Q3 2012 Earnings Call – MakeMyTrip Dt-9 Feb'12

Operator

Welcome to MakeMyTrip Fiscal 2012 Third Quarter Earnings Call. The company would like to remind you that certain statements made on this call are considered forward-looking statements within the meaning of the safe harbor provision of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and, by their nature, are subject to inherent uncertainties. Actual results may differ materially.

Any forward-looking information relayed on this call speaks only as of this date, and the company undertakes no obligation to update the information to reflect changed circumstances. Additional information concerning these statements is contained in the Risk Factors and Forward-Looking Statement section of the company's annual report on Form 20-F filed with the SEC on 2 September, 2011. Copies of this filing are available from the SEC or from the company's Investor Relations Department.

The company is recording (0:01:09) today's call and it will be made available for a two-week replay. Later, we will hold the question-and-answer session, and instructions will be given at that time. I would now like to turn the call over to Jonathan Huang. Please go ahead.

Jonathan Huang

Welcome to MakeMyTrip's fiscal 2012 third quarter earnings call. On the call today, we have Deep Kalra, our CEO and Founder of MakeMyTrip, who will be highlighting our achievements of the past quarter. Joining him in the discussion is Rajesh Magow, our CFO and Co-Founder, who'll elaborate our quarterly financial results. We also have Keyur Joshi, our COO and Co-Founder, who will also be on hand to answer any questions at the end of this call.

Now, I would like to turn the call over to Deep Kalra.

Deep Kalra

Thanks, Jon and a very warm welcome to everyone joining us today. I'd like to begin by saying that while the operating environment in the quarter presented some short-term challenges such as the weakening Indian rupee and a volatile domestic aviation industry, it did not have any impact on the growing demand during this holiday season quarter. We remain focused on executing on our long-term growth initiatives and delivered strong financial results for the third quarter of fiscal 2012. We believe the focus that we've placed on customer delight has helped further strengthen our brand as we continue to offer great value for travel and superior user experience.

In fiscal Q3, MakeMyTrip generated $23.7 million of net revenue, which represents a growth of 37% year-on-year and in constant currency terms, this represents approximately 53% growth. At the same time, we continue to grow the business profitably and made $4.2 million in adjusted operating profits, which was a significant increase from the $1.6 million in the same quarter last year.

Our focus on growing the holidays and packages, or H&P business, paid off during this peak holiday travel quarter, which we believe has helped us gain further share in the Indian OTA market. We achieved very strong growth in terms of transaction of net revenue by leveraging our strong supplier relationships to provide fantastic winter travel deals to all major tourist destinations in India and Southeast Asia.

We are also very encouraged by the continued traction in standalone hotel bookings. This ongoing shift towards online hotel bookings have boosted our H&P transaction growth in the past few quarters and increasing the options available for our customers remain a top priority for the company.

We have now signed up more than 7,500 hotel properties in India, up from approximately 6,000 properties announced on our last earnings call, all of which can be researched and booked online on makemytrip.com. We believe no other Indian travel agency, either online or offline, offers more choice and selection for travelers than we do today. This is one more reason why MakeMyTrip is the top OTA seller of hotel rooms in the country.

I'm also pleased to update that our new hotels website, which we call Hotel 3.0 is now available as the default site to 100% of our site traffic, and the response from customers has been very positive. Over time, as we continuously work on optimizing the new site, we expect to see further up-tick in conversions, which will drive online bookings in this fast growing segment.

Now, let's move to our Air Ticketing business. In Q3, two of our domestic airline partners experienced some notable financial volatility, which led to reductions in their operational flights. However, the overall industry's demand remained largely intact and resulted in improved load factors for all carriers. During this period, we continued to support our partners with a win-win approach by helping drive increased sales. In return, we earned better net margin through specialized negotiated rates and favorable performance incentive deals.

In the quarter, as part of our strategy, we shifted our focus to sell more H&P offerings through our travel agent network, or B2B, and moved the sale of standalone domestic air tickets to our website, which is B2C. This shift temporarily impacted our transactions growth of the air segment, which we believe will normalize in the coming quarters.

