



TM

05 February 2024

Thomas Cook India

Strong margin improvement across segments; demand recovery continues led by travel and leisure segments

RESULT UPDATE

Sector: Tour & Travel services **Rating:** BUY

CMP: Rs 173 **Target Price:** Rs 235

Stock Info

Sensex/Nifty	71,731/ 21,772
Bloomberg	TC IN
Equity shares (mn)	470.38
52-wk High/Low	Rs 190/52
Face value	Rs 1
M-Cap	Rs 81bn/US\$ 0.97bn
3-m Avg volume	US\$ 4.5mn

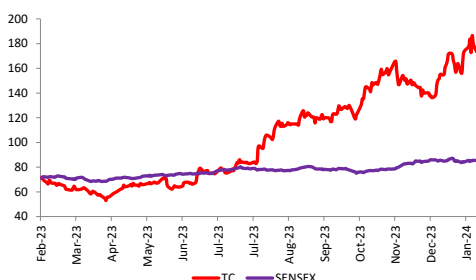
Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Sales	69,934	83,993	96,271
Adj. PAT	2,308	2,783	3,682
Adj. 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	Sept23	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 (TC) reported revenue/ EBITDA/ PAT growth of 23.2%/ 82.2%/ 344.6% YoY respectively. Revenue growth was driven by continued buoyancy in the travel space with robust double-digit growth in Travel & Related Services (+30.9%) and Leisure Hospitality & Resorts business (+20.7%). EBITDA margin expanded 200 bps YoY to 6.2% led by reduction in operating expenses (-221bps) led by cost-reengineering and automation initiatives. Adjusted PAT stood at Rs 824 mn.

Key takeaways – 1) DEI revenue declined 1.8% YoY, EBIT margin grew 43 bps to 9.3%; 2) Financial services revenue declined 7.4% YoY, EBIT margin grew 247 bps to 32.8%; 3) Travel & related services grew 30.9%YoY, EBIT margin expanded 274 bps to 4.7%; 4) Leisure Hospitality & Resorts business grew 20.7% YoY, EBIT margin grew 612 bps to 30.4%; 5) Group's cash & bank balance/ gross debt stood at R16.3 bn/ Rs 3.1 bn.

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 maintain our BUY rating; with an unchanged TP of Rs 235 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.

Double digit growth in Travel and related services - Segment revenue grew 31%, with margin improvement of 274 bps to 4.7%. Margin improvement was on account of digital initiatives and common buying, further the company expects 20-50 bps improvement in margin over the next 3-4 quarters. Corporate travel grew 115% YoY, moreover the company has made multiple additions of new corporates (small and mid-sized) which is likely to generate a revenue of Rs 2 bn over the year. Now, 46% of the corporate customers are using online booking tool, up from 42% in 2QFY24. The MICE business clocked 76% growth on topline, with government business contributing around Rs 910 mn. DMS grew 34% YoY led by TCI India, Asian Trails, Desert adventures in Middle and Horizon travels in the US. International travel business saw a growth of 13% for the quarter. Long haul business has not yet fully recovered (55-60% recovery). However, the company anticipates achieving full recovery in FY25 as majority of the countries have invested in infrastructure to process more visas. Short haul and domestic travel business performed well with strong growth expected in summers of 2024. Honeymoon vacations (+35 growth in Q3), spiritual tourism and adventure tourism are expected to be the growth drivers for domestic business going forward.

Strong double-digit growth in Leisure Hospitality & Resorts business - Segment revenue grew 20.7% during the quarter, led by strong customer demand in the holiday season and c. 12% YoY increase in number of rooms (2,617 rooms in Q3FY24 vs 2,337 rooms in 3QFY23). The non-member occupancy has grown further by 8% for the quarter. Sterling has maintained the occupancy levels at 60% in Q3FY24 despite a 12% increase in the room capacity. Company has added 2 resorts - Balicha and Jaisingharh (Udaipur) taking the resort count to 46 in Q3. Room revenues saw a growth of 18% YoY while F&B revenue grew 15% YoY. Moving ahead, the strategy will be to maximize ARR for the peak 90 days of the year while for remaining 270 days focus will be on improving occupancies.

