

The worst is over; expect broad-based growth across all businesses, and a profitable FY24.

CMP: INR 72

Rating: BUY

Target Price: INR 207

Stock Info

BSE	500413
NSE	THOMASCOOK
Bloomberg	TC:IN
Reuters	THOM.NS
Sector	Tour, Travel Related Services
Face Value (INR)	1
Equity Capital (INR cr)	47.04
Mkt Cap (INR cr)	3,147
52w H/L (INR)	87/ 52
Avg Daily Vol (in 000')	433

Shareholding Pattern %

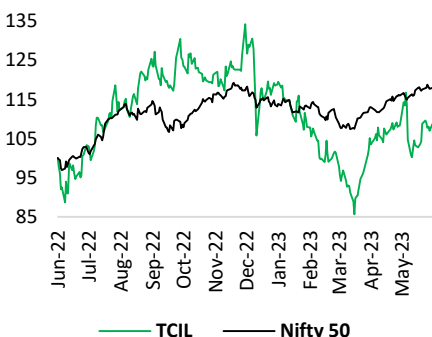
(As March 2023)

Promoters	72.34
DII	9.20
FII	0.51
Public & Others	17.76

Stock Performance (%) 1m 3m 12m

TCIL	7.2	20.2	17.8
NIFTY 50	2.1	9.0	18.6

Thomas Cook vs Nifty 50 Price Chart



Abhishek Jain
abhishek.jain@arihantcapital.com
022 4225 4872

Anushka Chitnis
anushka.chitnis@arihantcapital.com

We met the management of Thomas Cook India (TCIL) and have ascertained that the business has a bright FY24 with significant value unlocking.

TCS Impact: The impact of increased TCS from 5% to 20% from July will be minimal as it only applies to D2C outbound travel (corporate travel is completely unaffected) which is only 20% of the travel segment revenues and 4-5% of overall revenues. **It has led to higher booking momentum for the current quarter as most travelers rushed to pre-book their holidays, the benefits of which will be seen in the coming 2 quarters and will lead to healthy cash generation.** The credits can be claimed by the customer at the end of each quarter. Bringing international credit card payments under the LRS also helped level the playing field and will increase card usage.

Recovery in international DMS entities: Most DMS entities like the ones in Kenya and the Middle East have reached breakeven in FY23 and the rest are following up. We expect the DMS business to close in FY24 profitably. As of FY23, the DMS business has already reached 100% recoveries over pre-pandemic levels. The SEA entities were lagging in FY23 as they were the last to open, these will also start to pick up hereon as the company offers more travel packages for these geographies. **They have not acquired any new DMS entities since 2019. Originally, all of them were acquired at very cheap valuations** as they were loss-making and had healthy cash on books. Desert Adventures turned profitable in 2022, and the units in Kenya have done extremely well. The sales of the DMS business have already crossed pre pandemic level and most entities have reached breakeven, we expect 2024 to end on a profitable note. The SEA DMS entities which were underperforming have now started to pick up on account of Vietnam emerging as a sought-after travel destination. They have lots of travel packages for Vietnam as well as other SEA countries. **They target a ROCE of 15% on this business in the next 3 years. The investments made in this business will be recouped soon.**

Inbound travel (and domestic DMS) recovery: D2C inbound travel is a margin-heavy business and is expected to recover by Q3- Q4FY24. It has an OPM of 16-17%. Additionally, white-label sales of Indian travel packages to entities like Kensington and VDM are also starting to pick up which will aid in the recovery of the Indian DMS business. There is also a huge element of inbound travel from Eastern European countries to places like Goa that has an OPM of 8-9% which will also flow in.

Cost control initiatives: The company has effectively managed a 30% cost reduction which will continue in the years to come. They have cut down on 30% of the manpower and invested heavily in automation which will lead to operating leverage benefits down the line. The capex on automation has helped improve productivity.

DEI Business: It is in investment mode, and is profitable despite being a new foray. Expansion into newer geographies and investments in technology are underway. As footfalls across attractions in China and other major markets pick up, this business will scale up well and be margin accretive from operating leverage benefits.

Forex Business: They continue to add new banking partners which has led to huge growth in card volumes which will continue into FY24. They are currently the 2nd largest prepaid card provider in India (2nd to HDFC), with a 20% market share, tied with ICICI.