I would now like to move on to our customer loyalty and retention strategy. We've recently announced a strategic marketing alliance with HSBC, one of the largest credit card issuing banks in India, to create a co-branded credit card. Customers using this Visa card will have the flexibility to earn points on various everyday purchases and redeem them for travel products offered by MakeMyTrip. This card adds more value and flexibility for consumers as it does not limit them to one particular airline or hotel chain. With this long-term alliance, we will reach and retain more customers and introduce them to the best-in-class travel services and products that MakeMyTrip has to offer.

Additionally, our own loyalty program called My Trip Rewards has been performing well since its inception last August. We have successfully enrolled over 23,000 members into the program and I am excited to see more than one-third of the members remain active and engaged on MakeMyTrip.com each month.

In coming months, we will work to enroll more eligible customers and further expand our capability to offer and cross-sell relevant travel products while increasing customer repatriate.

Lastly, I would like to share some exciting developments around our mobile strategy as we expect the number of smartphone users in India to grow exponentially. I am pleased to say that the MakeMyTrip Android app is now in the final stages of beta testing and will be available for download in the Android marketplace soon.
As for our BlackBerry application, we are extremely satisfied for the traction seen so far as it has registered more than 150,000 downloads to date. Our mobile website, which is accessible through most smartphone browsers, has also been very active with nearly 60,000 unique visitors each month.

Finally, the MakeMyTrip iOS application is also under development and we will be delighted to share more details once it's ready. Our goal is to offer as many channels as possible for our customers to access MakeMyTrip.com irrespective of form factor or operating system. Rajesh will now share more details with respect to our financial performance of the recent quarter.

Rajesh Magow

Thanks, Deep. Hello, everyone. As Deep mentioned, despite some of the challenges faced in the quarter, overall travel demand remained largely intact, which helped us deliver strong financial results in this past holiday season quarter. Before I go through the results, I'd like to remind you that our reporting currency is U.S. dollar, but we can read revenue and incur cost primarily in Indian rupees. Since the rupee to dollar exchange rate movement was significant this quarter, we have decided to provide our constant currency table in our press release to help everyone better understand the ForEx impact from a reporting standpoint.

Let's move on to the results now. In Q3, we reported revenue less service cost of $23.7 million representing a growth of 37% year-on-year. However, on a constant currency basis, our total net revenue grew by nearly 53% year-on-year in this quarter, which better highlight these trends and momentum in our business. Similarly, our reported adjusting operating profits of $4.2 million for the quarter and constant currency would have been $4.6 million and we would have earned $0.09 instead of the $0.08 reported for adjusted EPS.

Revenue less service cost in our air business increased by 28.8% or 44.1% in constant currency to $17.4 million in the third quarter. This was largely due to an increase in net revenue margin from 7.4% in Q3 of the previous year to 9% in the latest reported quarter. The improvement in net margin came from specially negotiated rates and favorable incentive deals as we work closely with our partners in a volatile industry environment. Additionally, we also reduced sales to our lower margin travel agent network and focused on higher margin sales channels.

As for our H&P business, I am very pleased with the progress that we have made so far, as the total transactions increased by nearly 119% year-on-year, driven by strong growth in standalone hotel bookings and holiday packages. Gross bookings for H&P grew year-on-year by 62% as reported, but increased 79.2% on constant currency basis.

Net revenues for the segment also grew by over 81.1% year-on-year to $5.3 million, an increase by 99% when you adjust for currency impact. Additionally, we achieved net revenue margin expansion for the quarter to 12.1% as the mix of standalone hotels continue to increase and we achieved better terms from our suppliers for packaged products during the quarter. This was an improvement from 10.8% achieved last year and in line with our long-term H&P net revenue margin targets.

Moving on to the cost now, we continue to leverage our business model to deliver improving bottom line performance. During the quarter, we reported nearly 9 percentage points of leverage mainly from personnel, advertising and business promotion expenses and SG&A. Additionally, we gained some leverage from a change in the mix of payment options as cash and wire transfers were popular modes of payment for our holiday packages.

As a result, our total adjusted operating profit margin for the quarter was 17.7%. In summary, our business fundamentals and momentum remain strong. Furthermore, our progress towards our long-term net revenue margin and operating margin targets remain solidly on track.

Now, let me hand the call back over to Deep who will provide you with an update to our guidance.

