Thomas Cook (India) Ltd

1 February 2024

In a sweet spot to leverage structural tailwinds in the travel sector

INITIATING COVERAGE

Sector: Travel Services	**Rating: BUY**
CMP: Rs 173	**Target Price: Rs 235**

Stock Info

Sensex/Nifty	71,752 / 21,726
Bloomberg	TC IN
Equity shares (mn)	470.38
52-wk High/Low	Rs 187/52
Face value	Rs 1
M-Cap	Rs 81bn/US$ 0.97bn
3-m Avg volume	US$ 4.6mn

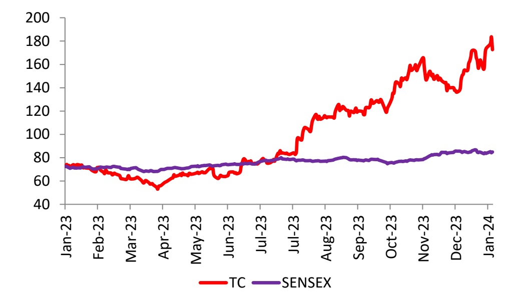
Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Sales	69,934	83,993	96,271
PAT	2,308	2,783	3,682
EPS (Rs)	4.9	5.9	7.8
PE (x)	35.3	29.2	22.1
EV/EBITDA (x)	17.2	13.0	10.2
P/BV (x)	4.2	3.8	3.3
EV/Sales	1.1	0.8	0.7
RoE (%)	12.7	13.7	15.9
RoCE (%)	13.9	17.2	19.3
NWC (days)	-74	-74	-74
Net gearing (x)	(0.4)	(0.6)	(0.7)

Shareholding Pattern (%)

	Dec23	Sep23	Jun23
Promoter	63.8	72.3	72.3
–Pledged	-	-	-
FII	1.8	0.6	0.5
DII	9.3	8.1	9.0
Others	25.1	19.0	18.2

Stock Performance (1-year)



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Thomas Cook India Ltd (TC), India's leading integrated travel and travel-related financial services company, is a strong play across the booming corporate/ leisure travel, forex and related services segments. We attribute the company's sharp business revival across segments over the last few quarters to demand resurgence and internal initiatives, post sharp disruption seen during the pandemic. While the hospitality and imaging businesses have already surpassed pre-pandemic levels in FY23, we expect the forex business to do so in FY24, and the travel business to achieve the same in FY25. Margins too have risen sharply on rightsizing of branch network and digitization of multiple processes, which should deliver structural cost savings, going forward. With the company opting for an asset-light expansion model, we expect TC's balance sheet strengthening to continue and RoE to keep moving towards 20%. Post the sharp recovery in FY24, we build in revenue/EBITDA/PAT CAGR of 17%/21%/26% over FY24-26E, and initiate coverage with a BUY rating; our TP of Rs 235 is based on 30x FY26E earnings. TC is in a sweet spot to benefit from sector tailwinds, supported by strong promoter/management team, a healthy balance sheet and improving return ratios that should support premium valuations.

Travel business a huge beneficiary of structural tailwinds for the tourism industry: The travel business emerged much stronger post pandemic, during which time it had undergone huge disruption, causing competition to diminish, with players like Cox & Kings shutting shop. With the company now owning the top 2 brands - Thomas Cook and SOTC - in India, it should immensely benefit from tailwinds in the space, as both business and leisure travel pick up, MICE events increase significantly and new sales channels open up. With travelers looking for shorter and frequent trips for better experience, premium players like TC which focus on exceptional and seamless customer service should benefit. We expect this business to grow at 27% CAGR over FY23-26E, with margins improving from 0.2% in FY23 to 5% in FY26E.

Forex business to cement its dominance; consolidation expected: TC is now a market leader in the prepaid forex cards business, given its strong network/service and digital capabilities. The growing base of students studying abroad and corporates traveling overseas are its target audience for whom it launches cards suited to their needs. The company's perpetual AD-II license gives it an edge over other players, as it issues its own cards and maintains its own forex. We believe the business would continue to gain market share, as the industry is stepping into a consolidation phase, given the regulatory headwinds for smaller players. We expect this business to grow at 12.7% CAGR over FY23-26E with margins improving from 29.4% in FY23 to 39% in FY26E.

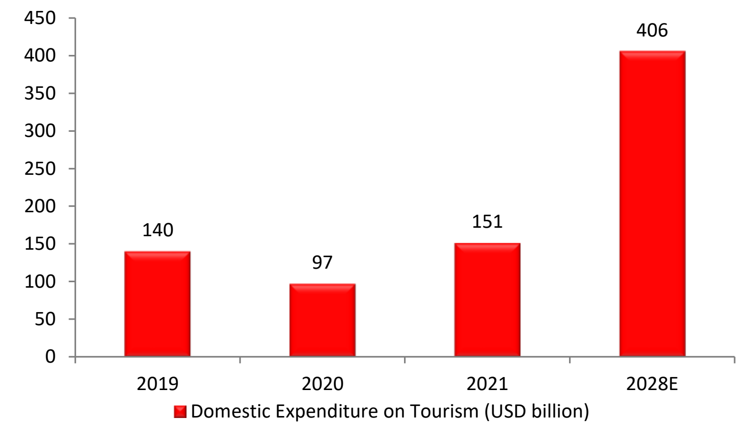
Resort business on an upswing post pivot away from time sharing: After the COVID debacle, TCIL decided to pivot away from the time-sharing model for its subsidiary, Sterling Holiday Resorts, to a typical resort model, which led to a successful transformation. The company is ahead of most peers on all operating metrics, seen from the sharp pick-up in its occupancy rates, ARRs and F&B revenue, after it made huge investments in upgrading properties. The company continues to expand its resort network by frequently adding new locations under the asset-light commission model and launching new short-term FIT products. These endeavors have helped it in increasing the width and depth of its distribution network. It has also added new products like picnics, staycations and workcations along with continued cost efficiencies, which have driven this turnaround. We expect this business to grow at 20% CAGR over FY23-26E with margins improving from 21.5% in FY23 to 28% in FY26E.

The souvenir imaging business is an additional growth lever: The digiphoto imaging solutions business is gradually expanding its global footprint by partnering more attractions in newer geographies after creating a dominant position in few markets of the Middle East and Far East Asia. TC is now stepping up technology investments in this business to increase its sales cycle by offering customers the option to buy their pictures at a later date, after they exit from the attraction. This could be a low-margin but capital-light business for the company and generate strong cash flows. We expect this business to grow at 14.7% CGAR over FY23-26E with margins improving from 5.9% in FY23 to 6.8% in FY26E.

Valuation and view: The stock currently trades at 22x FY26E earnings post recent run up, which captures the near-term earnings momentum to a large extent. But, we believe the tailwinds in the travel-related space are structural and should continue to drive strong growth in all sub-segments over the next 5-7 years. TC is in a sweet spot to capture this growth, and could therefore command superior multiples, while also factoring in other positives like a strong promoter and management pedigree, a solid brand equity and omni-channel distribution capabilities. Investors can gain confidence in the stock, once the company moves closer its target of 20% RoE, coupled with continuing 15-20% growth at the company level.

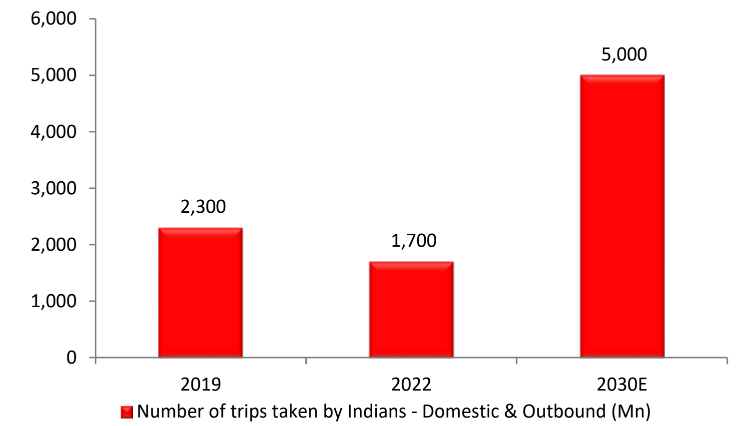
Story in Charts

Exhibit 1: Steady growth in domestic expenditure on tourism



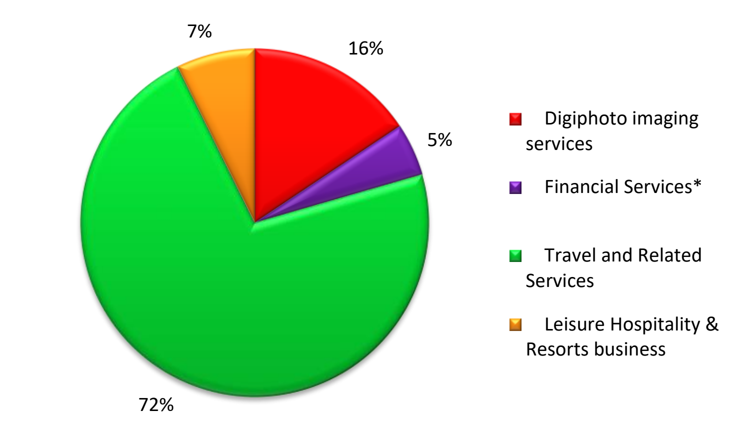
Source: Company, Systematix Institutional Research

Exhibit 2: Domestic and Outbound trips taken by Indians to double in 2030 from 2019 level



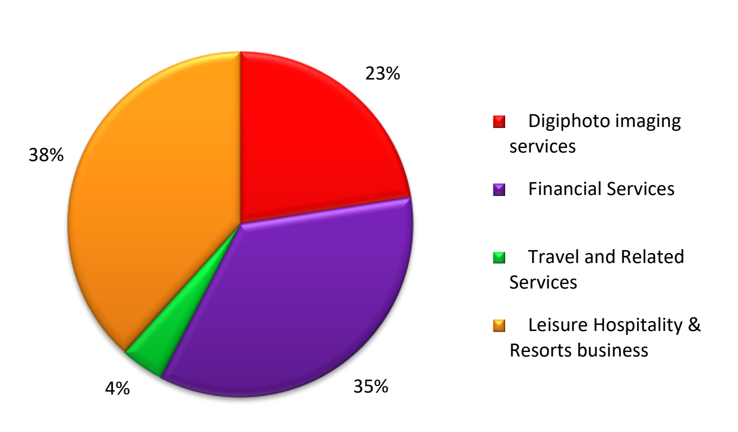
Source: Company, Systematix Institutional Research

Exhibit 3: Segment wise revenue share (%)



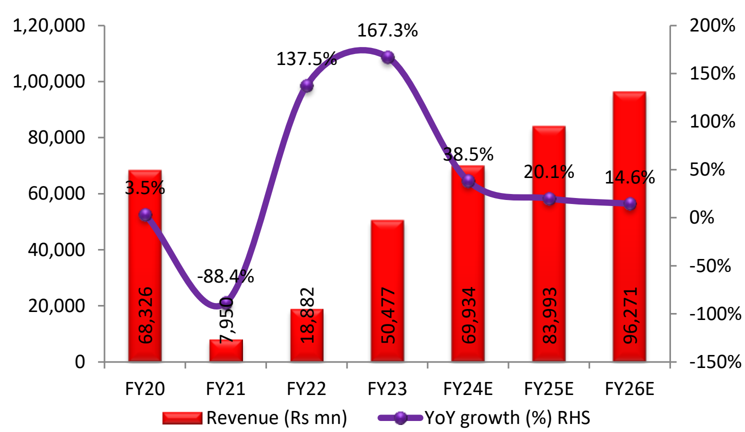
*Source: Company, Systematix Institutional Research, Note:*Forex revenue on net basis*

