August 04, 2017

Thomas Cook (India) Limited

Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Non-convertible debenture	200.00	[ICRA]AA (Stable); re-affirmed
Redeemable preference share	125.00	[ICRA]AA- (Stable); re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the rating of [ICRA]AA (pronounced ICRA double A) assigned to the Rs. 200.00 crore[1] non-convertible debenture programme of Thomas Cook (India) Limited ('TCIL' or 'the company')[2]. ICRA has also re-affirmed the rating of [ICRA]AA- (pronounced ICRA double A minus) assigned to the Rs. 125.00 crore redeemable preference share programme of TCIL. The outlook on the ratings is 'Stable'.

Rationale

The re-affirmation of the ratings factor in the leadership position enjoyed by the company in the Indian travel and tourism industry as well as the foreign exchange market because of its 135 years of operations. ICRA notes its well-integrated business model offering, one-stop solutions with opportunities for cross-selling products to customers. It also takes note of its large operating scale supported by a well-established distribution network and strong bargaining power with vendors across the value chain. The ratings also favourably factor in the strong liquidity profile of the company with significant cash and liquid investments along with a comfortable capital structure. The ratings also take comfort from TCIL's 62.17% stake in Quess Corp Limited (rated [ICRA]AA-(Stable)/[ICRA]A1+), with a current market value of ~Rs. 6,900 crore. ICRA also notes the financial support from the ultimate holding company, Fairfax Financial Holdings Limited (rated Baa3 with Stable outlook by Moody's Investors Service), in the past.

TCIL acquired Destination Management Specialists (DMS; with a presence in 17 countries across Asia, Australia, Middle East, Africa, and the Americas) from Kuoni Travel Investments Limited, Zurich, Switzerland, and its affiliates in June 2017. The total acquisition cost of ~Rs. 125 crore was funded through debt of Rs. 70 crore. The said acquisition has expanded the presence of TCIL to 21 countries, thereby enhancing its ability to leverage its global travel portfolio.

TCIL's 'financial services' and 'travel and related services' businesses have performed well, despite increased competition and terror attacks in Europe. Overall, both the businesses remain vulnerable to regulatory changes and macroeconomic conditions like economic slowdowns, foreign exchange fluctuations and exogenous shocks. The travel and tourism industry is highly fragmented and the company faces significant competition from unorganised regional players and increasing competition from online travel portals attempting to cross-sell standardised holiday packages along with air ticketing services. Nonetheless, its large scale of operations, a well-established distribution network, large customer base and strong brand recall for TCIL and SOTC (acquired in December 2015) provide the company a competitive advantage. Further, TCIL is expected to achieve cost savings from back-end cost optimisation. The company plans to consolidate its back office functions such as human resources,

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

information technology, finance and accounts, and strategic procurement across companies. The benefits of the same were seen to some extent in FY2017, but are expected to increase gradually, resulting in improved margins for the travel companies of the group. However, TCIL's ability to sustain its growth momentum by expanding its travel offerings to more countries and promoting online sales remains important.

ICRA also notes that the performance of the 'vacation ownership' segment (under Sterling Holidays Resorts Limited, SHRL) continues to remain weak due to subdued occupancy level. Going forward, the operating performance of SHRL is expected to improve as almost all its resorts are now refurbished, resulting in higher room-nights being available for sale, coupled with launch of new vacation ownership plans (with lower tenures and higher down payment compared to earlier plans), which is expected to reduce delinquencies. Nonetheless, any further significant write-offs as seen in FY2016 will negatively impact the credit profile of the company, and remain a key rating sensitivity.

In addition, efficient working capital and foreign exchange management remains critical to maintain the credit profile of the company. With the stake sale by Thomas Cook Group PLC in TCIL, the company's ability to create an independent brand over the long-term remains a challenge. However, royalty agreement for the use of the Thomas Cook brand up to 2025 and acquisition of the SOTC brand during FY2016, provide some comfort. ICRA also notes the management's risk appetite for inorganic expansion, evident in sizeable mergers and acquisitions in the past. The ratings, however, derive comfort from the management's indication of not significantly leveraging the balance sheet for funding future acquisitions.