Deep Kalra

Thanks, Rajesh. Before we get to the guidance and Q&A, I wanted to take a moment to compliment the MakeMyTrip team for the outstanding performance in the quarter despite the short-term challenges and headwinds which were not within our control. As a result of our flexibility and ability to react to fast-changing conditions, MakeMyTrip delivered solid operating and financial results in the third quarter.

Now, I would like to provide an update to our net revenue guidance. While the fundamentals of our business remain strong, we're adjusting our guidance to $86 million to $88 million for the full 2012 fiscal year. The rationale for this adjustment is essentially the result of a much weaker rupee-dollar exchange rate than we had been built into our plan at the time we initially gave guidance last May. We feel it is prudent to adjust this range as uncertainty continues to exist in which direction the rupee will move in the near future.

As we enter the final quarter of our fiscal year, we remain bullish on our long-term growth prospects. Internet usage in India recently surpassed 121 million total users. At only 10% penetration, India's Internet usage base has plenty of room to grow. Recent reports say that by 2015, India will have over 230 million mobile internet users, up from the 60 million today and broadband users will grow from 12 million to over 175 million.

And while we were the faced with some short-term challenges in the domestic air industry, we expect the overall travel demand to grow as the expanding middle class looks to spend more of their discretionary earnings on domestic and international travel.

Lastly, we believe our strategic growth focused on holidays and hotels will allow us to keep leading the OTA market in India and achieve our long-term financial goals.

Thank you for listening in. Operator, let's move to Q&A please.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Manish Hemrajani from Oppenheimer. Please ask your question. Manish Hemrajani, your line is now open. Please ask your question.

<Q - Manish Hemrajani>: Can you hear me?

<A - Deep Kalra>: Yes, Manish.

<Q - Manish Hemrajani>: Yeah. Good evening, guys. Your air transaction volumes are down 11% sequentially, surprising when you consider that December tends to be the strongest quarter of the year for Air. Any other specific issues other than the ones you mentioned in your prepared remarks that caused the drop in transaction volume? And how should we look at volume growth going forward?

<A - Rajesh Magow>: Yeah, so, Manish – hi, Manish, this is Rajesh. Let me take this. So the reasons actually that we mentioned earlier in the script are the actual reasons, so let me just summarize that for you. So, what happened – if you recall, actually as part of our strategy, we had said that the travel agents network, which is our B2B network, while we were setting it up, first we would use to – the air transaction is more like a low-hanging fruit, and they tend to kind of use that. And we get the transactions booked through that channel, as well.

But our aim was to actually use and leverage that channel to push, as part of our strategy, to grow our H&P business, more and more hotels and packages in that channel. So, while in this quarter, we had an opportunity to focus on the special deals that we bought from airlines and we moved our focus to get better margin on the air business, we took a conscious call to not push our transaction growth through the B2B channel, only for the air. So that – if you know, as a combination of these two factors kind of had a temporary impact on our transaction growth, you're absolutely right, sequentially it went down 11%. But like we mentioned, there are no other reasons in terms – it does tend to happen temporarily if you kind of just don't push aggressively in a particular channel.
But it will come back on our predominant channel, which is our website, over the next few quarters. So, I don't think there is anything else to that – is that – there is any other reason there that you should look at. These were the two basic reasons and it was really more planned than any of the – than it came to us as a surprise or something.

<A - Deep Kalra>: Yeah, Manish, if I can add – this is Deep. The B2B channel, as we know, is a very low yield channel and it's also not a preferred channel from a supplier point of view. So the airlines are not particularly happy to offer B2B and B2C deals to the same company. But there's always a risk of misuse and abuse of the deals. So, we've taken a strategic call to focus on B2C for all air deals, but we will continue to leverage our B2B network for the higher margin products, both hotel and packages.

<Q - Manish Hemrajani>: So then, given the scenario, how should we look at volume growth for air going forward?

<A - Rajesh Magow>: So, Manish, I would suggest – I would point you to the nine-month transaction growth, as well. So, the best way to look at this would be to actually look year-on-year, given the seasonality in our business as well. And you will notice that actually the transaction growth for nine-month year-on-year is still very robust. It's about 41%. And that is how you should think about the growth in air transaction. And like we said that it is going to normalize as we go along, and year-on-year, we will still have a very robust growth.