Exhibit 4: Segment wise EBIT share (%)



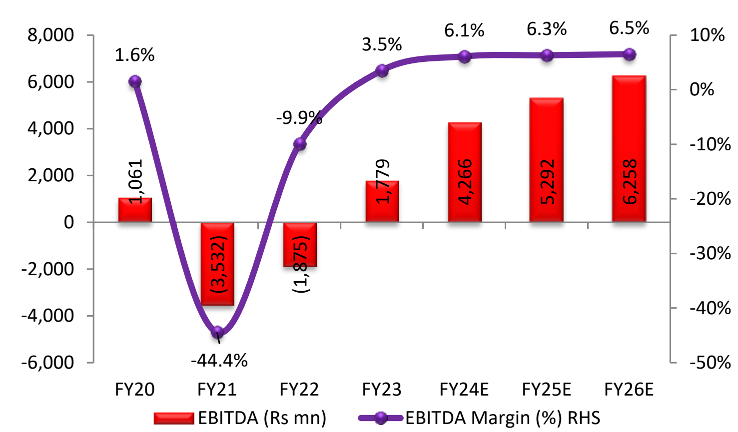
Source: Company, Systematix Institutional Research

Exhibit 5: Revenue to grow at 24% CAGR during FY23-FY26E



Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA margin to expand to 6.5% in FY26E from 3.5% in FY23



Source: Company, Systematix Institutional Research

Investment Thesis

Leading the forex services space as India's forex specialist

Through its digital capabilities, Thomas Cook (TC) has completely transformed the forex buying process, providing a comfortable and hassle-free experience to clients. As among the most reputable non-bank forex service providers in India, TC maximizes efficiency through speed, scalability, skills, and customer service. 23.4% of the company's forex business comes from digital channels, largely driven by investments in digital capabilities and novel attempts by the company to improve the ways to transact. For instance, unlike most companies that use WhatsApp as a service tool, TC has expanded it as a sales tool to recently launch 'WhatsApp Forex'. This tool enables customers to not only transact with TC on WhatsApp, but also complete a KYC, upload documents and fulfil their last mile needs from the company's staff.

Through its website and a network of more than 100 forex stores (spread across 65 metros in Tier 2-4 cities and numerous towns across the nation), TC serves more than 1 million retail consumers annually. Also, the organization provides services to >1,000 corporate customers, issues >1mn forex prepaid cards, and provides remittance services to >1 lakh international students. TC has effectively broadened its national reach through its relationships encompassing over 1,600 forex agents and 25 counters at major airports.

The company has remittance facilities that cater to 120 countries worldwide and provide forex services for 26 different currencies. Students are the target audience for the company's 'Study Buddy' prepaid forex card, which provides a wide range of services that covers living expenses, application fees, university fees, and student fee remittances. Additionally, the company offers Borderless Multi-Currency and One Currency cards that render transactions in other countries easier.

TC holds a legacy license, whereby it can issue its own card in its forex business, giving it an edge over other money exchangers - It the only non-banking business that has its own card; The company also enjoys a SWIFT license, and also has the ability to export and import physical currency notes.

TC's forex business is bifurcated in two parts – 1) Wholesale, and 2) Retail. Through its wholesale business, the company manages large transactions with no credit facility. Wholesale volumes form two thirds of the forex business, with revenue contributing the remaining one third. On the retail side, volumes constitute a third of the business, with revenue contributing the remaining two thirds. The retail business is transacted through cards, since carrying cash is a hassle. The high frequency of card usage helps in paring currency holding charges at multiple branches. Moreover, a float balance of 12%-14% on cards of corporate customers has led to customer cash balance of Rs 12-13 bn. The retail part of the business enjoys higher commission (1.5-2%) versus the wholesale business.

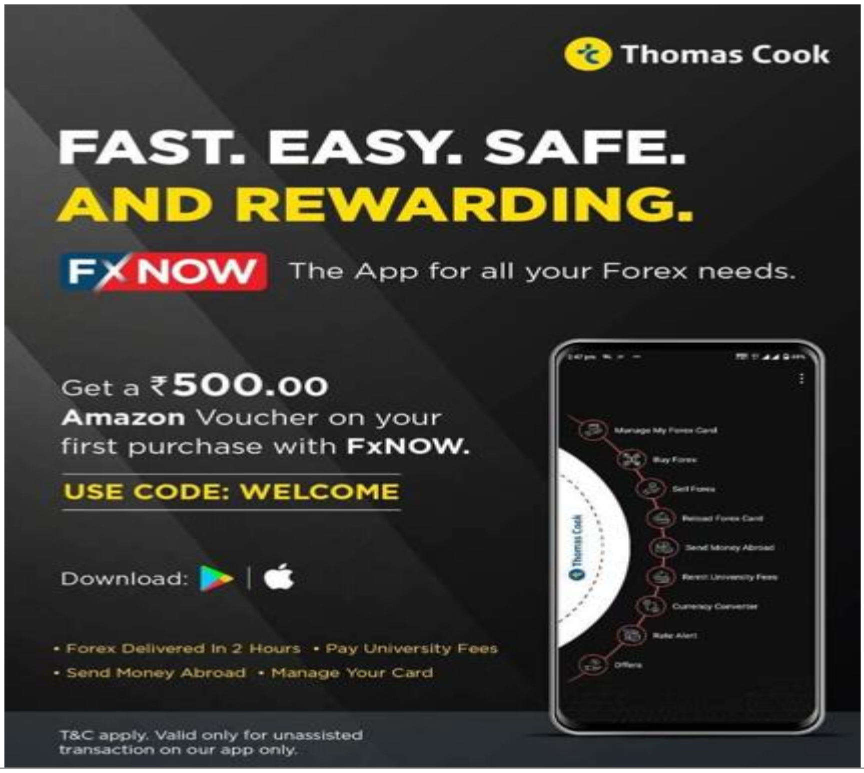
The company believes its superior services have helped it to garner 26% market share in the cards portfolio (notwithstanding its late entry in the industry), ahead of leading private sector banks.

We estimate 12.7% CAGR in TC's forex business over FY23-FY26E, led by 14-15% growth in retail. EBIT margin is expected to expand from 29.4% in FY23 to 39% in FY26E.

Exhibit 7: Forex via WhatsApp to provide convenience to customers

Source: Company, Systematix Institutional Research

Exhibit 8: Dedicated Forex app easing international travel



Source: Company, Systematix Institutional Research

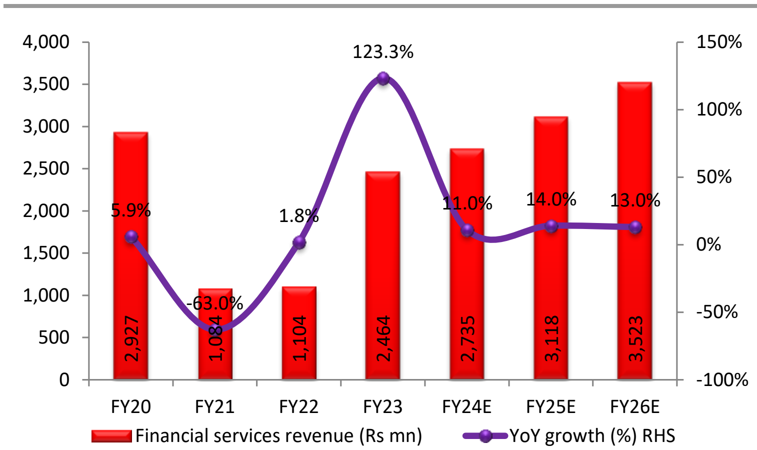
Exhibit 9: Special card targeted towards the growing student population

Source: Company, Systematix Institutional Research

Exhibit 10: Thomas Cook's Borderless Prepaid card facilitating seamless worldwide use

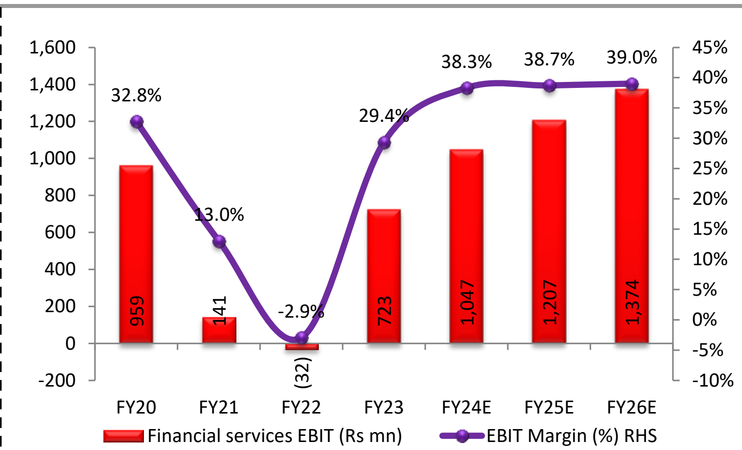
Source: Company, Systematix Institutional Research

Exhibit 11: Financial services: 12.7% CAGR in revenue over FY23-26E



Source: Company, Systematix Institutional Research

Exhibit 12: EBIT margin to expand to 39% by FY26E



Source: Company, Systematix Institutional Research

Rising incomes and ease of travelling boost TC's travel and related services business

Thomas Cook's travel and related services business is broadly classified into two parts – 1) B2C which includes leisure holidays - domestic and outbound; 2), B2B part of business includes Meetings, Incentives, Conferences and Events (MICE), corporate travel and DMS (India and International).

B2C business – A diverse portfolio with a wide distribution network

Outbound, Corporate travel, domestic and international

Within B2C, the domestic business focuses on local activations that tap into India's diverse markets, with unique travel preferences. The business operates through multiple channels, that include physical stores, online platforms, a call centre and partnerships with over 200 travel agents across the country. Through its wide distribution network, the company caters to a broad range of customers and serves their specific needs effectively. Within the organized travel market space, Thomas Cook India is the largest holiday brand with its 236 branches and numerous franchise partners that make services accessible to customers in different parts of the country.

One of the key factors that sets it apart from competition is its diverse portfolio of tailored travel solutions. The company's international tour packages cover Europe, Asia, the Americas, Australia and numerous other countries. Besides, the company also arranges domestic tours that span the length and breadth of India, from Kashmir to Kanyakumari and Gujarat to Arunachal Pradesh. TC's product portfolio also includes experiential travel that includes cruises, wildlife adventures, bike rides and cultural tours, thereby catering to varied interests of customers.

Thomas Cook has launched several key initiatives for continuous improvement:

Leisure Travel Digitisation: Implemented initiatives to drive efficiency, economies of scale, and enhance productivity, thereby aiming for customer delight.

Upgraded ASTRA Omnichannel Platform: Enabled for the smooth search and booking of various vacation products via a variety of channels, including the website, app, call centers, branches, franchises, and travel agency partners.

Integration with Reservation Systems: Integrated reservation systems for European Railways, hotels, tours, transit, cruises, and local and international airlines to verify the availability of various products in real time and to make bookings easier.