Developments in Sterling Resorts: The company is pushing a shift away from the unprofitable and cost-heavy timeshare business, toward the hotel and resort business which is a more profitable one. They expect to have 3,500 rooms in the next 2 years.

MTM losses: Had significantly dragged down profits in FY23 are due to shares of Qness Corp- not owned by Thomas Cook- held by a separate trust in an ESOP, which had to be shown for accounting purposes. **The losses are unrelated to the businesses and are highly unlikely to recur in FY24. There could be some MTM reversal too.**

Valuation and Outlook: We believe the company has made it through the worst of the pandemic, and now the benefits of operating leverage will start to kick in. Additionally, we expect rapid top-line growth and margin expansion across all businesses given all the investments and business development initiatives taken. There is also the possibility of potential monetization of some assets in Sterling Resorts. We assign a TP of INR 207 valued at a SOTP EV/EBIT multiple of 12x based on the FY26E EBIT of INR 655 Cr. We maintain our BUY rating on the stock.

INR Cr	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	1,888	5,048	6,705	8,460	9,936	11,682
YoY	137.52%	167.32%	32.82%	26.18%	17.45%	17.58%
Operating Profit (Ex- OI)	-188	178	330	445	597	751
Operating Margin	-9.93%	3.52%	4.93%	5.26%	6.01%	6.43%
EBITDA (Including OI)	-130	241	397	529	696	809
EBITDA Margin	-6.87%	4.78%	5.93%	6.26%	7.01%	6.93%
EBIT	-258	117	279	425	605	734
EBIT Margin	-13.68%	2.33%	4.16%	5.02%	6.09%	6.29%
PAT	-254	10	143	250	373	461
YoY	-13.99%	-104.08%	1281.17%	74.67%	49.30%	23.52%
EPS (INR)	-6.92	0.14	3.04	5.32	7.94	9.81
YoY	0.97%	-101.99%	2116.25%	74.67%	49.30%	23.52%
P/E (x)	-10.43	525.12	23.69	13.56	9.09	7.36
P/B (x)	1.76	2.03	1.88	1.66	1.41	1.18
EV/EBITDA (x)	-28.31	14.83	7.61	4.49	2.76	1.14
EV/EBIT (x)	-14.21	30.51	10.86	5.59	3.18	1.26
D/E (x)	0.43	0.39	0.35	0.32	0.32	0.30
RONW	-15.34%	0.62%	7.92%	12.21%	15.48%	16.11%
ROCE	-10.92%	5.04%	11.42%	15.71%	19.01%	19.73%

FY26E (INR Cr)

Segment	EBIT	EV/ EBIT (x)	EV
Financial Services	110	10	1,101
Travel & Related Services	269	12	3,222
Vacation Ownership & Resort Business/ Leisure Hospitality & Resorts business	170	13	2,213
Digiphoto imaging services	106	15	1,592
Total	655	12	8,128
Cash			2,335
Minority Interest			-39
Debt			772
Preference Capital			-
Equity Value			9,730
No. Shares (Cr)			47
TP			207
Upside			187%

Source: Company Filings & Aриhant Capital Research

- **They have a sustained cost advantage** which allows them to offer packages for cheap compared to peers, as they purchase tickets and seats in bulk. They have also reduced the number of branches in T1 cities and any branch expansion will take place in T2 and T3 cities which is their target demographic. It also helps keeps costs under control.
- **Attrition** is 20-22% which is in line with the industry. Most of the attrition is on the HR/ Finance/ back office side, and **not on the sales force**.
- As an additional cost-cutting measure, the SOTC office was closed and moved to the Thomas Cook India main building.
- **The DEI business** has revenue sharing to the tune of ~50%. They do not plan to increase their stake to 100%. It was initially valued at USD 40 Mn and is now raking in USD 8 Mn in sales despite being in its growth phase. They recently forayed into 2 new attractions in China and this business will ramp up significantly as footfalls across those markets increase. Additionally, they are also improving their product offering- creating Instagram reels, etc. We believe this business will be heavily margin accretive.
- **The forex business posted record numbers** due to the success of the forex card, ever since they launched the card delivery service, and have begun partnering up with more banks their card volumes have been growing in leaps and bounds. All the transactions are hedged. **This business has a huge scope for growth with business long-haul travel.**
- Initially, **Sterling** was only a timeshare business. It was acquired, revamped (by spending INR 130 Cr on the 15 resorts), and is now a resort business. Since the timeshare business is cost heavy, the company is aggressively pushing the resort business on an asset-light expansion model (there will be no more capex here). **Room addition is in full swing and ARR are on the rise.** Currently, they have 85,000 members, and most of the hotels are at 3-4 stars with a priority on group and family travel. The resort count is at 70 with 15 originally owned, 10 leased, and the remaining on a management contract.
- **They are the largest seller of Cordelia products in India**, and the cruise line is seeing promising growth traction.