Key rating drivers

Credit strengths

- **Leadership position in the Indian travel and tourism industry as well as the foreign exchange market -** TCIL is India's largest non-banking foreign exchange dealer with presence in wholesale and retail forex segments. It is also a national player with a long track record in the travel and tourism industry. Its leadership position is further supported by its wide distribution network and synergies within the group.
- **Large operating scale supported by a well-established distribution network and strong bargaining power with vendors across the value chain -** TCIL's footprint as of March 31, 2017 extends to 261 locations across 102 cities, supported by a strong partner network of 81 preferred sales agents (PSAs) and 96 'Gold Circle' partners (GCPs/franchises) across the country.
- **Well-integrated business model offering one-stop solutions as well as opportunities for cross-selling products to customers -** The presence in the foreign exchange and travel business segments offers synergies in terms of customer access, operating and infrastructure costs, distribution network and brand value. While the travel business (includes leisure outbound travel, leisure inbound travel, domestic travel and corporate travel) offers cross selling opportunities for travel-related services like insurance, visa and passport processing, etc., the foreign exchange business leverages on the footfalls in the travel segment, resulting in economies of scope.
- **TCIL enjoys 62.17% stake in Quess Corp Limited (QCL), with current market value of ~Rs. 6,900 crore**
- **Financial support from the ultimate holding company, Fairfax Financial Holdings Limited (rated Baa3 with Stable outlook by Moody's Investors Service)**

Credit weaknesses

- **Continued weak performance of the vacation ownership business in FY2017 on account of subdued occupancies** – Although there has been some improvement in occupancy and average room rates (ARR) in FY2017, this division continues to report operating losses due to ongoing refurbishment. However, its performance is expected to improve as most of its resorts are now refurbished and the launch of new vacation ownership plans is expected to reduce delinquencies.

- **Revenue growth remains vulnerable to regulatory changes and macro-economic conditions like economic slowdowns, foreign exchange fluctuations and exogenous shocks**
- **Operating in a highly fragmented travel and tourism industry with significant competition from the unorganised regional players and increasing competition from online travel portals**
- **Ability to create independent brand value over the long-term remains a challenge; however, royalty agreement for the use of the Thomas Cook brand up to 2025 and acquisition of the SOTC brand during FY2016 provide comfort**
- **Management risk appetite for inorganic expansions as evident in sizeable mergers/acquisitions in the past; nonetheless, comfort drawn from management's indication of not significantly leveraging the balance sheet for funding future acquisitions.**

Analytical approach:
For arriving at the ratings, ICRA has considered the operations and financials of Thomas Cook (India) Limited and its subsidiaries. The rating methodology applied is indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:

Thomas Cook (India) Limited (TCIL) is one of the largest integrated travel and travel-related financial service providers in India. TCIL is also India's largest non-banking foreign exchange dealer, with an Authorized Dealer Category II licence from the Reserve Bank of India (RBI). On a consolidated basis, TCIL operates under four segments—financial services, travel and related services, human resource services and vacation ownership. It provides a wide range of services including foreign exchange, corporate travel, leisure travel, insurance, meetings, incentives, conferences and exhibitions (MICE), and visa processing. The company is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). As on June 30, 2017, Fairfax Financial Holdings Limited (through its step-down wholly-owned subsidiary, Fairbridge Capital (Mauritius) Limited) holds 67.65% stake in TCIL.

In February 2013, TCIL acquired a 74.85% interest in QCL (formerly known as IKYA Human Capital Solutions Private Limited) for a consideration of Rs. 256 crore. Post a rights issue done by QCL during FY2016, TCIL's shareholding reduced to 69.55% as on March 31, 2016, and further down to 62.6%, post the Initial public offering (IPO) by QCL during July 2016, aggregating to Rs. 400.00 crore. As on June 30, 2017, TCIL held 62.17% stake in QCL. QCL offers specialised human resources services including search, recruitment, project-based hiring, general and professional staffing, skill development and facilities management across domains such as information technology (IT), IT-enabled services, consumer durables, telecom, pharmaceuticals, entertainment, fast-moving consumer goods (FMCG), etc., and caters to a broad base of customers. Subsequently, QCL has acquired various companies in complementing domains. On a consolidated basis, QCL and its subsidiaries together have about 189,200 employees under the group's payrolls (as of March 31, 2017).