Dynamic Holiday Builder: Dynapack was introduced to facilitate consumers' on-the-go selection of their preferred flights and vacation packages.

End-to-End Booking Management: End-to-end reservations and payments are made easier by ASTRA, which also provides the option to download tickets, coupons, as well as itineraries.

Reduced Turnaround Time: Significantly improved the client experience by cutting the turnaround time for various booking procedures from 24 hours to less than 15 minutes.

Customer Self-Service App: Launched the Thomas Cook Holidays app to give users more control and digital post-booking journey management. Verifying visa requirements, monitoring application status, checking booking status, and processing payments are all useful.

AI-Enabled Chatbots: Improved TeeCee and SOTC EZY chatbots that lead users through end-to-end services without the need for human assistance, digitizing tedious tasks and enhancing client relationships.

Streamlined Internal Booking Engine: CANVAS, an internal holiday booking engine, was put into use to improve internal team booking procedures and gather data on the preferences and behavior of customers.

Launch of Holiday Mate B2B Portal: Holiday Mate was introduced, giving travel agency partners the ability to remotely handle entire vacation reservations, cutting down on turnaround times for intricate itineraries.

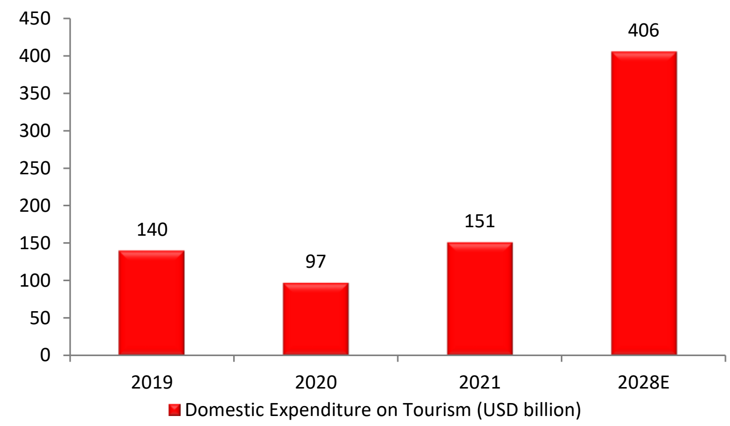
Launched Private Journeys: Personalized, premium, chauffeured van tours to capitalize on increased demand for luxury/premium and experience led travel.

Introduced 'Book Easy. Go Easy': Instant Holidays by SOTC to target rising demand for short getaways.

Festive special holidays: Launched festive special holidays targeting high demand for Durga Pujo and Diwali for East and West regions.

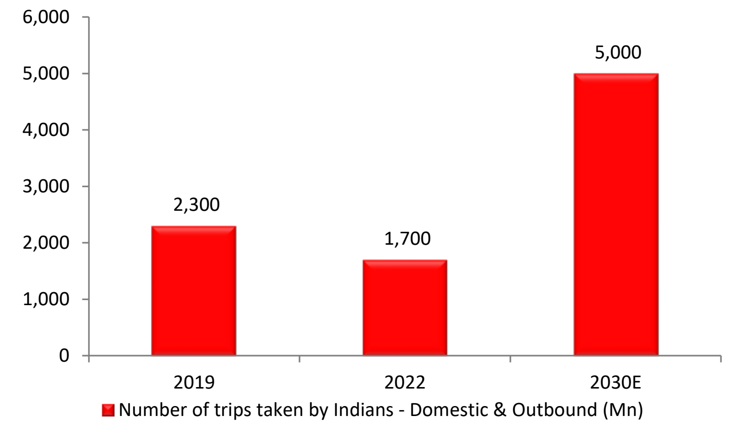
Cruise Holidays - Expanded portfolio of Cruise Holidays across Domestic and International destinations

Exhibit 13: India's travel and tourism expenditure is expected to surge over 2.5x from USD 140 bn in 2019 to USD 406 bn in 2030E



Source: Euromonitor, Systematix Institutional Research

Exhibit 14: Indians embarked on 2.3 bn trips in 2019, trend projected to double to 5 bn trips by 2030E



Source: Euromonitor, Systematix Institutional Research

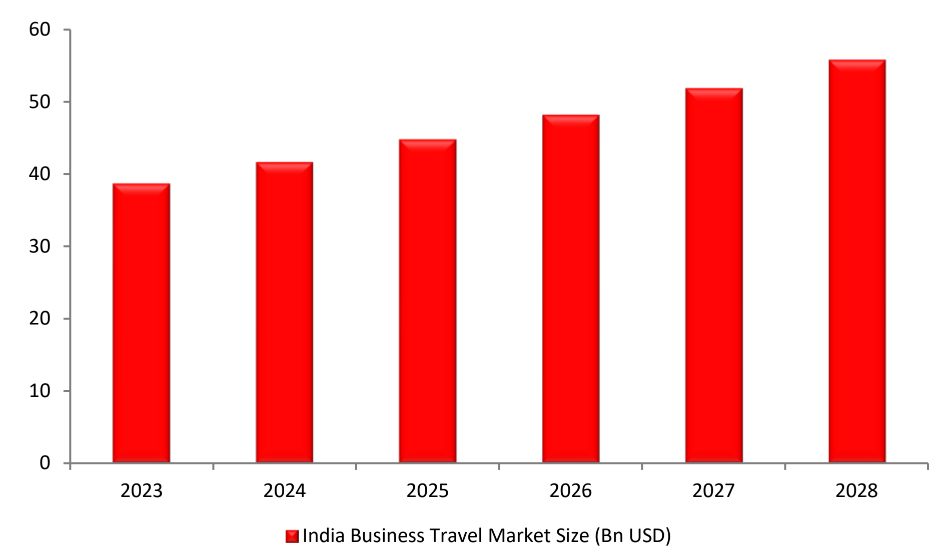
B2B business – Banking big on international travel recovery

Within TC's B2B segment, **Corporate travel** is a high-volume, low-margin (c.5%) business, in which, 90% comes from ticketing; here, the company gets management fees from corporates. Thomas Cook uses global portals for bookings, wherein it shares commissions with the portals. This is a high working capital business with a Days Sales Outstanding (DSO) of 20-25 days. As the company has to pay airlines within a week, the business has a positive working capital. The integration of customer relationship management (CRM), multiple online booking tools, e-invoicing, payment platforms, and ERP back-office systems ensure that the processes flow efficiently for clients. Focus on technology-driven solutions reduces manual touchpoints, improve accuracy, and thus help in controlling employee costs. With automation at the core, we expect the corporate travel business to expand at a rate of 12-13% in the long term.

The **Meetings, Incentives, Conferences and Events (MICE)** sector is witnessing robust recovery, driven by a surge in demand for various events and business-related activities. Corporate conclaves, conferences, weddings, trade shows, exhibitions, and business travel are on the rise, along with a noticeable rebound in corporate MICE demand**,** including off-site team meetings and training sessions. This increased demand is accompanied by a growing preference for an exclusive experience, leading to higher spending. To meet the evolving needs, the company offers a range of unique corporate experiences such as biking, helicopter rides, exclusive flash mobs at iconic locations, and thrilling air shows in the UK. In addition, the company has embraced digital transformations to enhance efficiency by automating time-consuming manual processes such as sales, contracting, operations and visa procedures.

During pre-COVID times, companies in selective industries such as Paints and Consumer Durables were interested in MICE. However, now there has been a drastic change with companies in varied sectors willing to hold events domestically and internationally to promote their brands. Moreover, managing big-ticket government of India (GoI) events such as G20 Summit, Khelo India Games and other sports events have boosted the company's revenues. Thomas Cook has worked with multiple ministries as part of its engagement with G20, it believes the government will likely utilize this opportunity to showcase India in a much bigger and better way. This will also lead to a rub-off effect on domestic tourism management, as India has showcased multiple states, their cultures and traditions. Hence, the company is confident that from a momentum point of view and outlook for the next 3-5 years, India has set the stage to welcome foreign tourists to India. This would not only aid the company's inbound business, but also boost its domestic business and add momentum to its new line of business, which involves the government. Hence, we expect TC's MICE business to expand at 15% over the long term ahead of 7.6% CAGR for industry.

Exhibit 15: India's business travel market to grow at 7.6% CAGR



Source: IMARC, Systematix Institutional Research

Destination Management Specialists (DMS) entities play a vital role in crafting and executing exceptional travel experiences in specific regions, leveraging extensive local knowledge, expertise, and resources. As one of the leading players in B2B DMS sector, the company operates both in India and overseas through subsidiaries. Travel Corporation (India) Ltd (TCI) manages the group's India DMS business. Under the distinguished brands of SITA, TCI and Distant Frontiers, the company has established a network of over 1,500 partners. This extensive network helps the company in serving customers from over 100 nationalities, facilitating their journeys to explore the enchanting destinations of India, Nepal, Bhutan and Sri Lanka.

The International Destination Management Services (DMS) category caters to the inbound tourism industry across various worldwide destinations.

International DMS

- **Southeast Asia** – In the Asia Pacific region, Asian Trails witnessed a sales uptick during FY23, which can be largely attributed to the reopening of key destinations such as Thailand, Indonesia, Vietnam, Malaysia, Singapore and Cambodia.

- **South and East Africa** – Private safaris in East Africa saw healthy sales in FY23, bolstered by strong volumes from traditional markets like Germany, the US, the UK, and France. Additionally, there were steady volumes from emerging markets like Romania and India. In South Africa, private safaris witnessed a marked improvement in performance year on year due to gradual increase in volumes from key European markets.

- **USA** – Allied TPro in the US experienced notable volume growth in FY23, primarily driven by the European market and FIT (free independent travelers). The company also entered into a strategic 50:50 joint venture (JV) with New World Travel Inc., which led to the establishment of a new entity named Allied New World. This JV leverages the strengths of both companies to enhance productivity and accelerate growth in the post-pandemic era.

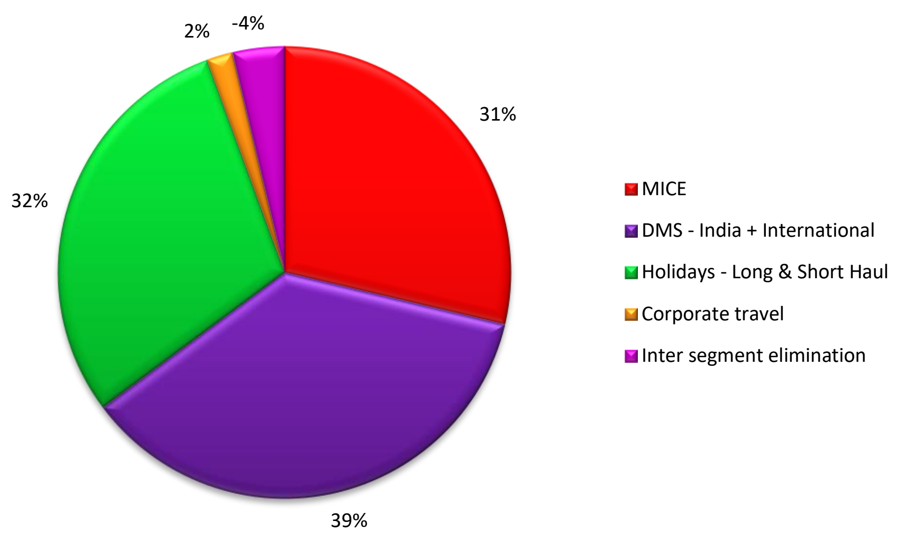
- **Middle East** – In the Middle East, Desert Adventures achieved significantly higher volumes in FY23, with remarkable contributions from CIS countries, OTA business (online travel agencies), LATAM, and India markets. The exceptional performance reflects Desert Adventures' adaptability to the changing travel trends and in tapping diverse markets and positioning the company as a leading player in the region's travel and hospitality landscape.

