



## Thomas Cook (India) Limited

Instrument	Amount (Rs. Crore)	Rating Action
Non-Convertible Debenture Programme	200.0	Upgraded to [ICRA]AA (Stable) from [ICRA]AA- (Stable)

Source: ICRA

ICRA has upgraded the rating assigned to the Rs. 200.0 crore<sup>1</sup> Non-Convertible Debenture Programme of Thomas Cook (India) Limited ('TCIL' or 'the company')<sup>2</sup> to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus). The outlook on the rating is 'stable'.

The rating upgrade takes into account the improvement in the credit profile of the company on the back of business diversification at the consolidated level facilitated by the inorganic growth strategy adopted by Qess Corp Limited ('QCL'; 74% subsidiary of TCIL), which is also expected to aid in margin expansion at the consolidated level going forward; improvement in operating performance of Sterling Holiday Resorts (India) Limited ('SHRIL'; 55% subsidiary of TCIL) during FY 2015 as reflected in improvement in occupancy and average room revenues (ARRs), thereby resulting in a robust growth in revenues and first net profit for SHRIL in FY 2015 in over 18 years; and the stable performance of the financial services and travel & related services segments, despite some moderation in standalone margins witnessed during FY 2015 due to increased spends on new initiatives undertaken such as holiday savings scheme, travel quest, etc.

The rating continues to factor in the leadership position enjoyed by TCIL in the Indian travel and tourism industry as well as foreign exchange market on account of 134 years of operations; the well-integrated business model offering one-stop solutions as well as opportunities for cross selling products to customers; and a large operating scale supported by a well-established distribution network and strong bargaining power with vendors across the value chain. ICRA also draws comfort from the strong parentage and support from the ultimate holding company, Fairfax Financial Holdings Limited (rated Baa3 with Stable outlook by Moody's Investors Service).

TCIL's travel and forex business remains vulnerable to regulatory changes and macroeconomic conditions like economic slowdowns, foreign exchange fluctuations and exogenous shocks and the highly fragmented travel and tourism industry in which the company operates, with significant competition from unorganized regional players and increasing competition from online travel portals attempting to cross-sell standardized holiday packages along with air ticketing services. Nonetheless, large scale of operations, a well-established distribution network, large customer base and strong brand recall provide TCIL a competitive advantage. The rating is further constrained by the high working capital intensity due to the nature of business, as receivables and advances to vendors relate to gross value of transactions. Hence, efficient working capital and foreign exchange management remains critical for maintaining the credit profile of the company. With the stake sale by Thomas Cook Group Plc, the company's ability to create independent brand value over the long term remains a challenge; however, royalty agreement for the use of Thomas Cook brand for the next 9.5 years provides some comfort.

<sup>1</sup> 100 Lakh = 1 Crore = 10 Million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA Rating Publications



ICRA notes that low margins inherent to the Human Resources Services and Vacation Ownership divisions have impacted the operating margins of the company at the consolidated level. Nonetheless, the operating margins, though moderated in FY 2015, continue to remain healthy on a Standalone basis. ICRA also takes note of the management's risk appetite for inorganic expansion evident in sizable mergers and acquisitions in the past; as also the capital intensive nature of the Vacation Ownership business. However, ICRA draws comfort from the healthy financial and liquidity profile of TCIL as reflected in robust debt coverage indicators and cash surplus. The rating also derives comfort from the management's indication of not significantly leveraging the balance sheet for funding future acquisitions and the ability of SHRIL to fund its capex plans through a combination of internal accruals and low leveraging.

### **Company Profile**

Thomas Cook (India) Limited (TCIL) is one of the largest integrated Travel and Travel related Financial Services providers in India. TCIL is India's largest non-banking foreign exchange dealer, with an Authorized Dealer Category II license from the RBI. It also provides a wide range of services including Foreign Exchange, Corporate Travel, Leisure Travel, Insurance, MICE (Meetings, Incentives, Conferences, Exhibitions) and Visa Processing. The Company is listed on both the Bombay Stock Exchange as well as the National Stock Exchange.

In May 2012, Fairfax bought the 77% stake of Thomas Cook Group PLC (TCGP) in TCGP's India entity, TCIL, through its wholly owned subsidiary, Fairbridge Capital (Mauritius) Ltd (Fairbridge Capital). Following the acquisition, Fairbridge Capital acquired a further 10.41% stake in TCIL through an open offer. As on March 31, 2015, Fairbridge Capital's shareholding in TCIL is 74.77%.

In February 2013, TCIL acquired a 74% interest in Quess Corp Limited ('QCL'; formerly known as IKYA Human Capital Solutions Private Limited or 'IKYA') for a consideration of Rs. 256 crore (approximately US\$ 47 million). QCL offers specialized 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, 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 100,000 employees under the group's payrolls.

In February 2014, TCIL acquired 55% stake in Sterling Holiday Resorts (India) Limited (SHRIL) for a cash consideration of Rs. 470 crore and a share swap. SHRIL is a pioneer in Vacation Ownership and a leading Leisure Hospitality company in India. As on March 31, 2015, SHRIL has a total inventory of 1,767 rooms spread across a network of 24 resorts in 21 holiday destinations in India. The company also has 15 additional sites where it plans to add new resorts in coming years.

### **Recent Results**

For the fifteen months ended March 31, 2015, TCIL (consolidated) reported a profit after tax (PAT) of Rs. 112.34 crore on an operating income (OI) of Rs. 3,216.65 crore as against a PAT of Rs. 68.73 crore on an OI of Rs. 1,281.49 crore for the twelve months ended December 31, 2013.

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