Forex business revenue declined 7.4% - Foreign exchange segment witnessed a decline in revenue due to lower number of working days (9 days lesser) as international markets closed fast which impacted volumes. Moreover, the new Tax Collected at Source (TCS) regime came into play from 1st October which led to customers preponing their requirements to Q2FY24. Company also lost on its Bangalore airport bid. These factors led to a decline in forex sales for the quarter. Card loads during the quarter grew 26% while new card issuances grew 13%. Retail portfolio growth continued (5% growth) while overseas education portfolio growth stood strong at 16%. Company believes the forex business can grow at a rate of 15-20% with EBIT margins hovering around 35-37%.

TC set to benefit from the policy changes proposed by RBI for forex business – As per the discussions paper of RBI, it is planning to reduce the number of entities it regulates, i.e it wants to eradicate the license of Full-fledged money changers (FFMC). The forex business will then be handled by AD-I (Banks) and AD-II (players like TC India). A new scheme of Forex Exchange correspondents (FXC) will come into play which will replace the FFMCs. This will lead to consolidation in the forex business category and aid in footprint/ distribution expansion for players such as TC. Additionally, the proposition to permit AD-II to undertake trade transactions up to Rs 1.5mn will expand the addressable market further.

DEI revenue declined 1.8%: The dip in DEI revenue was on account of company taking an exit from US market operations (12% of DEI revenue) and moving into a non-operative model. Company does not follow an operative model in US and Europe markets due to higher cost of operations, high set up and employee costs. In Q3, DEI signed 11 new partnerships and started and operated 13 partnerships across Singapore, Indonesia, Malaysia, UAE and Saudi Arabia. The sign-up done in Q3 stands at a value of Rs 400 mn for FY25. In FY25, company will focus on improving margins from existing businesses and growing revenue from acquired businesses including geographies like Saudi Arabia and Vietnam.

Lower capex requirement led by asset light model - Going forward, capex will be incurred majorly on technology upgradations and a part on setting up branches in India for the forex and travel businesses (10% distribution growth annually). The annual capex requirement moving ahead is anticipated to be Rs 350 mn - Rs 400 mn.

Exhibit 1: Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Net sales	18,931	15,363	18,434	23.2%	2.7%
COGS	13,825	11,179	13,556	23.7%	2.0%
Gross profit/ (loss)	5,107	4,184	4,879	22.0%	4.7%
Gross margin (%)	27.0%	27.2%	26.5%		
Operating expenses	1,398	1,474	1,533	-5.2%	-8.8%
as % of revenue	7.4%	9.6%	8.3%		
Employee cost	2,544	2,071	2,317	22.9%	9.8%
as % of revenue	13.4%	13.5%	12.6%		
EBITDA	1,165	639	1,029	82.2%	13.2%
EBITDA margin (%)	6.2%	4.2%	5.6%		
Other income	477	260	279	83.2%	70.9%
Interest expense	242	278	227	-13.1%	6.3%
Depreciation	332	323	315	2.7%	5.5%
PBT	1,068	298	766	258.0%	39.5%
Tax	172	35	242	393.2%	-28.9%
PAT before MI and share of associates	896	264	525	240.2%	70.9%
Minority interest	(81)	(80)	44		
Share of associates	9	2	(10)		
PAT	824	185	559	344.6%	47.4%
Exceptional items	-	-	-		
Adjusted PAT	824	185	559	344.6%	47.4%
Shares o/s (mn)	470	470	470		
Adjusted EPS	1.8	0.4	1.2	344.5%	47.4%

Source: Company, Systematix Institutional Research

Exhibit 2: Segmental revenue (Rs mn)