With international travel yet to reach pre-COVID levels, TC expects to end FY24 with 75-80% recovery in its international business. Short haul travel has witnessed strong recovery to pre-pandemic levels. Moreover, government's UDAN (*Ude Desh ka Aam Naagrik*) has led to the development of multiple regional airports, which are promoting travel. However, long-haul travel, especially from the US and Europe still hover at 60% of pre-pandemic levels due to considerably higher air fares. Moreover, the higher rejection rates in the case of US and European visas too have impacted long haul travel. For instance, the rejection rate of European Schengen Visa rose to 16% from 2-3% earlier, due to stricter rules from the European consulate. However, the travel industry body has raised concerns on this aspect, which seems to gradually showing positive results.

Majority of the outbound travel business volumes from India happens during the April–June quarter followed by October–December and the remaining during January–March and July–September. The peak period in inbound India business starts from October all the way till March.

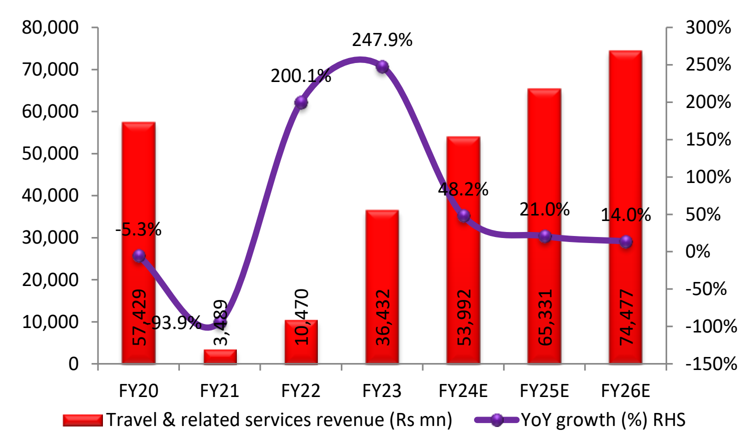
We expect the Travel and Related services business to post at 26.9% CAGR during FY23-FY26E, and EBIT margin to expand to 5% in FY26E from 0.2% in FY23.

Exhibit 16: Travel and Related services revenue split



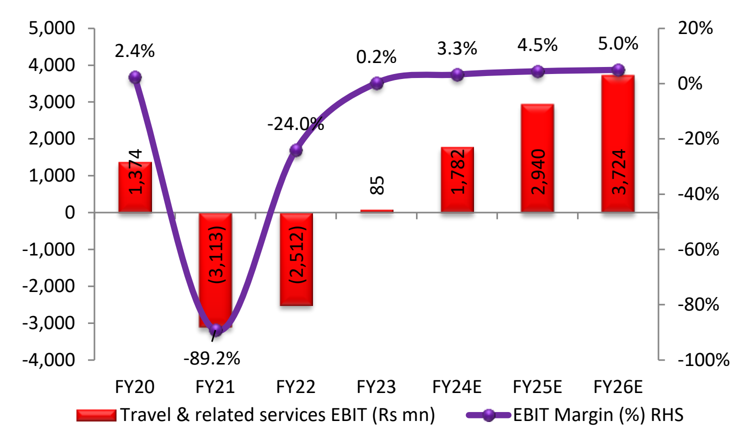
Source: Company, Systematix Institutional Research

Exhibit 17: Travel & related services: 26.9% CAGR in revenue over FY23-26E



Source: Company, Systematix Institutional Research

Exhibit 18: EBIT margin to expand to 5% by FY26E



Source: Company, Systematix Institutional Research

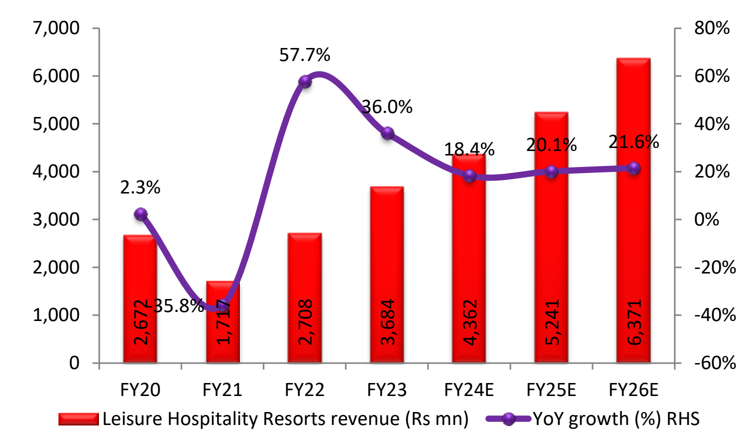
Renewed focus on Sterling drives growth in the Leisure Hospitality and Resorts business

Sterling Holiday Resorts Limited (Sterling), a 100% subsidiary of Thomas Cook with a strong foundation is transitioning from its initial concept of a timeshare to a hospitality enterprise. Although Thomas Cook bought Sterling Holiday Resorts, which operates on the time-share concept, it did not see much growth from this working model. Hence, Sterling would continue to focus only on short-term membership products and has tapered the sales of long-term ones.

Sterling is taking steps to strengthen its operations and building blocks to scale up through technology. It continues to leverage its proprietary distribution platform, Sterling One, which seamlessly connects real time with trade, corporate and association partners for business. This new product gives immense benefits to customers to holiday at any of the company's resorts with value adds on food and beverage and flexibility of multiple holidays across its portfolio throughout the year. With the launch of this new non-member FIT product, Sterling has also phased out on the long-duration membership products in Q2FY24. Hence, there would be no more acquisition of the long-term membership products going forward as well.

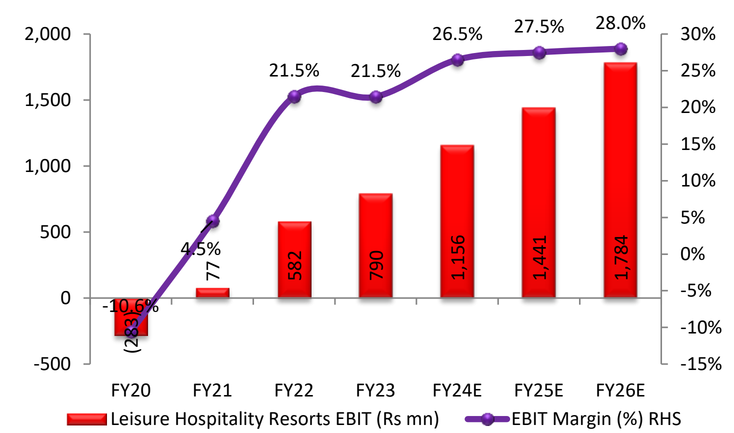
The Sterling network currently has 44 resorts (15 owned, 13 leased, 16 under management contracts) with 2,558 rooms. Going forward, the company plans to open 10-12 resorts annually, each having a capacity of 50-60 rooms. These expansions would be on asset light models. The company is aggressively expanding its resorts business currently in the North and East and would continue to expand its footprints in India and probably in destinations where Indians travel more. Sterling currently has 85,000 members who pay an annual maintenance fee of Rs 14,000-15,000 per member. Prior to the pandemic, the company used to add 8,000-10,000 members annually, which it significantly dropped post COVID. Currently, it has 63% occupancy rate, 66% of which are filled by non-members. We forecast non-member driven occupancy rate to rise to 70% ahead. Average room rate (ARR) has also improved from c. Rs 5,200 during pre-pandemic to c. Rs 6,500 now, which is comparable to three-star hotels. We expect the Leisure Hospitality and Resorts business to post 20% CAGR during FY23-FY26E, driven by increased number of rooms, higher occupancy and growing ARR. We expect EBIT margin to expand from 21.5% in FY23 to 28% in FY26E.

Exhibit 19: Leisure, hospitality & resorts: 20% CAGR in revenue over FY23-25E



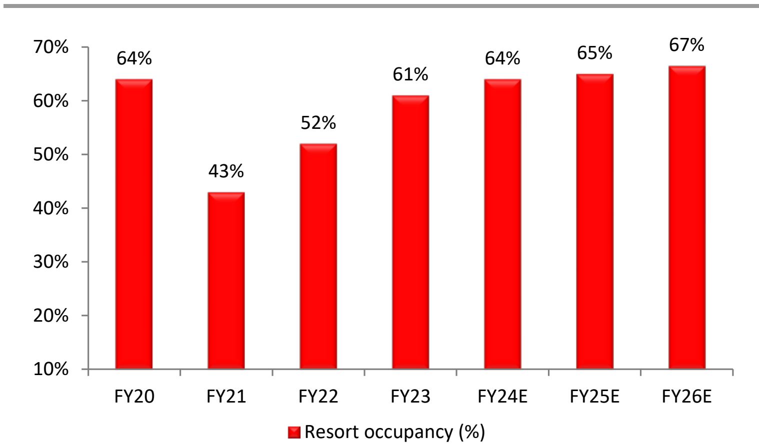
Source: Company, Systematix Institutional Research

Exhibit 20: EBIT margin to expand to 28% by FY26E



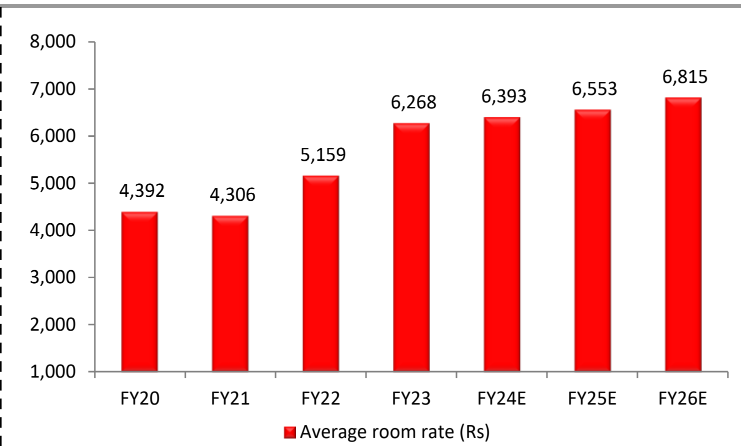
Source: Company, Systematix Institutional Research

Exhibit 21: Improving resort occupancy (%)



