Thomas Cook (India) Limited

ICRA has a long-term rating of [ICRA]AA (pronounced ICRA double A) with a stable outlook outstanding on the Rs. 200.0 crore* Non-Convertible Debenture Programme of Thomas Cook (India) Limited ('TCIL' or 'the company')†.

ICRA takes note of TCIL's proposed acquisition of travel related businesses of Kuoni Group in India and Hong Kong for a total consideration of Rs. 535 crore. The definitive agreement signed in August 2015 is awaiting regulatory approvals. The acquisition by TCIL includes Kuoni's outbound, business travel, domestic, MICE (Meetings, Incentives, Conferences, Exhibitions) and inbound businesses in India, and outbound and business travel businesses in Hong Kong. As a part of the deal, TCIL will acquire well known brands like 'SOTC' (Kuoni's outbound tour brand in India), 'SITA' (Kuoni's inbound travel arm in India) and 'Distant frontiers' from Kuoni. The Kuoni brand is licensed to TCIL for one year in India and five years in Hong Kong, and SOTC brand for perpetuity. Post acquisition, TCIL and Kuoni will continue to operate as separate entities with parallel brands. The acquisition of Kuoni India and Kuoni Hong Kong is expected to help TCIL gain leadership in the inbound travel business in India, consolidate its leadership position in the outbound travel business, and enhance offerings in the corporate travel business. As both Kuoni and TCIL operate in similar markets and businesses, benefits in the form of higher market share and better margins are expected to follow.

The acquisition is to be funded through a combination of debt (including possible issue of long-term, redeemable preference shares to the promoters), existing cash balance and internal accruals. On account of debt to be drawn to acquire the two businesses, the consolidated leverage for TCIL is expected to increase. However, ICRA does not expect the partly debt-funded acquisition to have any material impact on the credit profile and liquidity position of the company, which continue to be supported by healthy cash accruals from the existing established businesses and additional cash flows from the acquired businesses. In addition, comfort is drawn from the leveraged buyout of Kuoni Hong Kong.

Further, on July 30, 2015, TCIL announced that it has 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.

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. TCIL's leadership position is expected to further strengthen post acquisition of Kuoni's operations in India and Hong Kong. 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).

The rating also 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 Quess Corp Limited (QCL, 74% subsidiary of TCIL), which is also expected to aid in margin expansion at the consolidated level going forward and 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). 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 and Q1 FY2016 due to increased spends on new initiatives undertaken such as holiday savings scheme, travel quest, etc, continue to remain healthy on a Standalone basis.

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* 100 Lakh = 1 Crore = 10 Million

† For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA Rating Publications

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. In addition, the recent acquisition of the SOTC brand for perpetuity should help allay concerns.

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. 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 June 30, 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.

In August 2015, TCIL announced that it has signed definitive agreement with Kuoni Group to acquire travel related businesses of Kuoni in India and Hong Kong for a total consideration of Rs. 535 crore. The acquisition includes Kuoni's outbound, business travel, domestic, MICE and inbound businesses in India, and outbound and business travel businesses in Hong Kong. The transaction remains subject to regulatory approvals as required. Also, on July 30, 2015, TCIL announced that it has 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. The Company will be operated as an independent entity. The agreement for this acquisition has been signed with immediate effect.

Recent Results

For the three months ended June 30, 2015, as per provisional financials, TCIL (consolidated) reported a profit after tax (PAT) of Rs. 42.0 crore on an operating income of Rs. 929.2 crore, as against a PAT of Rs. 112.3 crore on an operating income of Rs. 3,216.7 crore for the fifteen months ended March 31, 2015.

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