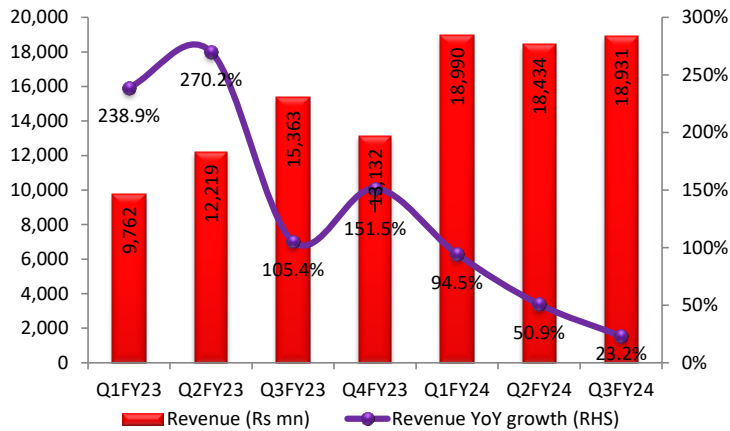
Particulars (Rs mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Digiphot imaging services	2,414	2,460	2,353	-1.8%	2.6%
Financial Services	644	695	776	-7.4%	-17.0%
Travel and Related Services	14,630	11,179	14,324	30.9%	2.1%
Leisure Hospitality & Resorts business	1,243	1,030	982	20.7%	26.6%

Source: Company, Systematix Institutional Research

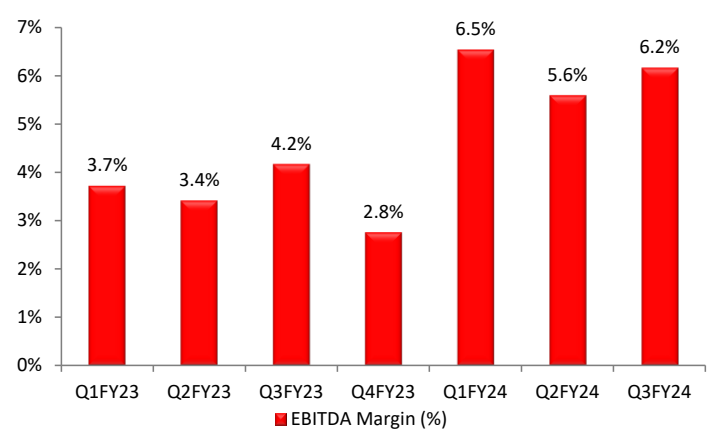
Exhibit 3: Segmental EBIT Margin (%)

Particulars (Rs mn)	Q3FY24	Q3FY23	Q2FY24
Digiphot imaging services	9.3%	8.9%	5.6%
Financial Services	32.8%	30.3%	37.4%
Travel and Related Services	4.7%	2.0%	3.5%
Leisure Hospitality & Resorts business	30.4%	24.3%	24.7%

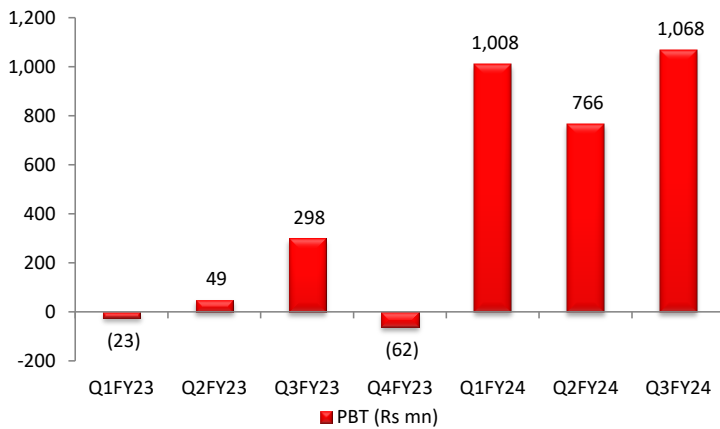
Source: Company, Systematix Institutional Research

Exhibit 4: Consol revenue grew 23.2% YoY and 2.7% QoQ

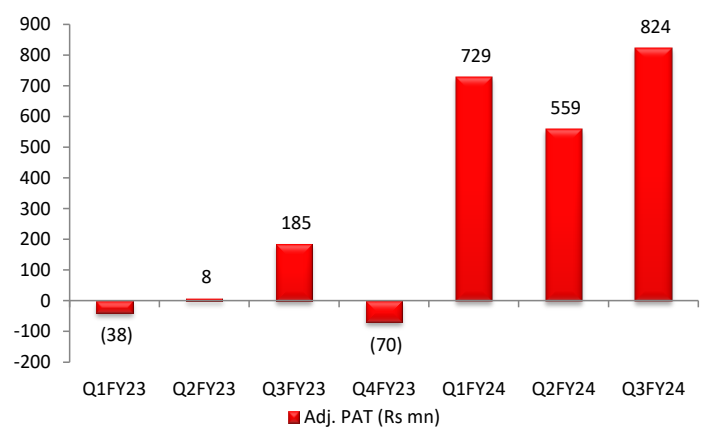
Source: Company, Systematix Institutional Research