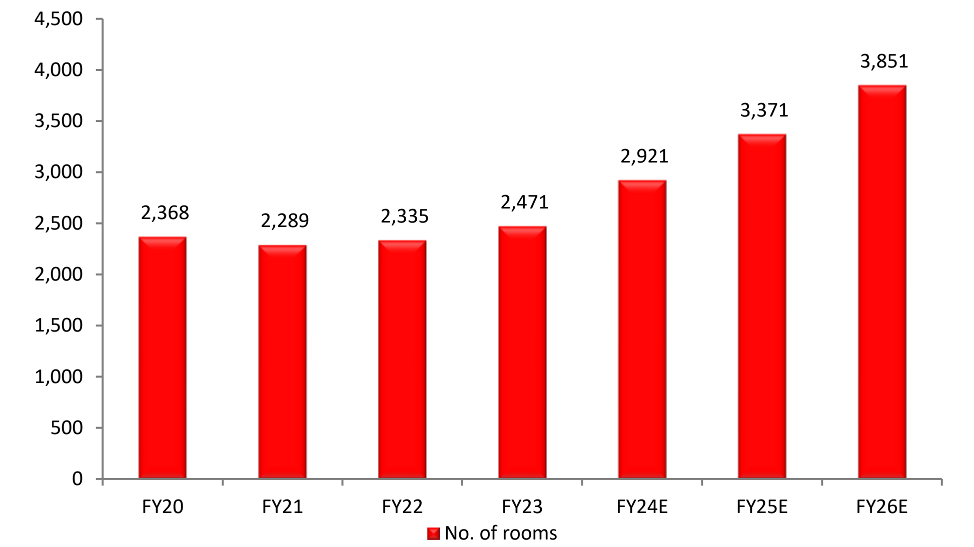
Source: Company, Systematix Institutional Research

Exhibit 22: Steady growth in ARR post COVID



Source: Company, Systematix Institutional Research

Exhibit 23: Steady addition of rooms to continue



Source: Company, Systematix Institutional Research

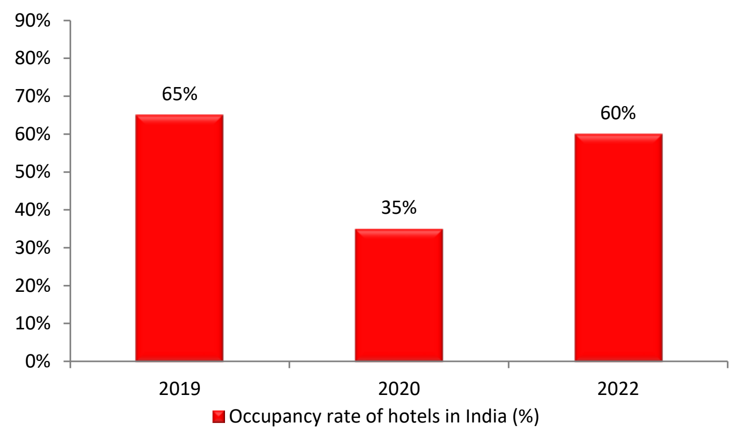
Exhibit 24: Leisure Hospitality & Resorts (Sterling Resorts) Network

	Hill Station	Beach	Waterfront	Heritage / Pilgrimage	Jungle	Adventure & Themeparks
North	• Mussoorie • Nainital • Kufri • Manali • Shivalik Chail • Legacy Shimla		• Palm Bliss Rishikesh • De Laila Srinagar	• Mantra Haridwar	• Corbett • Kanha • Sariska • Padam Pench	
East	• Darjeeling • Gangtok OV • Park Kalimpong			• Puri		
West	• Lonavala • Mount Abu • Panchgani	• Goa - Varca • Karwar			• Gir	• Aatapi Vadodara • Sajan (NT) • Durshet (NT) • Kundalika (NT) • Dabhosa (NT)
South	• Munnar • Vythiri • Yelagiri • Yercaud • Ooty - Elk Hill • Ooty - Fern Hill • Kodai - Lake • Kodai - Valley		• Anaikatti • Palavelli Godavari • Lake Palace Alleppey	• Guruvayur • Arunai Anantha Tiruvannamalai • V Grand Madurai	• Thekkady • Wayanad	

Source: Company, Systematix Institutional Research

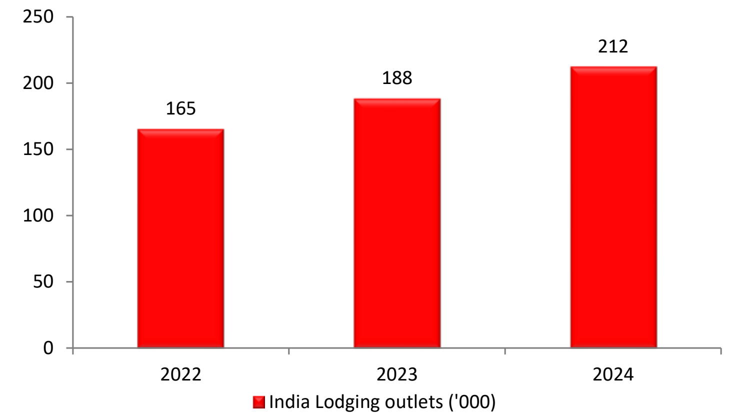
Pre COVID-19, the hospitality industry experienced 8% growth in revenue 2016–19, but the pandemic led to a reduction in occupancy rates from 65% in 2019 to 35% in 2020. In 2022, there has been a strong rebound, with occupancy rates soaring back to nearly 90% of pre COVID-19 levels.

Exhibit 25: Occupancy rate of hotels in India



Source: Euromonitor, Systematix Institutional Research

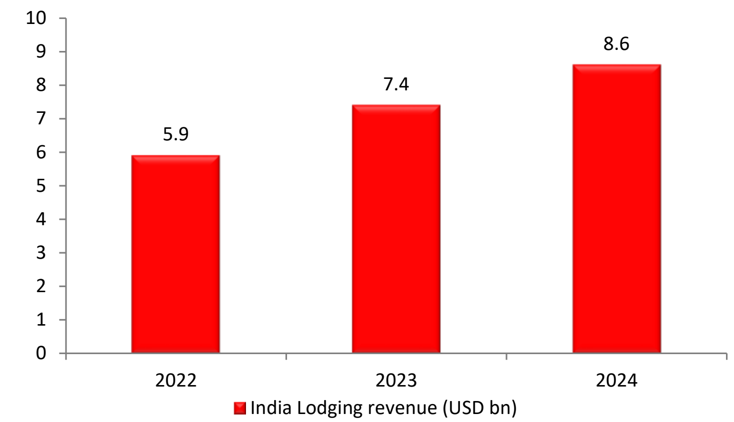
Exhibit 26: Lodging outlets in India



Source: Euromonitor, Systematix Institutional Research

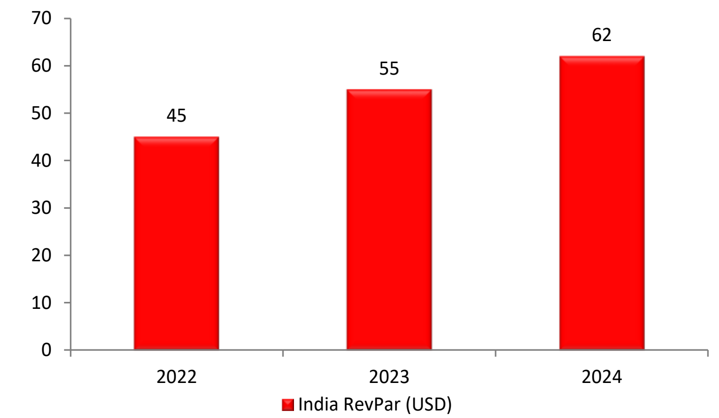
Lodging revenue is back to nearly 80% of pre COVID-19 levels. A steady 16–18% growth rate is projected for 2022–24 The robust recovery is evident in the surge of lodging outlets, revenues, and revenue per available rooms (RevPAR).

Exhibit 27: India Lodging revenue



Source: Euromonitor, Systematix Institutional Research

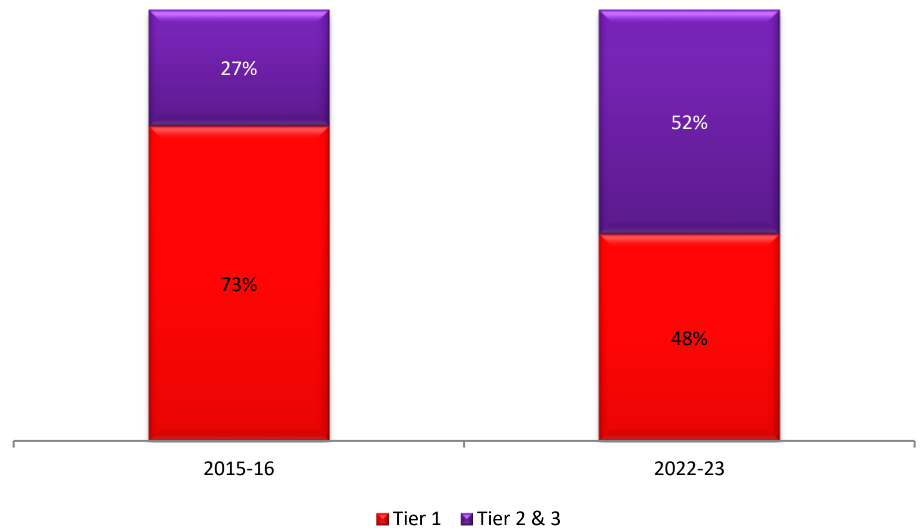
Exhibit 28: India Rev Par



Source: Euromonitor, Systematix Institutional Research

Leading international hotel chains are expanding to Tier 2 and 3 cities. Over 70% of the upcoming property pipeline for Tier 1 hotel chains is coming up in Tier 2 and 3 cities. The potential for growth in these emerging markets has driven the share of branded inventory in Tier 2 and 3 cities to increase from approximately 27% in 2015–16 to around 52% in 2022–23.

Exhibit 29: Branded hotel inventory supply in major cities, 2015-16 and 2022-23



Source: Hotelivate, Systematix Institutional Research

Strategic partnerships and expanding footprints drive growth in for DEI

Digiphoto Entertainment Imaging (DEI), headquartered in Dubai, is a global Top 3 player in the imaging solutions and services industry. The segment offers a comprehensive end-to-end service model to partners through cutting edge equipment, software, skilled talent and operational expertise at famous tourist attractions, water parks, aquariums, theme and amusement parks, luxury hotels and resorts, cable cars, animal and bird parks, and snow parks. Thomas Cook's DEI is immensely trusted by renowned global brands and the company is committed to delivering highest quality imaging solutions for guests.

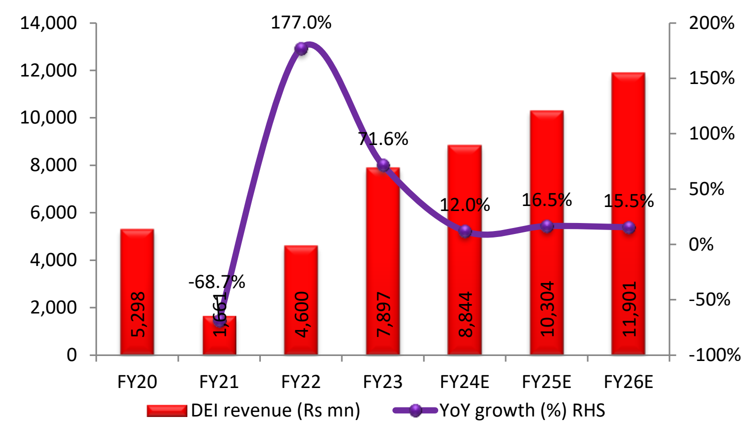
Thomas Cook has significantly improved the DEI portfolio through strategic partnerships with prominent establishments such as Legoland Malaysia, Snow Kingdom Hyderabad, Statue of Belief, Emerald Faarufushi Resort and Spa, and Snow Oman. The company continues to expand its footprints, after having forayed into 20 countries, including new markets like that of Saudi Arabia.

