Thomas Cook India

09 April 2024

Strong growth and margin outlook across all segments

COMPANY UPDATE

Sector: Tour & Travel services	**Rating: BUY**
CMP: Rs 172	**Target Price: Rs 235**

Stock Info	
Sensex/Nifty	74,684/ 22,643
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$ 2.5mn

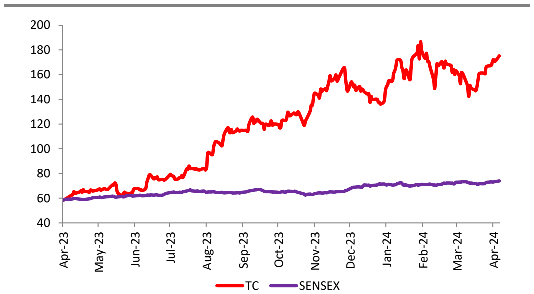
Financial Snapshot (Rs mn)

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)	35.1	29.1	22.0
EV/EBITDA (x)	17.1	12.9	10.1
P/BV (x)	4.2	3.8	3.3
EV/Sales	1.0	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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We hosted the Thomas Cook (TC) management to better understand the company's strategy to benefit from the ongoing industry tailwinds. The key takeaways were: 1) Sterling Resorts is expected to end FY25 with 65 resorts (vs 49 now), occupancy can rise to industry standards of 68-70% in the medium-term from 63% currently led by better quality hotels, improvement in F&B and addition of licensed bars; 2) Financial services growth will be driven by increased travel forex, international education and remittances, focus has been moved from Tier 1 airports to Tier 2& 3 airports led by favorable business economics, RBI's propositions and consolidation of forex industry is likely to benefit players such as TC; 3) In Travel, full recovery in long haul travel is expected to be achieved in FY25, 4 of the 5 DMS units are now profitable, addition of young customers and rising aspirations of Tier 2 & 3 consumers is expected to drive growth; 4) DEI business will remain focused on theme parks, tourist attractions and luxury resorts where the growth will be led by expansion in existing countries and entry into new regions such as Saudi and Vietnam; 5) Current ex-float cash is around Rs 4bn while gross debt level is around Rs 2.7 bn of which Rs 1.5 bn is long term debt which has a moratorium of 4 years and hence company is unable to prepay that; 6) ROE is expected to move towards the aspiration of 20% by FY26 from current ~12% driven by growth in business volumes, margin stability and continuous investment in front end sales rather than backend operations. The stock is currently trading at a multiple of 29x and 22x FY25E and FY26E earnings. We value the company at 30x FY26 earnings with a target price of Rs 235 and a BUY rating.

Leisure Hospitality & Resorts business

- TC operates 49 hotels of which 15 are owned, 4-5 are leased while rest operate on revenue share basis.
- As Sterling is a resorts business, company prefers typical tourist locations instead of major cities.
- Hospitality business operates in 2 models – 1) For instance when company manages hotel, TC will give 8-9% of revenue to the hotelier. 2) In case the hotel owner wants to run the business under Sterling brand, Thomas Cook gets 8-9% of revenue (flows directly to PBT). The revenue sharing percentage depends on location and popularity of the place.
- Company targets to take the store count to 65 hotels by end of FY25 (from 49 now). Post which company will continue to add 2-3 resorts every quarter. The expansion will be on an asset light model.
- Better quality of hotels, addition of conference rooms, improved F&B coupled with licensed bar menu is expected to improve the occupancy from current 63% to 70% moving ahead. The occupancy rate has however shown significant improvement compared to 50% during pre-covid period.
- Currently, 70% of the business comes from non-members. However, company still continues to sell 5 and 10 years (without any marketing push) membership but has stopped new 25 years membership.

Investors are advised to refer disclosures made at the end of the research report.

- Large part of the hotel bookings are through direct sales led by better quality of resorts.
- Sterling business is expected to grow at 15-20% with operating margins in the range of 30-35%.