Exhibit 5: EBITDA margin stood at 6.2%

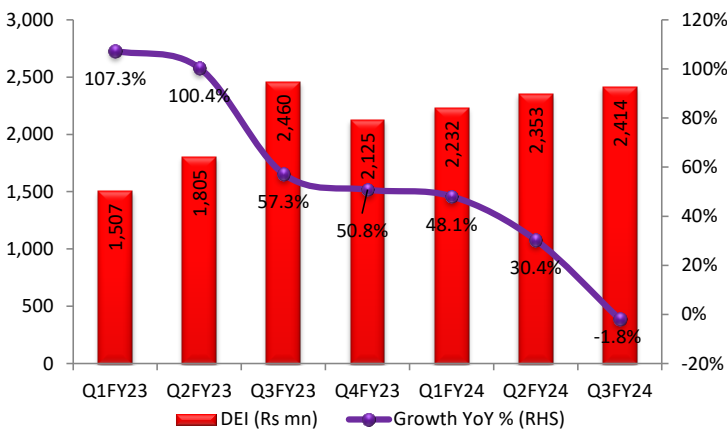
Source: Company, Systematix Institutional Research

Exhibit 6: PBT stood at Rs 1,068 mn

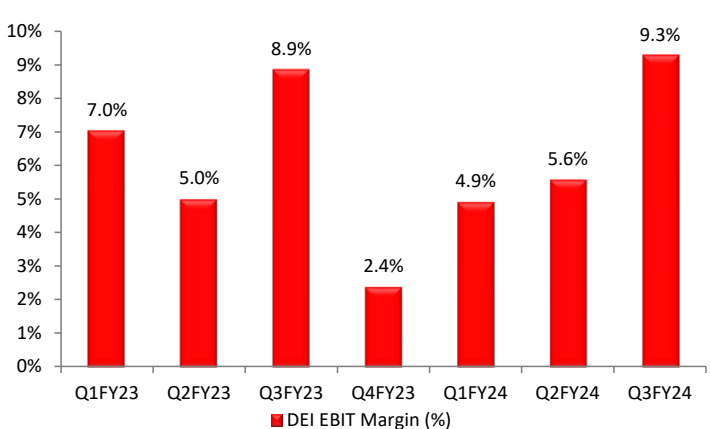
Source: Company, Systematix Institutional Research

Exhibit 7: Adjusted PAT of Rs 824 mn

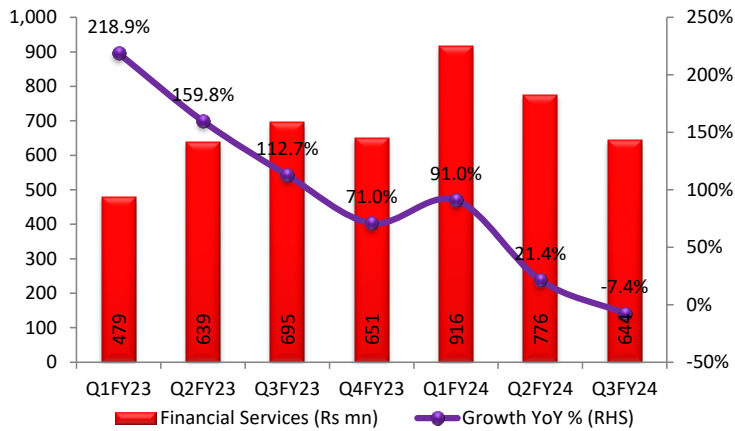
Source: Company, Systematix Institutional Research