We attribute the company's enhanced productivity and efficiency to its implementation of zero-based budgeting exercise. By monitoring and optimizing levers such as pricing, average package value, package conversion ratio, and revenue per man hour and other key indicators, it plays a pivotal role in evaluating the viability of new opportunities to make well-informed decisions for growth.

The company is getting ready to launch its new platform, Hummingbird, a complete new digital platform that will deliver photos and images to people through cloud. This will be a real-time online display of images and memories that gets as soon as images are clicked. Also, it has some interesting features like facial recognition, etc. It is looking to make this live by 1HFY25, which should enhance the DEI business' profit margins and operating efficiencies multifold.

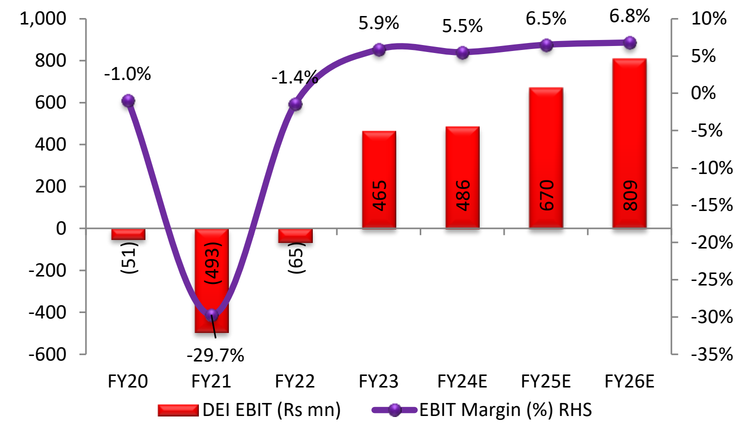
We expect revenue in the Digiphoto Imaging Services business to grow at 14.7% CAGR during FY23-FY26E, with EBIT margin slated to expand from 5.9% in FY23 to 6.8% in FY26E.

Exhibit 30: DEI: 14.7% CAGR in revenue over FY23-26E



Source: Company, Systematix Institutional Research

Exhibit 31: EBIT margin to expand to 6.8% by FY26E

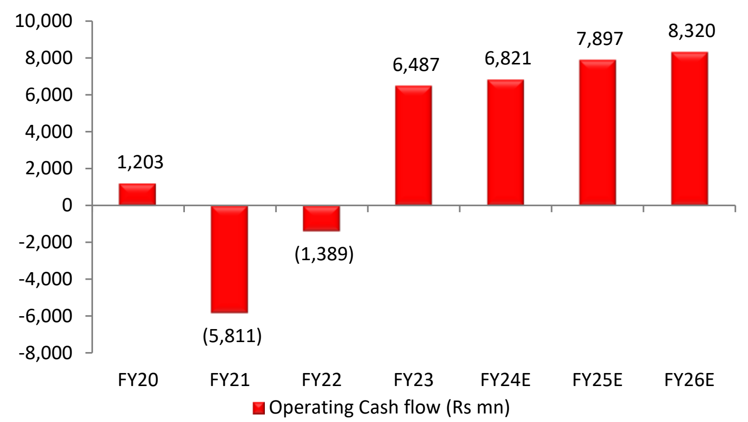


Source: Company, Systematix Institutional Research

Cash flows would be utilized to repay debts

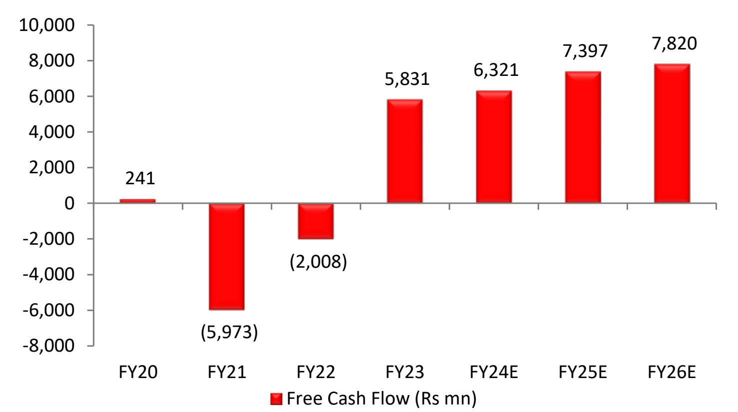
Thomas Cook currently holds consol. cash and cash equivalents of Rs 13.4bn (as on 30th Sept,2023), majority of which is the float from the prepaid forex card business. The company would be prioritizing debt repayment from the surplus cash and plans to pay off Rs 2.7bn of debt (as on 30th Sept,2023) in the next few years. This will eventually reduce its finance cost and improve profitability.

Exhibit 32: OCF of Rs 8.4 bn in FY26E



Source: Company, Systematix Institutional Research

Exhibit 33: FCF of Rs 7.9 bn in FY26E



Source: Company, Systematix Institutional Research

Thomas Cook's restructuring

Travel business – To drive economies of scale by joint contracting and bulk buying, the company integrated the backend of the holiday business at Thomas Cook and SOTC travel, creating a consolidated product-contracting operations unit. This equipped the company with a unique competitive advantage to operate combined group tours, increase profitability and improve margins and efficiency. At the front end, the company took a strategic decision to operate as a distinct entity each for marketing, sales and distribution, creating healthy competition between its brands, while simultaneously enhancing visibility, market share and leadership. The company also replicated this for its Corporate travel unit across Thomas Cook India and SOTC integrating to form a leaner consolidated backend, while keeping individual customer facing teams intact – ensuring better contracting and a fungible team able that can serve more customers.

Forex business – The company reimagined its forex business by setting up a central team for lead capture to sale, with a seamless handover to the closest retail outlets for last-mile delivery of #Ghar pe Forex – within 2 hours (up a central team that would capture leads for sale to be seamlessly handed over to the closest retail outlet for last-mile delivery of #Ghar pe Forex within 2 hours). In addition to convenience for customers, speed and efficiency of a consolidated team would give the company compelling advantages.

Sterling Holidays – This business also restructured its business model by pivoting away from its timeshare business, towards a more asset-light and profitable hotel & resort business. Accordingly, the company merged the vacation ownership team with its existing network. To capitalize on the strong and growing domestic demand, Sterling has embarked on aggressive expansion.

Reduction in employee headcount – The company reduced headcount by 30% and expects to retain its headcount at similar levels. It also closed down 48 branches of Thomas Cook and SOTC. The company has also invested in automation to improve efficiency with its limited workforce.

Acquisition related growth strategy benefitting the company over the years

Thomas Cook has had a robust inorganic growth journey over the last few years. In May 2012, Fairfax bought a 77% stake in Thomas Cook through its wholly-owned subsidiary, Fairbridge Capital Mauritius Ltd (FCML). As on September 30, 2022, FCML's shareholding in TC increased to 72% from 70.5%.

In May 2013, TC acquired a 74% stake in Quess for Rs 2.56bn. In November 2017, TC divested a 5.42% stake in Quess for about Rs 6.4bn, while retaining the controlling stake. On completion of TC's corporate restructuring scheme in FY2020, via issuance of 1,886 equity shares of Quess (of Rs 10 each) for every 10,000 equity shares (of Re 1 each) held in TC, Quess has been demerged from the Thomas Cook Group.

In September 2014, Thomas Cook acquired Sterling, a vacation ownership company. The transaction was primarily funded using Rs 5bn infused by the parent, Fairfax, through FCML in the form of compulsorily convertible preference shares.

Thomas Cook acquired the Kuoni Group's travel-related businesses in Hong Kong (November 2015) and India (December 2015) for around Rs 5.35 bn, and the DMS business covering 17 countries across Asia, Australia, the Middle East, Africa, and the Americas for Rs 1.4bn in June 2017. In October 2017, the group acquired Tata Capital Forex Ltd (forex business) and TC Travel and Services Ltd (travel services business) from Tata Capital Ltd.

On February 25, 2019, Thomas Cook (through its subsidiaries) acquired a 51% stake in DEI, at an enterprise value of Rs 2.89bn. The acquisition was completed on March 28, 2019. DEI is a leading souvenir imaging solutions provider, associated with over 120 partners across 14 countries.

Financials & Valuation

We forecast 24%/52.1%/251.3% CAGR in consolidated revenue/ EBITDA/ adjusted PAT, respectively, over FY23-FY26E, with RoCE estimated to expand to 19.3% in FY26E from 2.6% in FY23. We expect operating margin to expand 300bps to 6.5% in FY26E from 3.5% in FY23. We expect the company's performance to stay consistent going forward post the sharp turnaround being witnessed in FY24.

Segment-wise performance

1) We expect 12.7% CAGR in **Financial services** revenue during FY23-FY26E, with EBIT margin slated to expand 964 bps from 29.4% in FY23 to 39% in FY26E, led by digital adoption in the forex and retail part of business.
2) **Travel and related services** are anticipated to post 26.9% revenue CAGR over FY23-FY26E and EBIT margin slated to expand by 477 bps, driven by strong recovery in domestic and international businesses.
3) In **Leisure Hospitality and Resorts business**, we estimate 20% CAGR in revenue during FY23-FY26E, with 655 bps EBIT margin expansion to 28% in FY26E, led by strengthening operations, building scalability through technology and steady resort/room additions.
4) **Digiphoto Entertainment Imaging (DEI)** revenue could register 14.7% CAGR during FY23-FY26E, with EBIT margin forecasted to expand 91 bps from 5.9% in FY23 to 6.8% in FY26E, driven by market leadership position in several regions and launch of digital platform Hummingbird.

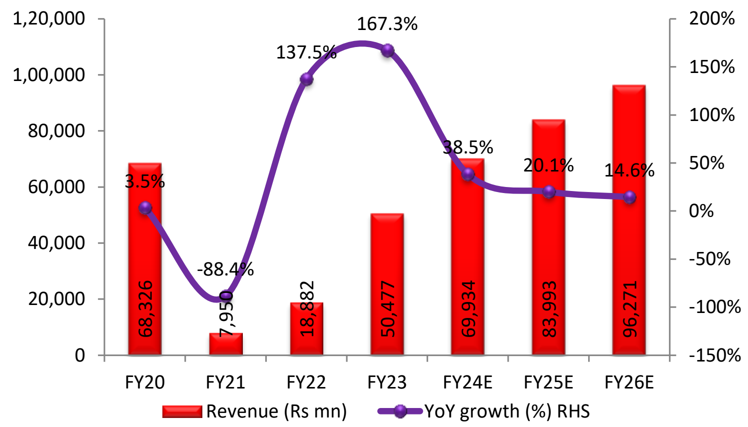
Valuation and view: We initiate coverage on Thomas Cook with a BUY rating, with a target price of Rs 235 (36% upside), valuing the stock at 30x FY26E P/E, which we believe is achievable, given the structural tailwinds for the business, improving return profile and strong execution. The multiple is similar to the current valuations of peers like Mahindra Holidays (leading player in time-sharing resorts), Lemon Tree Hotels (leading hotel player in mid-premium segment) and Easy Trip Planners (leading listed online travel agent) enjoy. TC's strong parentage and management make us confident the company will likely be able to maintain consistent execution, going forward. We see this driving a re-rating in the stock, as the company continues its profitable and asset-light scale-up journey.