<Q - Manish Hemrajani>: Okay. On the flipside, you saw tremendous growth in the hotel transactions as a result of slowdown in the air side. But ASPs were down, again, to the lowest levels you've seen. Is that largely a function of standalone room bookings increasing and can you provide us with some kind of metric on the standalone room bookings?

<A - Rajesh Magow>: Yeah. So, you're absolutely right; that's the reason. The mix is fast changing in favor of standalone hotel bookings and that is resulting into the overall transaction value going down. And the way to look at that is since the standalone hotel bookings has been growing in the past few quarters. So, we should probably wait for another quarter where there's full fiscal year you will have transaction value of every quarter, also for every season. And the mix would also kind of stabilize a bit because it's not that the packages are not growing as well because we did have a very robust growth in packages in this quarter as well.

And that is when we probably should come to a conclusion that it will – that would be the number that would have probably stabilize when it comes to transaction value. It was about $400 in this quarter, but let's wait for another quarter. We'll have a better trend and we will know and by then, the mix would also kind of stabilize.

But to your first comment, I would like to just clarify that the air transaction growth was an independent thing that happened. It has no connection with the H&P transaction growth. This is a high holiday season quarter, as you know. And our focus was also, obviously, there in growing the H&P, but not at the cost of air transaction growth or at the air business growth. But it was just a change or a shift of strategy in this particular quarter as far as air business was concerned, but not necessarily taking the focus away from the overall air business growth.

<Q - Manish Hemrajani>: Okay. And on the employee stock-based comp expense which was $2.9 million in the December quarter, if you look at last year, it was just $143,000. Have you issued some more stock options or has anything changed in the way you account for stock options?

<A - Rajesh Magow>: No, there is no change in the way we account for stock option. As we reported in the last quarter, this was the grant in 2011 that we had given for the options in this document, and this has a longer divesting schedule. It kind of – impact comes in every quarter and it'll continue to come in the subsequent quarters as well. And there were no grants this quarter, whereas for the full year, the grants were issued last quarter. And the same grants linked to divesting schedule, the cost will keep coming in every quarter now.

<Q - Manish Hemrajani>: So, this is what we should expect for the rest of the year for 2012?

<A - Rajesh Magow>: Yeah, the number will change. Number would not be exactly the same. It kind of goes down every quarter. That's the way [ph] sub (0:21:40) accounting works, but you will see the number now every quarter.
<Q - Manish Hemrajani>: Okay, thanks. That's all I had.

<A - Rajesh Magow>: Thank you.

Operator

Your next question comes from Jeetil Patel from Deutsche Bank Securities. Please ask your question.

<Q - Jeetil J. Patel>: Thank you. I have just a couple questions. I guess when you look at the air ticketing impact, I guess, is there any way to quantify it in terms of percentages of impact on the transactional volumes that you, I guess, what went in the quarter in regards to the air transactions given the B2B channel -- the emphasis? And then second, I guess there has been a lot of talk of pricing changes from the suppliers in the industry at large. I guess, maybe, can you discuss kind of how that – what is going on there and I guess how does that develop over the course of, say, calendar 2012 and 2013? And I'll have a quick follow-up.

<A - Rajesh Magow>: Hi, Jeetil. On the air transaction, it's difficult to kind of quantify the impact that happened because of the lack of [indiscernible] (0:22:50) B2B channel. But I would say majority of it actually came from there. It was easy for us to kind of just keep the same push and get those transactions growth out of that channel. Instead, we decided to leverage the channel for more relatively high-margin product, which is hotel and holidays, and that's what happened.

So, whatever impact that you have seen – and this is a temporary fact because at the end of the day, it is actually B2B2C. And eventually, given the brand impact and the way we acquired our traffic, it is bound to come back. In fact, in January, it's kind of coming back already.

So, we are pretty confident and would like to say that it is likely to normalize in the quarter and we're not particularly worried about this to last. This is in temporary in nature. And I missed the second question, sorry, if you could repeat please.

<Q - Jeetil J. Patel>: Yeah. So, just wanted to talk that kind of the suppliers are looking at may be changing the pricing terms in the airline industry, I guess. Can you talk about, maybe, where that's – what's going – if there is any development there, any changes or how does that unfold over the course of this calendar year or maybe next?