Income Statement

INR Cr	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue from operations	1,888	5,048	6,705	8,460	9,936	11,682
Other income	58	64	67	85	99	58
Cost of sales & services	1,193	3,594	4,827	6,006	6,955	8,178
Employee benefit expenses	582	770	1,006	1,184	1,292	1,519
Advertisement & promotion expenses	22	-	-	-	-	-
Inter segment unallocable expenditure	56	89	34	42	50	58
Other expenses	223	417	508	782	1,043	1,177
EBITDA	-130	241	397	529	696	809
EBITDA Margin	-6.66%	4.72%	5.87%	6.20%	6.94%	6.89%
Depreciation & amortisation expense	129	124	119	105	91	75
Finance Cost	62	89	86	89	105	117
Profit/ Loss from associates	1	1	1	1	1	1
Exceptional Items	-3	-2	-2	-2	-2	-2
PBT after exceptional Items	-322	27	191	334	499	616
Cash Tax	-68	16	48	84	126	155
PAT	-254	10	143	250	373	461

Balance Sheet

INR Cr	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Equity Share Capital	44	47	47	47	47	47
Preference Capital	133	-	-	-	-	-
Other Equity	1,518	1,666	1,800	2,040	2,404	2,855
Non controlling Interest	-40	-39	-39	-39	-39	-39
Net Worth	1,655	1,675	1,808	2,048	2,412	2,864
Total debt	712	656	633	655	772	859
Deferred tax liability (net)	-293	-285	-285	-285	-285	-285
Other non current liabilities	747	746	766	816	876	946
Total Liabilities	1,166	1,117	1,113	1,186	1,362	1,520
Net Block	1,233	1,340	1,081	1,026	1,005	990
CWIP	5	4	4	4	5	5
Goodwill	1,062	1,102	1,155	1,211	1,269	1,331
Other intangible assets	293	157	167	177	187	197
Investments	348	519	529	539	549	559
Other non current assets	206	239	249	259	269	279
Net Working Capital:	-650	-1,131	-1,358	-1,748	-1,844	-2,400
Inventories	22	30	39	47	53	65
Trade receivables	235	567	499	847	734	1,124
Cash and cash equivalents	324	563	1,095	1,767	2,335	3,424
Other current assets	594	851	861	871	881	891
Trade payables	998	1,787	1,954	2,700	2,689	3,647
Other current liabilities	502	793	803	813	823	833
Total assets	2,821	2,792	2,921	3,234	3,774	4,383

Cash Flow

INR Cr	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Profit before tax	-322	27	191	334	499	616
Depreciation & amortization	129	124	119	105	91	75
Tax paid	-68	16	48	84	126	155
Working capital Δ	22	-481	-227	-391	-96	-556
Goodwill Δ	13	40	53	56	58	61
Operating cash flow	-160	575	435	690	502	1,031
Capital expenditure	123	230	-140	50	70	60
Free cash flow	-283	346	576	640	431	971
Equity raised	30	29	-	-	-	-0
Investments made	13	170	10	10	10	10
Other asset purchases	-69	-103	20	20	20	20
Debt financing	3	-55	-24	23	116	87
Dividends paid	30	30	19	19	19	19
Other items	-144	17	29	59	69	79
Net Δ in cash	-367	239	532	673	568	1,088
Opening cash balance	691	324	563	1,095	1,767	2,335
Ending cash balance	324	563	1,095	1,767	2,335	3,424