Exhibit 8: DEI revenue declined 1.8% YoY

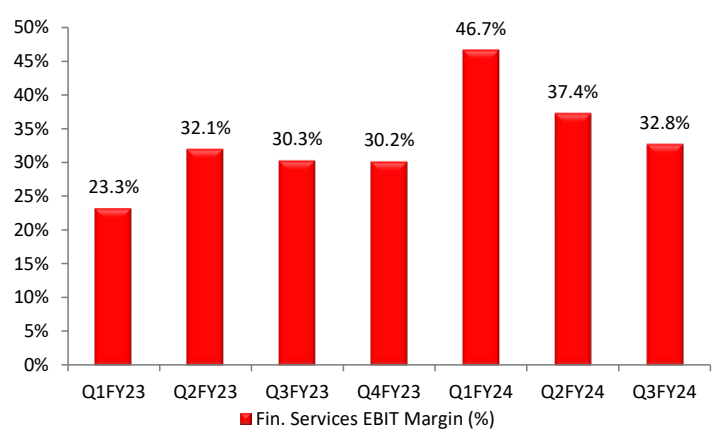
Source: Company, Systematix Institutional Research

Exhibit 9: DEI EBIT margin at 9.3%

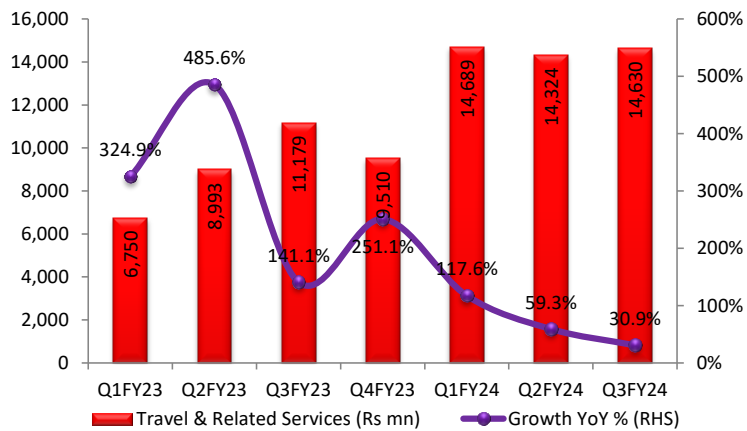
Source: Company, Systematix Institutional Research

Exhibit 10: Financial services revenue fell 7.4%YoY

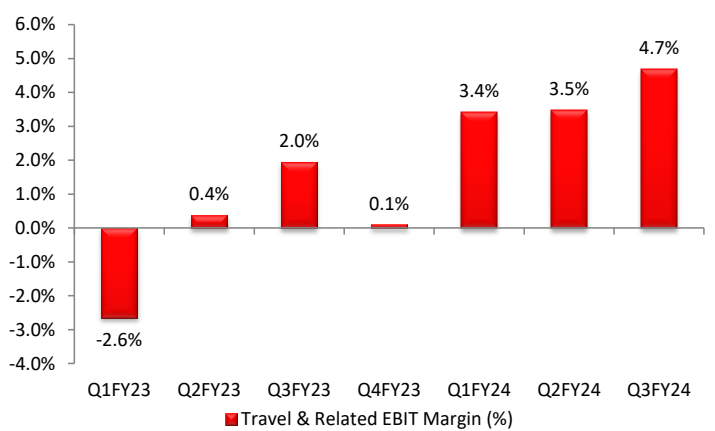
Source: Company, Systematix Institutional Research

Exhibit 11: Financial services EBIT margin at 32.8%

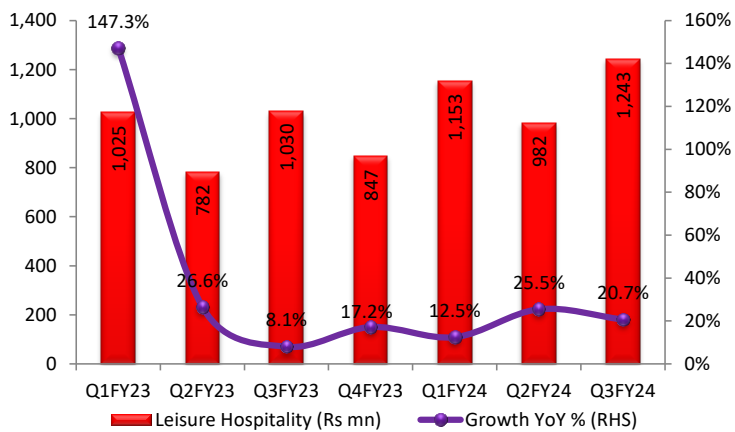
Source: Company, Systematix Institutional Research