And then maybe on the hotel side; it's interesting that your standalone hotel business is starting to pick up. I guess maybe can you talk about behaviorally it is the consumer, is it more of a kind of consumer that's already purchased through online that's moving to standalone hotels or is it a different set of consumers that's only adopting standalone hotels, maybe, some behavioral metrics or point of view would be helpful there.

<A - Deep Kalra>: Sure, Jeetil. So on the air commission side, this is not the first time, of course, that the airlines have been saying that they would like to see a rationalization on the commission structure. The same story had unfolded about a couple of years ago as well. And then finally it was regulated that full service carriers will give 3%, but then airlines were free to give overriding commissions.

I think what's important to note in all of our discussions would be airlines were quite happy to have special arrangements with the large sellers. In this case, we're the largest seller for all domestic airlines in the country. And I think pivotal contracts, which are performance linked, their real allergy is to the fact when they have small agents so the long tail of agents were getting a large percentage, according to them and for perhaps even a few tickets that they sell on an international or a business class international ticket, they would tend to make a lot of money for little work done.

So, we don't believe that the rationalization is going to come into effect anytime very soon, but largely because the Internet penetration is still small, it's still about 10%. Also, if you look at most of the airlines, particularly the full service carriers, that directs business through the Internet or otherwise is very small; it tends to be in the single digits. For Air India, it's a couple of percent; for Kingfisher, it's in the low-to-mid kind of percentages; and for Jet, it's hovering around high single-digit to 10% current mark, so that's what we understand. So, it's not a very large proportion of that business and the environment isn't quite right for airlines right now to go directly.

So we believe, we will continue to get the deals and the large agents will continue to get the deals and continue to make commissions as long as they can reach out to a customer base that the airlines can't reach themselves.

Coming to your second question on the hotel side, what we've observed is that – and we believe that there are two causes – factors for the sharp growth in standalone hotel sales. One of them is related to supply. As we've been adding on more and more hotels, we've seen actually these new hotels, the unbranded properties, the three star hotels and the two star hotels getting fair degree of traction. So, from the supply side, the strategy of increasing now to 7,500 hotels, well ahead of anyone else in the market, is really helping and people are seeing a lot selection.

The second side is to do with the customer demand and the customer habits. And we've seen customer habit now just getting more and more comfortable. Early days, we remember well about a couple years ago, people would be checking with hotels. They'd be finding the hotels' phone numbers on Google and then calling them and double checking on the rates, and sometimes some of the less discreet hotels will be, actually, undercutting.

We see that to be going away a lot. We police the hotels, we do a lot a mystery calls and we've seen that a lot of our hotel partners are seeing value in the business if they're getting though us. And that is helping them actually maintain the sanctity of our relationship and customers too are getting more and more comfortable with this medium.

It's also one of those things that once you experience that, it's like your first purchase. And in India, this is pretty I think topical right now. Your first e-comm purchase is still a big deal for people and they say, I bought this mobile phone on the web and got to me in two days and it was 10% or 20% cheaper than what I got in the market.

So, this is something which reinforces the belief in the medium. And similarly, when people are seeing the hotel that they research, the reviews that they read, the photos that they've seen, actually turned out to be true. And they get much more value through this medium, then they happily coming back for their future requirements and purchases. So, we're seeing a fair degree of repeat also coming in on the hotel side, so I think it's part of both. The customer habits are getting more comfortable with this medium and more and more supply coming on.

We've also added – I would just like to share a little bit. We've also added other modes of payment, so besides credit card and debit cards, people can do part payments, so people can actually for a large transaction pay part and block their card for that and then the balance of it can be paid via check later. So, I think we're making it easier and easier and much simpler for people to actually book.

User reviews are playing a good part and also the new site, as we mentioned, Hotel 3.0. Lot of features on the map – both on the graphical side on maps, point of interest are really giving people a lot of confidence that this is indeed the place, not just to research hotels, but also to consummate that transaction.

Jeetil, does that answer your question?

<Q - Jeetil J. Patel>: Absolutely. Thank you, very much.

<A - Deep Kalra>: Thanks, Jeet.