Financial services business

- Forex business is driven by 3 segments – 1) Travel forex (20-25% of forex revenue) which is expected to grow at 15-20% for next 3-5 years (travel float is seasonal in nature – majority in March and June quarters; corporate forex to grow at 12-13%); 2) Education (20-25% of forex revenue) which is anticipated to grow at 8-10%, 3) Remittances (40-50% of revenue). Additionally, RBI's proposition to permit AD-II to undertake trade transactions up to Rs 1.5mn will expand the addressable market further. Moreover, consolidation in the forex industry due to RBI's new proposals is likely to benefit players such as Thomas Cook. TC also expects to increase its penetration through money changers in the country.
- TC is moving away the forex business from airports in Tier 1 cities, and focusing towards upcoming airports in Tier 2 and 3 cities as business economics being much favorable. (Airport business forms 6% of forex revenue)
- Retail business (70% of forex business) is expected to grow at 15-18% led by growth in travel. The retail part of the business enjoys higher commission (1.5-2%) versus the wholesale business.
- TC commands 26% market share in prepaid forex cards which has grown significantly from 16% during pre-pandemic period.
- Prepaid forex card helps to lock in price compared to debit and credit cards. Prepaid card market is currently growing at 13-14% CAGR.
- 70% of the prepaid forex cards are Master cards while remaining is Visa. Rupay cards form <1 %.
- Company operates c. 1.5-1.6 mn transactions per year with a customer rejection rate of only 3-5% .
- TC earns an interest of 4-5% on the Rs 12 bn float.
- Company believes Forex EBIT margin has a scope to expand by 4-5% from 38% currently moving ahead.

Travel and related services

- In DMS, 4 out of the 5 DMS units are now profitable. The DMS part of business is expected to grow at 13-15% with steady state gross margins of 17-18%
- Long haul part of the business has still not recovered (50-60% recovery). However, company believes the business will show full recovery in FY25. This recovery will add 40-50 bps to margin.
- Government's MICE business is expected to generate Rs 1 bn annually (Rs 2 bn in FY24). Government business makes double digit margins compared to single digit margin from corporates.
- Holiday is a negative working capital business while corporate is positive working capital. Net DSO days stands at 12-13 days.

- Moreover, the average age of consumers which the company deals with has reduced by 10 years to 25 years. Credit on travel is growing at 8-9% now compared to 1-2% earlier.
- Travel in Tier 1 cities is growing at 10-12% while Tier 2 & 3 markets are growing at 18-20% majorly led by rise in airports across cities.
- Retail business generates higher margins compared to B2B. Pre-covid B2C and B2B travel ratio stood at 60:40 which now stands at 30:70.
- Operating margin of travel business is expected to move to 5-5.5% from current 4-4.5%.

Digiphoto Entertainment Imaging

- In Digi Imaging, US business accounts for 10% of revenue. The company is exiting from the operative model in the region due to high operating costs. Only the business in Bahamas will be operational as it is profitable.
- Business is largely Asia-centric which is expected to witness strong growth. Company currently commands leadership position in markets such as Singapore and UAE. Growth will be driven by expansion in existing countries and entry in new regions such as Saudi, expecting to enter Vietnam market in FY25.
- Theme parks, attractions and luxury resorts are the focus areas of the DEI business.
- The conversion rate (i.e the number of photos clicked vs number of photos sold) currently stands at 1.5%, which company expects to increase to 2.5%.
- DEI business is expected to grow at 12-15%. EBIT margins are anticipated to expand 50-200 bps moving ahead from current 8-9%.

Debt/ CAPEX/ ROE

- The current debt levels for Thomas Cook stand at Rs 2.7 bn of which Rs 1.5 bn is long term debt which has a moratorium of 4 years. Of the total finance expenses, 30% is interest cost which is expected to decrease moving ahead, charges form 55% which are expected to increase, remaining are lease liability finance cost.
- Annual capex is expected to be in the range of Rs 350-400 mn.
- Company targets to take the ROE to 20% by FY26 from current 11-12% which will be driven by business volumes, margin stability and continuous investment in front end sales rather than backend.

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

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

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

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)	-33.6	952.3	35.1	29.1	22.0
P/B (x)	3.8	3.7	4.2	3.8	3.3
EV/EBITDA (x)	-39.7	43.0	17.1	12.9	10.1

Source: Company, Systematix Institutional Research

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