Source: Company Filings & Arihant Capital Research

Ratios	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Growth Matrix (%)						
Revenue	137.52%	167.32%	32.82%	26.18%	17.45%	17.58%
EBITDA	-35.94%	-286.16%	64.57%	33.23%	31.48%	16.30%
EBIT	-26.29%	-145.44%	137.40%	52.37%	42.52%	21.35%
PBT	-22.63%	-108.33%	612.95%	74.67%	49.30%	23.52%
PAT	-13.99%	-104.08%	1281.17%	74.67%	49.30%	23.52%
PAT after OCI	6.22%	-108.25%	685.79%	70.26%	47.59%	22.96%
Profitability (%)						
EBITDA Margin	-6.66%	4.72%	5.87%	6.20%	6.94%	6.89%
EBIT Margin	-13.28%	2.30%	4.12%	4.97%	6.03%	6.26%
Net Profit Margin	-13.05%	0.20%	2.11%	2.93%	3.72%	3.93%
Net Profit Margin after OCI	-12.07%	0.38%	2.25%	3.03%	3.81%	4.01%
RoCE	-10.92%	5.04%	11.42%	15.71%	19.01%	19.73%
RoNW	-15.34%	0.62%	7.92%	12.21%	15.48%	16.11%
RoA	-8.41%	0.37%	5.01%	8.13%	10.66%	11.31%
Per Share (INR)						
Basic EPS	-6.92	0.14	3.04	5.32	7.94	9.81
Diluted EPS	-6.42	0.14	3.04	5.32	7.94	9.81
DPS	0.00	0.64	0.40	0.40	0.40	0.40
Basic Cash EPS	3.25	2.64	2.59	2.34	2.10	1.80
Diluted Cash EPS	3.02	2.64	2.59	2.34	2.10	1.80
BVPS	41.03	35.60	38.44	43.55	51.28	60.88
Sales	300.65	239.13	239.13	239.13	239.13	239.13
Valuation (x)						
P/E	-10.43	525.12	23.69	13.56	9.09	7.36
P/CEPS	22.17	27.33	27.89	30.85	34.39	40.02
P/B	1.76	2.03	1.88	1.66	1.41	1.18
P/Sales	0.24	0.30	0.30	0.30	0.30	0.30
EV/EBITDA	-28.31	14.83	7.61	4.49	2.76	1.14
EV/EBIT	-14.21	30.51	10.86	5.59	3.18	1.26
EV/Sales	1.94	0.71	0.45	0.28	0.19	0.08
Dividend Yield	0.00	0.01	0.01	0.01	0.01	0.01
Liquidity (x)						
Current Ratio	0.78	0.78	0.90	1.01	1.14	1.23
Quick Ratio	0.77	0.77	0.89	0.99	1.12	1.21
Defensive Interval Ratio	202.19	148.51	139.42	157.80	153.48	180.67
Cash Ratio	0.22	0.22	0.40	0.50	0.66	0.76
Activity (x)						
Receivables turnover	10.38	12.58	12.58	12.58	12.58	12.58
Inventory turnover	60.91	138.96	138.96	138.96	138.96	138.96
Payables turnover	1.34	2.58	2.58	2.58	2.58	2.58
Total asset turnover	0.63	1.80	2.35	2.75	2.84	2.86
Fixed asset turnover	1.52	3.91	5.52	8.00	9.74	11.65
Working capital turnover	-2.90	-4.46	-4.94	-4.84	-5.39	-4.87
Days						
Receivable days	35.15	29.02	29.02	29.02	29.02	29.02
Inventory days	5.99	2.63	2.63	2.63	2.63	2.63
Cash Conversion cycle	41.14	31.65	31.65	31.65	31.65	31.65
Payable days	273.21	141.41	141.41	141.41	141.41	141.41
Operating cycle	-232.07	-109.75	-109.75	-109.75	-109.75	-109.75
Leverage (x)						
Interest Coverage	-4.20	1.32	3.24	4.77	5.77	6.30
Debt Equity	0.43	0.39	0.35	0.32	0.32	0.30
Net Debt Equity	0.23	0.06	-0.26	-0.54	-0.65	-0.90
Assets to Equity	1.82	1.68	1.58	1.50	1.45	1.42
Du Pont						
Tax burden	0.79	0.39	0.75	0.75	0.75	0.75
Interest burden	1.25	0.23	0.69	0.79	0.82	0.84
EBIT Margin	-0.14	0.02	0.04	0.05	0.06	0.06
Asset turnover	0.63	1.80	2.35	2.75	2.84	2.86
Leverage	1.82	1.68	1.58	1.50	1.45	1.42
ROE	-0.15	0.01	0.08	0.12	0.15	0.16

Source: Company Filings & Arianth Capital Research

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880