Exhibit 34: Peer comparison

Companies	Market cap.	PE (x)			ROE (%)			FY2023-FY2026E CAGR (%)		
	(Rs/USD bn)	2024E	2025E	2026E	2024E	2025E	2026E	Revenue	EBITDA	PAT
Thomas Cook	Rs 81 bn	35.3	29.2	22.1	12.7	13.7	15.9	24	52.1	251.3
Mahindra Holidays & Resorts In*	Rs 76 bn	39.2	33.8	NA	23.8	22.0	NA	16.6**	15.3**	14.1**
Lemon Tree Hotels Ltd*	Rs 95 bn	57.3	34.3	27.9	16.1	21.8	20.2	22.3	21.9	41.5
Easy Trip Planners Ltd*	Rs 69 bn	38.7	33.6	28.7	38.3	30.9	28.3	20.2	20.3	23.3
MakeMyTrip Ltd*	USD 4.9 bn	50.1***	36.6***	NA	10.5***	14.7***	NA	29.0****	84.3****	NA
Ebix Inc*	USD 0.15 bn	18.2***	2.9***	NA	NA	NA	NA	(25.6)****	14.7****	(11.1)****
Yatra Online Inc*	USD 0.1 bn	NA	22.3***	NA	NA	NA	NA	45.9****	116.6****	NA

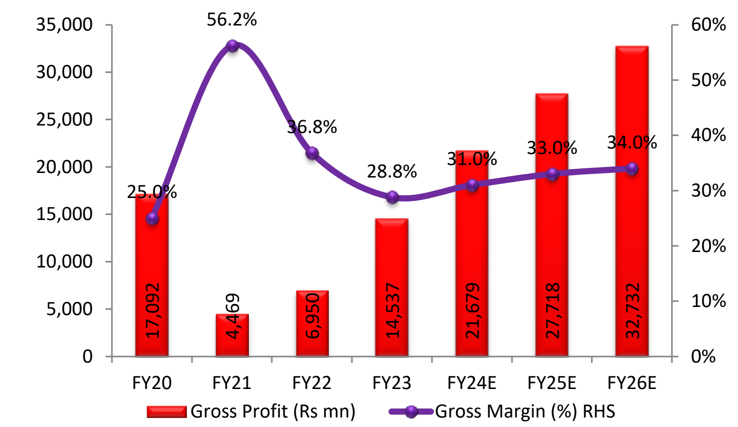
*Source: Company, Systematix Institutional Research, *indicates Bloomberg consensus numbers. **FY23-FY25E CAGR, ***CY23E and CY24E,****CY22-CY24E CAGR*

Exhibit 35: Revenue to grow at 24% CAGR during FY23-26E



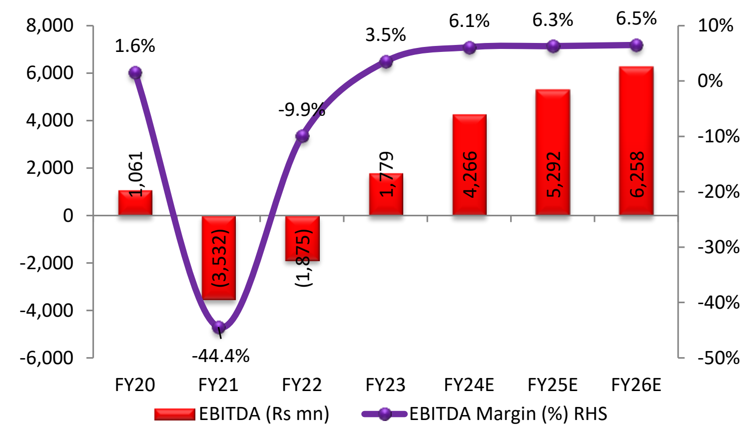
Source: Company, Systematix Institutional Research

Exhibit 36: Gross margin estimated at 34% during FY26E



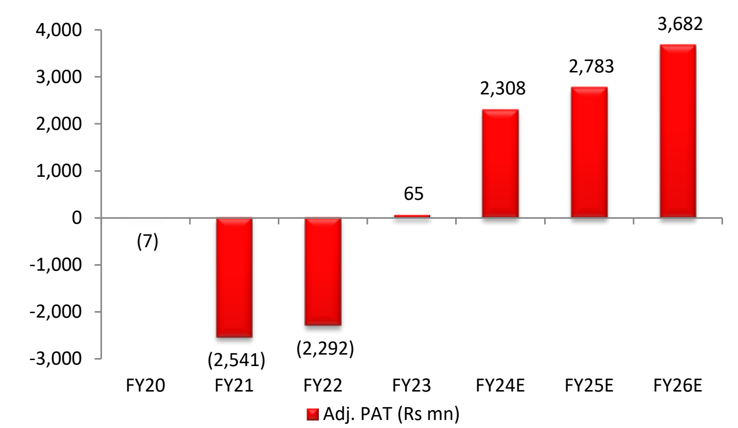
Source: Company, Systematix Institutional Research

Exhibit 37: EBITDA margin to improve to 6.3% in FY25E and 6.5% in FY26E



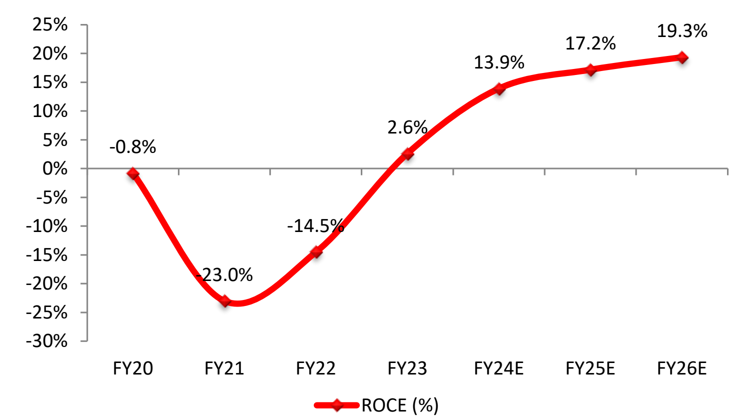
Source: Company, Systematix Institutional Research

Exhibit 38: Adj. PAT to reach ~Rs 3.7 bn in FY26E



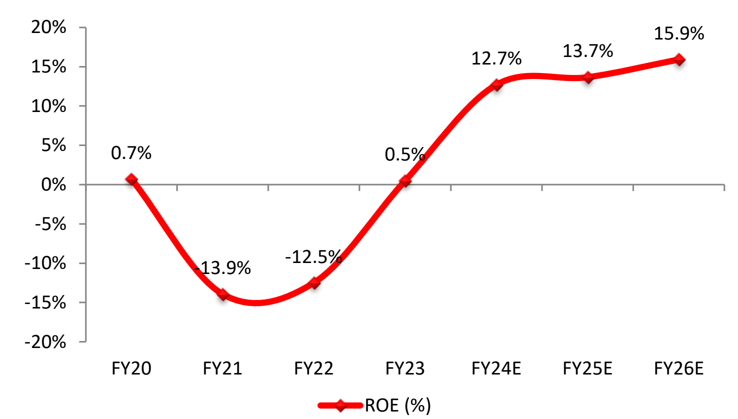
Source: Company, Systematix Institutional Research

Exhibit 39: RoCE of 17.2% in FY25E and 19.3% in FY26E



Source: Company, Systematix Institutional Research

Exhibit 40: RoE of 13.7% in FY25E and 15.9% in FY26E



Source: Company, Systematix Institutional Research

Key risks

Thomas Cook faces a number of risks and concerns that it will need to carefully navigate to maintain its growth trajectory and remain competitive in the travel industry.

- **Pandemic and geopolitical risks crucial monitorable risks that could impact travel and thus the company's financials -** The decline in international travel from January 2020 to FY2022 due to the pandemic, had a significant negative impact on the global travel business, especially as the emergence of new COVID19 virus strains caused additional waves of the pandemic. The travel industry is still susceptible to geopolitical threats, which could have a bearing on travel and therefore the company's performance. Plus, increased geopolitical tensions between Canada and India too could partially disrupt student and holiday travel in FY2024, thereby disturbing passenger traffic.

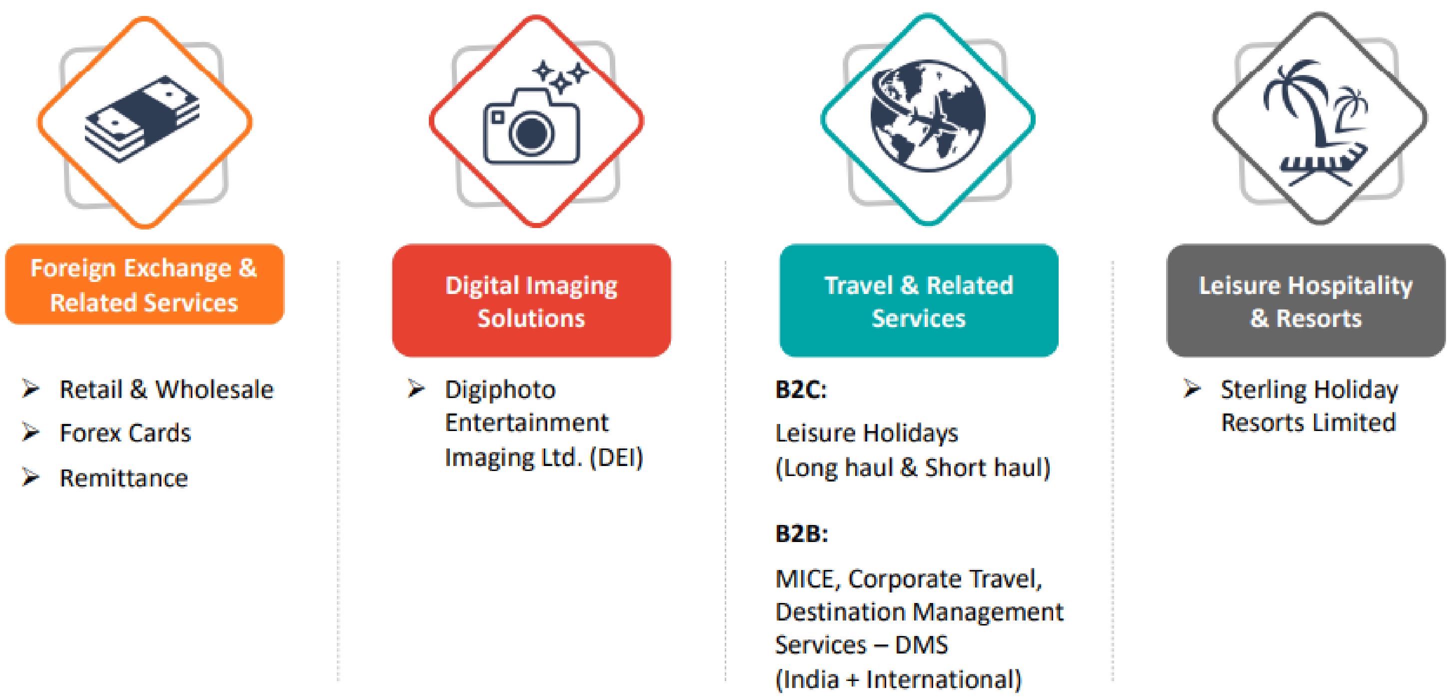
- **Rising competition from unorganized players -** The pandemic hurt smaller players, which did improve the group's competitive position in the medium term. But, slowdown in the travel industry as well as competition from both organized and unorganized firms, including online ones globally could limit the company's pricing power and profitability may still be limited by the worldwide.