Operator

Your next question comes from Manish Hemrajani from Oppenheimer. Please ask your question.

<Q - Manish Hemrajani>: Hi, a couple of follow-ups from my side. How penetrated are you currently on the hotels that in India given your base now of 7,500 hotels? And is there any specific target you have in mind that you'd like to get to longer term?

<A - Rajesh Magow>: Yeah, sure. So, Manish, our understanding is that there are about 10,000 branded properties in the country right now and a lot of frenetic activity with small growth going on, as you're probably also aware of. In addition to this, there are a lot of properties which are not branded and of the nature of what you would term either B&B or guest houses.

And last quarter, we had shared with you our acquisition of My Guest House Private Limited and that's our foray into the really ultra-budget accommodations. So, in all that probably 20,000 properties of which 10,000 properties are branded currently. We will continue to grow, but now beyond 7,500 I think the growth is going to come down at a slower clip.

We also want to be very careful on the hotels that we're bringing on. So, very often, we actually see a lot more motels and then don't add all of them on because of quality concerns etcetera. So, I think, we'll still see, over the next quarter or so, anywhere between 500 to 1,000 hotels go in. And then, we'll look at consolidating that.

And then on the ultra-budget side, we'll see hotels being added, both by My Guest House and we'll be leveraging a common database out there. And this is within the country. In addition to this, we're also seeing growth of direct contracted hotels in the greater India market, both in Southeast Asia and Middle East, where we bought now a few hundred direct contracts and we're growing on those.

<Q - Manish Hemrajani>: Great. Thomas Cook, as we've learned recently, is trying to sell its India subsidiary. What kind of benefit, if any, do you see from the disruption at Thomas Cook? I believe Thomas Cook is a strong player in the outbound market, correct me if I'm wrong.

<A - Deep Kalra>: No, you're right, Manish. Thomas Cook has a well-established brand name in the outbound international package market, typically in the higher-end package market. And they've actually – I guess the Indian subsidiary has been doing quite well and they're really on the block because of the financial position – difficult position of the parent company in the U.K. due to tough times in Europe, also their charter business being under pressure, etcetera.

So, it remains to be seen if the deal is, obviously – the bankers are doing the rounds with the deal. It remains to be seen how it will change things out there. And that's clearly a distraction for management out there either way and there is also confusion in the mind of customers. So we do think that at the margin, there will be something on that label for other aggressive holiday players like ourselves to pick up out there.

<Q - Manish Hemrajani>: Last quarter, you guys had a partnership with the Thailand Tourism which was very successful. Was there anything incremental there with the other tourism boards or are there any plans doing partnerships in the near-term?

<A - Deep Kalra>: We're working with various boards and I think we've boards Southeast Asia, couple of them in Europe, also state tourism boards. I'd like to say that it's really work-in-progress right now and we should be able to come out with something which meets their end as well as our end fairly soon. And hopefully we'll be able to share that with you in the next call.

<Q - Manish Hemrajani>: Thanks for that.

Operator

Your next question comes from Vipin Khare from Morgan Stanley. Please ask your question.

<Q - Vipin Khare>: Hi, guys. Good evening. My first question is on the air side. Though your margins have comes off – margins have improved significantly and the volumes have come off. And on a quarterly basis, there could be reasons because of which it moves. But thinking more on a long-term basis, how is the management thinking about this? Do you want to tradeoff commission rates or net margins for higher volumes or is it more desirable to have a slightly slower volume growth, but higher commission rates?

<**A - Rajesh Magow**>: So, hi Vipin. This is Rajesh. No, so, you know to answer your question, we believe that this was a special quarter. And like you said that specifically in some quarter, you can have some special deals that you can cut with the suppliers. And this was that kind of a quarter.
On a long-term basis, the way we had shared our long-term outlook on our air business actually remains. There is absolutely no change in the outlook as well as our strategy around our air business. So, we continue to believe that the margins on air business would, on year-on-year basis, gradually contract. And we had said that in the next four to five years, maybe, in four years, because we had said at the time of IPO that they are – our best estimate is that it will be between 6%, 6.5% and that remains. And we're not looking to change that, which also means that our strategy around the air business will also not change.

