Thomas Cook (India) Limited

Instrument	Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	200.0	[ICRA]AA (Stable) reaffirmed
Redeemable Preference Share Programme	125.0	[ICRA]AA- (Stable) reaffirmed

ICRA has reaffirmed the **[ICRA]AA** (pronounced ICRA double A) rating assigned to the Rs. 200.0-crore[1] Non-Convertible Debenture Programme of Thomas Cook (India) Limited ('TCIL' or 'the company')[2]. ICRA has also reaffirmed the **[ICRA]AA-** (pronounced ICRA double A minus) rating assigned to the Rs. 125.0-crore Redeemable Preference Share Programme of TCIL. The outlook on the ratings is **Stable**.

The ratings reaffirmation takes into account the improvement in the financial flexibility and the liquidity profile of Quess Corp Limited (QCL, 62.6% subsidiary of TCIL), following the success of its Rs. 400-crore initial public offering (IPO) in July 2016. ICRA notes that in order to meet regulatory requirements, TCIL is required to divest ~11.58% stake in QCL over the next three years. This income from stake divestment by TCIL in QCL is expected to improve its credit profile. Further, while there was moderation in the credit profile of TCIL on account of the increased borrowings to fund acquisitions, ICRA notes that the cash flows from the acquired companies will support the consolidated profile of the company FY2017 onwards.

The ratings continue to factor in the leadership position enjoyed by the company in the Indian travel and tourism industry as well as the foreign exchange market on account of its 134 years of operations; the well-integrated business model offering, one-stop solutions as well as 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. ICRA also draws comfort from TCIL's 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 Financial Services business witnessed a decline in revenues and profitability in FY2016 on account of high base effect of FY2015 and increase in its operating expenses. Further, its Travel and Related services business has also faced a marginal de-growth in revenues in FY2016 and Q1 FY2017 on account of the tourism in Europe, witnessed on the back of consecutive terror attacks. Consequently, the segment has been facing a gradual decline in profitability on account of higher competition, further aggravated by a relatively new domestic travel and online channel businesses, which are still in investment mode. Overall, the Financial Services and Travel and Related Services businesses remain 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 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 exercises being carried out in consultation with Accenture. The benefits of the same are expected to flow gradually from September 2016, resulting in improved margins for the travel companies of the group. Also, the company expects saving in costs, FY2017 onwards, owing to shared services operations of key back office functions such as human resources, information technology, finance and accounts and strategic procurement. However, revival of tourism in Europe or TCIL's ability to compensate the same through travel offerings in other countries remains the key in improving revenue growth for the company.

ICRA also notes that the performance of the Vacation Ownership segment (under Sterling Holidays Resorts Limited, SHRL) weakened during FY2016 due to its inability to improve occupancies on account of delays in refurbishment of certain resorts. Further, the company reported significant write-offs of Rs. 99.69 crore towards

[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.

vacation ownership receivables and capital work in progress in FY2016. However, the operating performance of SHRL has witnessed an improvement in Q1 FY2017, on the back of higher occupancy on a higher base of refurbished rooms. Going forward, the timely completion of the refurbishments for SHRL resorts remains critical in further improving occupancies, average room rent (ARR) and thus overall operating performance of SHRL. Nonetheless, any further significant write-offs will negatively impact the credit profile of the company, and remain a key rating sensitivity.

The cash accruals for TCIL weakened in FY2016 on account of reduced profitability in the Financial Services and Travel and Related Services businesses, and sizeable losses in SHRL. Going forward, improvement in the performance of these businesses thus remains the key in improving the overall credit profile of the company.

The working capital intensity of operations improved in FY2016 primarily owing to changes in policy related to TCIL's Borderless Prepaid Card, launched in collaboration with MasterCard Worldwide. The funds received by TCIL from the customers towards the purchase of these cards are being used towards meeting working capital requirements (as against being parked in an escrow account earlier), thereby improving the working capital of the company. 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, the company's 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, provides some comfort. ICRA also takes note of 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. Further, the overall liquidity profile continues to remain strong with significant cash and liquid investments.

Company Profile

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 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, exhibitions (MICE) and visa processing. The company is listed on both the Bombay Stock Exchange as well as the National Stock Exchange. As on March 31, 2016, Fairfax Financial Holdings Limited (through its step-down wholly-owned subsidiary Fairbridge Capital (Mauritius) Limited) holds 67.82% stake in TCIL.

In February 2013, TCIL acquired a 74.85% interest in Quess Corp Limited (QCL; formerly known as IKYA Human Capital Solutions Private Limited) for a consideration of Rs. 256 crore (approximately US$47 million). Post a rights issue done by QCL during FY2016, TCIL's shareholding in QCL reduced to 69.55% as on March 31, 2016, and further reduced to 62.6%, post the IPO by QCL during July 2016, aggregating Rs 400.00 crore. 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, 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 120,000 employees under the group's payrolls as of March 31, 2016.

In February 2014, TCIL acquired a 55% stake in Sterling Holiday Resorts (India) Limited (demerged into Thomas Cook Insurance Services (India) Limited (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, 2016, SHRL has a total inventory of 1,914 rooms spread across a network of 26 resorts in 23 holiday destinations in India. The company also has 16 additional sites where it plans to add new resorts in the coming years. SHRL acquired Nature Trails Resorts Private Limited (Nature Trails) in March 2016 for a consideration of Rs. 6.2 crore. Nature Trails operates resorts, campsites and activity camps at four destinations in Maharashtra.

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 October 2015, Luxe Asia Travel China (100% subsidiary of Travel Corporation India 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.

Recent Results

As per unaudited financials for the three-month period ended June 30, 2016, TCIL (consolidated) reported a net profit of Rs. 62.02 crore on an operating income (OI) of Rs. 2,476.13 crore. As per unaudited financials for the 12-month period ended March 31, 2016, TCIL (consolidated) reported a net loss of Rs. 10.75 crore on an operating income (OI) of Rs. 4,204.21 crore, as against a net profit of Rs. 112.34 crore on an OI of Rs. 3,216.65 crore as per audited financials for the 15-month period ended March 31, 2015.

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