- **Exposure to acquisition-related growth strategy risks –** Over the years, Thomas Cook has expanded both organically and inorganically, wherein it has completed several acquisitions (Quess, Sterling, Kuoni, and DEI). With the support of the parent company, TC managed to keep its financial risk profile stable, despite these transactions. However, slower-than-anticipated ramp up in the acquired businesses could materially alter TC's growth trajectory, a critical factor that needs monitoring.

About the company

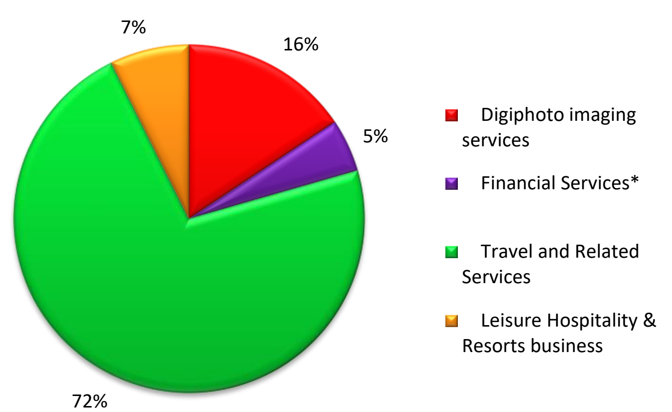
Thomas Cook (India) Ltd is a leading travel and travel-related financial services company in India, that offers a broad spectrum of facilities including foreign exchange (forex), corporate travel, leisure travel, and visa and passport services. The organization works in 28 countries in five continents and provides financial, travel, and other related services. It offers insurance, forex, corporate travel, and leisure travel. In addition, it provides e-Business, forex, travel insurance, life insurance, meetings, incentives, conferences, and events (MICE) and digiphoto entertainment imaging (DEI) solutions. It functions throughout India through a multitude of Gold Circle Partner stores, branch offices, and sales representatives. The corporation provides its services to international markets through its offices.

Exhibit 41: Thomas Cook India business segments



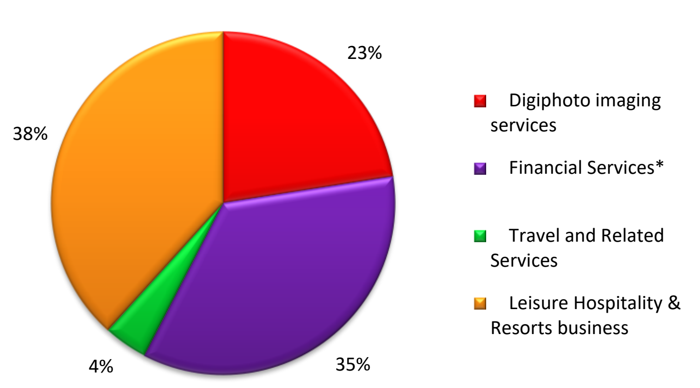
Source: Company, Systematix Institutional Research

Exhibit 42: Segment wise revenue share (FY23)



*Source: Company, Systematix Institutional Research, Note :*Forex revenue on net basis*

Exhibit 43: Segment wise EBIT mix (FY23)



Source: Company, Systematix Institutional Research

Exhibit 44: Key management personnel

Name	Designation	Background
Mr. Madhavan Menon	Executive Chairman – Thomas Cook India	Mr. Madhavan Menon joined Thomas Cook India in 2000, as its Executive Director and was responsible for the company's Foreign Exchange (forex) business. He stepped up to the positions of Managing Director in January 2006, Chairman & Managing Director in January 2016, and Executive Chairman effective July 2023. Mr. Menon completed his MBA from George Washington University and undergraduate degree from American University of Beirut. He has a varied background, having commenced his career in banking at Grindlays Bank, Citibank and Emirates Bank and in Birla Sun Life Asset Management Company.
Mr. Mahesh Iyer	MD & CEO – Thomas Cook India	Mr. Mahesh Iyer is the Managing Director & Chief Executive Officer of Thomas Cook (India) Limited and been with the company for 29 years. Prior to his appointment as Managing Director & Chief Executive Officer, he held multiple roles in the company, including that of Head of Foreign Exchange, Chief Operating Officer and Chief Executive Officer. He holds a master's degree in marketing management from JBIMS (Mumbai) and has successfully completed a Business Management degree from IIM-Calcutta.
Mr. Debasis Nandy	Group CFO – Thomas Cook India	Mr. Debasis Nandy, B.Com, A.C.A., has been the Chief Financial Officer of Thomas Cook (India) Limited since August 18, 2012, and also serves as the President of Commercial. Mr. Nandy has served as the Senior Vice President of Finance and Vice President of Finance at Thomas Cook India Ltd. He joined Thomas Cook India Ltd. on November 14, 2008, prior to which, he worked with Nicholas Piramal India Ltd.
Mr. Vishal Suri	MD – SOTC Travel	Mr. Vishal Suri is the Managing Director at SOTC Travel Limited. Prior to his elevation to the current role, Mr. Suri was the Chief Executive Officer-Tour Operating at SOTC Travel (formerly Kuoni India). He joined Kuoni-Tour Operating in August 2012 post his 7-year long stint with Thomas Cook India, where he was the Chief Operating Officer- Leisure Travel (Outbound & Domestic). He holds a graduate degree of Bachelor of Engineering in Electrical and attended Executive Management Programs at leading business schools like IIM Bangalore, Henley Business School UK & London Business School UK. Mr. Vishal Suri was appointed as the Managing Director on the Board of SOTC Travel Limited w.e.f June 1, 2017.
Mr. Vikram Lalvani	MD & CEO – Sterling Holiday Resorts	After seven years of overseeing various strategic responsibilities at Sterling, which included customer engagement, hotel sales and resort operations etc., Mr.Lalvani took over the role of managing director of Sterling Holiday Resorts in 2022. Mr.Lalvani has 25 years of leadership experience in hospitality, leisure and ITeS industries with a proven expertise in revenue maximization and technology solutions. In the past, Mr.Lalvani has held crucial positions in companies such as The Indian Hotels Co. Ltd. and Sutherland Global Services.
Mr. K.S. Ramakrishnan	President & CEO – DEI	Mr. Ramakrishnan established DEI in 2004. DEI focuses on imaging solutions for the attractions industry with a robust end-to-end turnkey model by providing equipment, software, talent and operational expertise consultation to its business partners. Mr. Ramakrishnan positioned the company as a leading imaging solutions and services provider worldwide, operating over 350 venues in 160+ marquee attractions. Mr. Ramakrishnan's foresight was pivotal in forging a partnership with Thomas Cook India, bringing DEI under the expansive ambit of the Fairfax Group of Companies.

Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**18,882**	**50,477**	**69,934**	**83,993**	**96,271**
Gross profit	6,950	14,537	21,679	27,718	32,732
GP margin (%)	36.8%	28.8%	31.0%	33.0%	34.0%
Operating profit	**(1,875)**	**1,779**	**4,266**	**5,292**	**6,258**
OP margin (%)	-9.9%	3.5%	6.1%	6.3%	6.5%
Depreciation	1,287	1,240	1,308	1,345	1,382
EBIT	**(3,162)**	**539**	**2,958**	**3,947**	**4,876**
Interest expense	616	891	929	909	760
Other income	578	635	1,049	800	963
Profit before tax	**(3,199)**	**283**	**3,078**	**3,838**	**5,079**
Taxes	(683)	165	769	1,055	1,397
Tax rate (%)	21.4%	58.3%	25.0%	27.5%	27.5%
Minority/Associates	254	-33	0	0	0
Adj. PAT	**(2,262)**	**85**	**2,308**	**2,783**	**3,682**
Exceptional loss	(30)	(20)			
Net profit	**(2,292)**	**65**	**2,308**	**2,783**	**3,682**
Adj. EPS	**(5.1)**	**0.2**	**4.9**	**5.9**	**7.8**

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	442	470	470	470	470
Reserves	16,108	16,276	18,349	20,662	23,873
Debt	3,813	3,276	2,950	2,300	1,900
Deferred tax liab (net)	(2,928)	(2,850)	(2,850)	(2,850)	(2,850)
Other non current liabilities	8,534	8,445	7,750	7,200	6,650
Total liabilities	**25,969**	**25,618**	**26,669**	**27,782**	**30,043**
Fixed Asset	25,932	26,025	25,103	24,239	23,337
Investments	1,292	1,062	1,100	1,250	1,400
Other Non-current Assets	2,907	3,159	3,200	3,300	3,400
Inventories	**216**	**301**	**397**	**463**	**522**
Sundry debtors	2,353	5,675	8,430	10,125	11,605
Cash & equivalents	**5,476**	**7,611**	**10,831**	**14,869**	**19,729**
Loans and Advances	5,044	9,881	10,200	10,500	10,800
Sundry creditors	9,982	17,866	22,992	27,614	31,651
Other current liabilities	7,269	10,231	9,600	9,350	9,100
Total Assets	**25,969**	**25,618**	**26,669**	**27,782**	**30,043**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBIT	(3,222)	268	3,078	3,838	5,079
Depreciation	1,287	1,240	1,308	1,345	1,382
Tax paid	41	(461)	(769)	(1,055)	(1,397)
Working capital Δ	(27)	4,336	2,276	2,861	2,497
Other operating items	532	1,103	929	908	760
Operating cashflow	**(1,389)**	**6,487**	**6,821**	**7,897**	**8,320**
Capital expenditure	(619)	(656)	(500)	(500)	(500)
Free cash flow	**(2,008)**	**5,831**	**6,321**	**7,397**	**7,820**
Equity raised	36	9	0	(0)	(0)
Investments					
Debt financing/disposal	216	(729)	(326)	(650)	(400)
Interest Paid	(614)	(829)	(929)	(909)	(760)
Dividends paid	14	17	-	-	-
Other items	(1,135)	(1,978)	(1,845)	(1,800)	(1,800)
Net Δ in cash	**(3,490)**	**2,320**	**3,220**	**4,038**	**4,860**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Revenue growth (%)	137.5	167.3	38.5	20.1	14.6
Op profit growth (%)	-46.9	-194.9	139.8	24.0	18.3
Adj Net profit growth (%)	-9.7	-103.8	2616.9	20.6	32.3
OPM (%)	-9.9	3.5	6.1	6.3	6.5
Net profit margin (%)	-12.0	0.2	3.3	3.3	3.8
RoCE (%)	-14.5	2.6	13.9	17.2	19.3
RoNW (%)	-12.5	0.5	12.7	13.7	15.9
EPS Adj (Rs)	-5.1	0.2	4.9	5.9	7.8
DPS (Rs)	0.0	0.4	0.5	1.0	1.0
BVPS (Rs)	45.7	46.2	40.8	45.7	52.6
Debtor days	45	41	44	44	44
Inventory days	4	2	2	2	2
Creditor days	193	129	120	120	120
P/E (x)	-33.8	957.8	35.3	29.2	22.1
P/B (x)	3.8	3.7	4.2	3.8	3.3
EV/EBITDA (x)	-39.9	43.3	17.2	13.0	10.2

Source: Company, Systematix Institutional Research

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