In February 2014, TCIL acquired a 55% stake in Sterling Holiday Resorts (India) Limited (demerged into Thomas Cook Insurance Services (India) Limited, a wholly-owned subsidiary of TCIL, since July 2015; renamed to Sterling Holiday Resorts Limited, SHRL). SHRL is a pioneer in vacation ownership business and a leading leisure hospitality company in India. As on March 31, 2017, SHRL had a total inventory of 2,034 rooms across a network of 31 resorts in 29 holiday destinations in India.

In July 2015, TCIL acquired Luxe Asia, a destination management company based in Sri Lanka, through its wholly-owned subsidiary, Thomas Cook Lanka (Pvt) Ltd, for a consideration of Rs. 3.5 crore.

In November 2015, Travel Circle International Limited (formerly known as Luxe Asia Travel (China) Limited), acquired Kuoni Travel (China) Limited (Kuoni Hong Kong) for Rs. 215 crore. In December 2015, TCIL and Travel Corporation (India) Limited acquired Kuoni Travel India Private Limited (Kuoni India; renamed to SOTC Travel Services Private Limited) for Rs. 320 crore. The acquisitions include Kuoni's outbound, business travel, domestic, MICE and inbound businesses in India, and outbound and business travel businesses in Hong Kong.

In June 2017, Travel Circle International (Mauritius) Limited (51:49 joint venture between Travel Corporation (India) Limited and SOTC Travel Limited, both wholly-owned subsidiaries of TCIL) acquired DMS (present in 17 countries across Asia, Australia, Middle East, Africa, and the Americas) from Kuoni Travel Investments Limited, Zurich, Switzerland, and its affiliates.

On a consolidated basis, TCIL reported an operating income (OI) of Rs. 8,614.81 crore and profit after tax of Rs. 77.67 crore during FY2017, as against an OI of Rs. 6,104.75 crore and net loss of Rs. 58.52 crore during FY2016.

Key financial indicators (Audited)

	Standalone		**Consolidated**	
TCIL	**FY2016**	**FY2017**	**FY2016**	**FY2017**
Operating income (Rs. crore)	1,735.44	1,726.42	6,104.75	8,614.81
PAT (Rs. crore)	5.38	-8.36	-58.52	77.67
OPBDIT/ OI (%)	2.91%	3.11%	2.67%	3.94%
RoCE (%)	-	3.21%	-	11.47%
Total Debt/ TNW (times)	0.30	0.30	0.77	0.77
Total Debt/ OPBDIT (times)	6.90	6.59	6.39	4.09
Interest coverage (times)	1.14	1.00	1.77	2.59
NWC/ OI (%)	-24%	-21%	-10%	-8%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Other information: Not applicable**.**

Rating history for last three years:

Table

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016			Month - year & Rating in FY2015
				August 2017	September 2016	October 2015	August 2015	July 2015	April 2014
1	Non-convertible debenture	Long term	200.00*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2	Redeemable preference share	Long term	125.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-

*Amount outstanding as on date is Rs. 133.34 crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

ISIN No	Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE332A08014	Non-Convertible Debentures	April 15, 2013	10.52%	April 16, 2018	100.00*	[ICRA]AA (Stable)
INE332A08022	Non-Convertible Debentures	August 31, 2015	9.37%	August 31, 2018	33.00	[ICRA]AA (Stable)
INE332A08030	Non-Convertible Debentures	August 31, 2015	9.37%	August 30, 2019	33.00	[ICRA]AA (Stable)
INE332A08048	Non-Convertible Debentures	August 31, 2015	9.37%	August 31, 2020	34.00	[ICRA]AA (Stable)
INE332A04039	Non Convertible Cumulative Redeemable Preference Shares	December 1, 2015	8.50%	December 1, 2022	125.00	[ICRA]AA- (Stable)

*Amount outstanding as on date is Rs. 33.34 crore

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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