Exhibit 12: Travel & related services revenue grew 30.9%

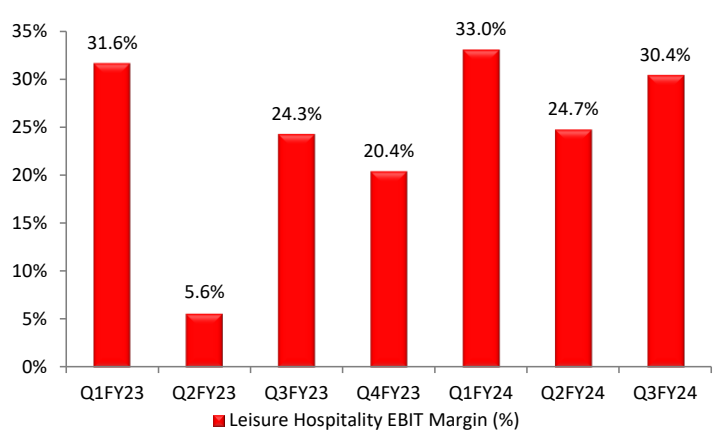
Source: Company, Systematix Institutional Research

Exhibit 13: Travel & related services EBIT margin at 4.7%

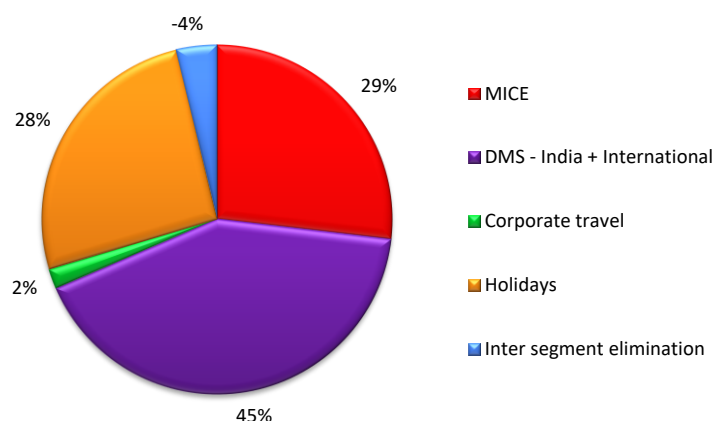
Source: Company, Systematix Institutional Research

Exhibit 14: Leisure Hospitality revenue grew 20.7%

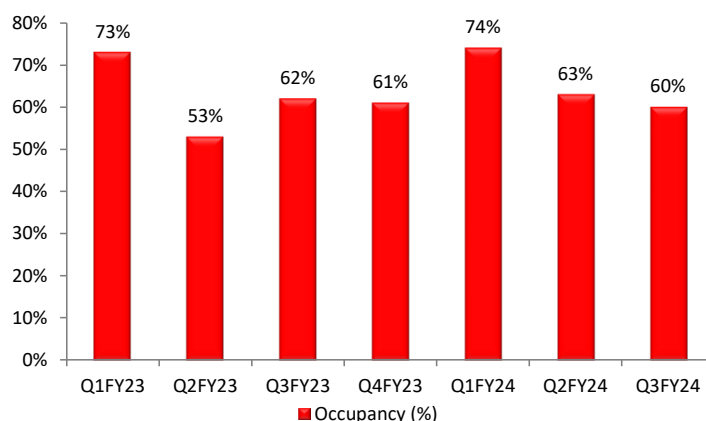
Source: Company, Systematix Institutional Research