So, except in specific quarters, there could be a shift in strategy, but from a long-term perspective it will continue to be growth on transactions. And making sure that we keep – on the back of growth, our transactions keep getting the performance length deals and try to see that we have no – not big impact on our margins on air business. And we kind of maintain that or sustain that, not necessarily the margin that we reported this quarter, but more blended over, let's say, nine months margin which is close to about 7%, 7.7%, or the margin that we've been talking about in line with our long-term outlook. So, that remains. We are not necessarily looking, from a long-term perspective, to fundamentally change our outlook as well as strategy around air business.

<**Q - Vipin Khare**>: Thank you. And would it be possible to share the percentage of air business you get from the B2B channels that you mentioned?

<**A - Rajesh Magow**>: No, we don't actually, Vipin, do that, segment-based reporting. So, that will be difficult for me to give it to you.

<**Q - Vipin Khare**>: Okay, okay. And also in last quarter you had mentioned a new beta site for the hotel segment which had helped conversion rates. Any updates there? This was a good quarter for the hotel transaction, so anything you can share there?

<**A - Deep Kalra**>: Yeah, yeah. Hi, Vipin. This is Deep. As mentioned during my call and my speech, I was saying that the 3.0 has actually been very well received. We've seen an up-tick in conversions. What typically happens is, when you launch a new site and you launch a fundamentally different user interface, you initially see actually a dip. Interestingly, for us as we've started exposing that to some part of our audience and then grew that up, we managed to actually maintain the conversion rate and actually increased it.

So, the increase in the standalone hotel bookings has come, not only because of just more transactions, it has also come because of better conversion rate. And overall, we can say that there is already an increase and improvement in conversion rates at about close to 10% and growing. Actually, the optimization of the site and as more and more people get used to the site, it should keep growing. So, we've managed to actually not see a dip and we've just started from pretty much same levels and then managed to improve them to about 10% on the direct traffic.

<**Q - Vipin Khare**>: Okay, okay. Thanks, Deep. And finally, on the cash flow side, I just wanted to know what is management planning for cash flow generation. And in your view, over the next three, four years, what are stable levels of cash flow generation we can expect, given the investments that are needed on the air side for the special deals, which can obviously have disproportionate benefits for the company in some quarters? So, how are you planning for that, because if you start generating cash and you make the investments, then that's a very enviable position to be in because that can set off a virtual cycle for the company. Thank you.

<**A - Rajesh Magow**>: Right. So, Vipin, as you'd noticed in the last few quarters, especially in this quarter if you see, we have actually got huge amount of working capital release and the cash balance went up significantly. And as we had reported last time that we did make some conscious decision in terms of leveraging our cash position on our balance sheet, given that there was a holiday season coming ahead of us.

So, I guess our strategy around cash flow management is going to be driven as we had shared in the past as well with the seasonality of our business. Given that our first preference is always going to be, given the clout that we enjoy, because of our market share, and given now, the kind of sizable volume that we're building out, even in our H&P business, both for airlines and hotels, our preferences is going to be to use that, to be able to negotiate better deals and not necessarily, you know, write 100% of [ph] front (0:40:07) checks, et cetera, [ph] or we buy a (40:11) whole lot of inventory. That's our preferred route.

Having said that, what tends to happen is that you end up paying some advance, some percentage of the total deal of rent as advance, just to make sure that the deal is kind of locked in, et cetera. And we'll continue to follow that. So it's not going to be a super aggressive strategy on just deleveraging all of the cash that we have in terms of just going and paying upfront advances or doing excessive pre-buying, etcetera.

It'll continue the way, the way it has been going on for some time now, which is that ahead of season, we might have to do some, relatively to other quarters, more investment. In a low season, we will have less investment. So it'll be on a high season quarter or just one quarter before that, you will have some more capital locked in into the working capital, and in the subsequent quarters, you would see some relief on that front.

So, I guess, when we analyze the balance sheet and the working capital position for last few quarters and going forward, we will have some trend emerging that we can use.

Operator

[Operator Instructions] There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Jonathan Huang

Thank you, everybody for joining our call today. We look forward to speaking with you next quarter. Thank you. Bye, bye.

Deep Kalra

[indiscernible] (0:43:03).

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may all now disconnect.