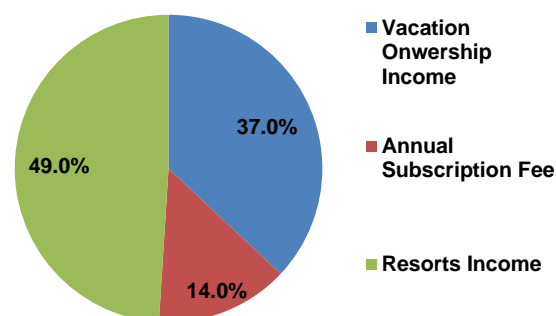


Figure 4: Segment-wise Revenue (FY23)



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