Exhibit 15: Leisure Hospitality EBIT margin at 30.4%

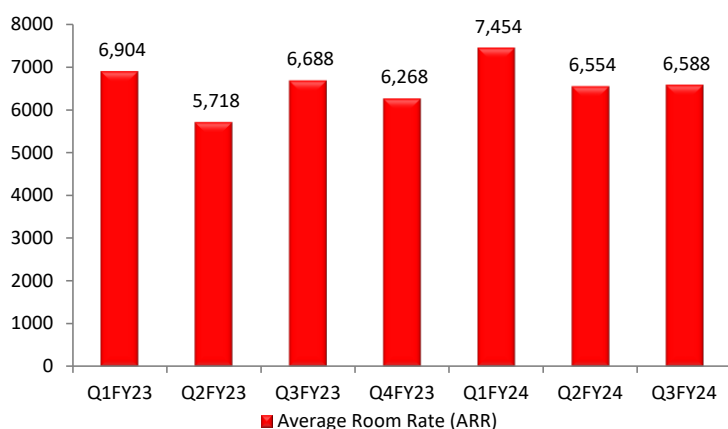
Source: Company, Systematix Institutional Research

Exhibit 16: Travel segment revenue mix – 9MFY24 (%)

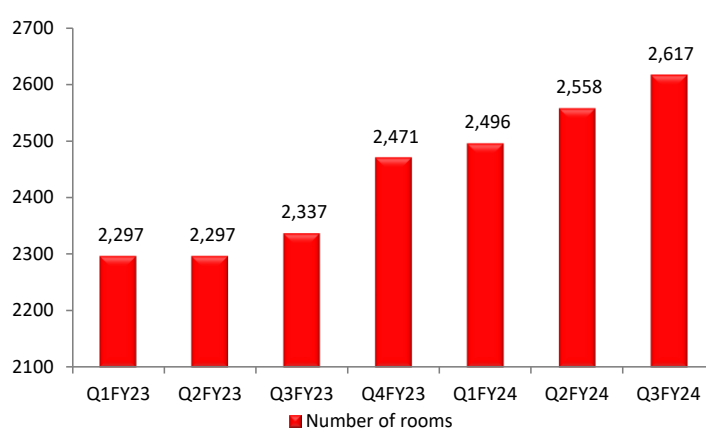
Source: Company, Systematix Institutional Research

Exhibit 17: Resorts occupancy rate at 60%

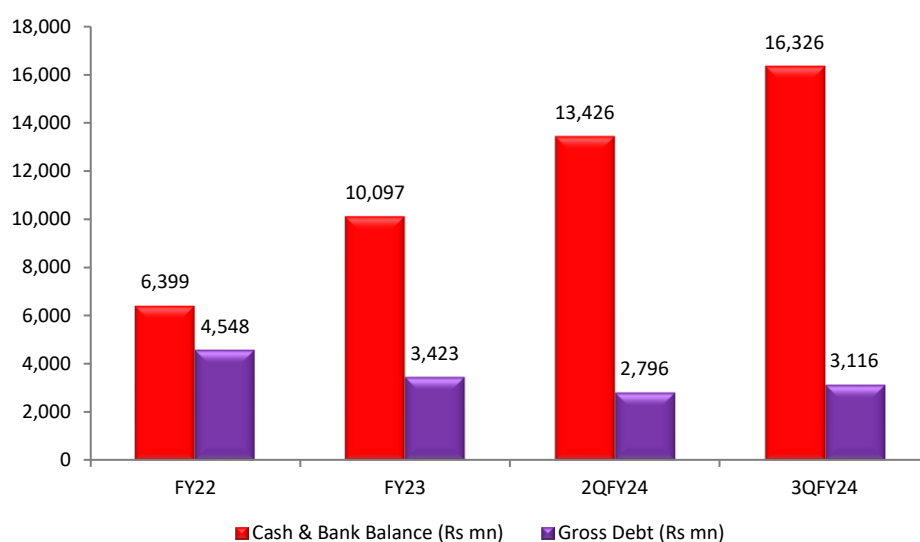
Source: Company, Systematix Institutional Research

Exhibit 18: ARR stood at Rs 6,588

Source: Company, Systematix Institutional Research

Exhibit 19: Number of rooms at 2,617

Source: Company, Systematix Institutional Research

Exhibit 20: Cash balance of Rs 16.3 bn; gross debt of Rs 3.1 bn

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

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

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

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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