Stock Update

Revival in business operations will drive growth

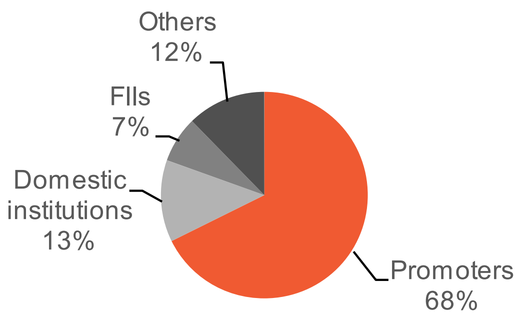
Thomas Cook India

Reco: Hold | CMP: Rs245

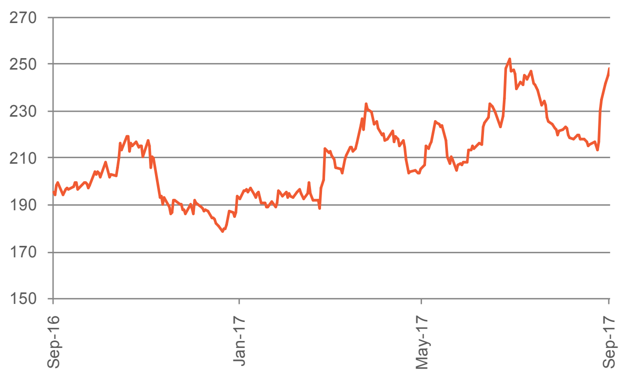
Company details

Price target:	Rs262
Market cap:	Rs9,095 cr
52-week high/low:	Rs256/178
NSE volume: (No of shares)	3.0 lakh
BSE code:	500413
NSE code:	THOMASCOOK
Sharekhan code:	THOMASCOOK
Free float: (No of shares)	11.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.6	18.6	14.7	24.2
Relative to Sensex	12.3	16.1	2.9	9.9

Key points

- **FY2017 – Year of consolidation; better performance by core businesses in a tough environment:** Thomas Cook India Limited's (TCIL) consolidated revenue grew by 41% and operating profit grew by 70% YoY in FY2017, largely driven by consolidation of acquired Kouni's international travel business and six acquisitions done by its non-travel services business (Quess Corp) during the fiscal. The domestic outbound travel business registered single-digit revenue growth despite a tough global environment and slowdown in the domestic market. Revenue of Quess Corp and Sterling Holidays (vacation ownership business) grew by 21% and 12%, respectively, during the current fiscal. Consolidated OPM improved to 3.6% in FY2017 from 3.0% in FY2016.

- **Balance sheet - Leverage ratio remains slightly high due to inorganic initiatives; working capital remains negative:** TCIL's consolidated debt/equity stands at 1.1x in FY2017 as compared to 0.3x in FY2015 (and 1.0x its FY2016), which is mainly on account of slew of acquisitions done under its core travel business and Quess Corp. Consolidated debt on books currently stands close to Rs.1,700 crore. Working capital days remained negative at 9 days in FY2017 as against negative 12 days in FY2016. Consolidated debtor days reduced to 42 days in FY2017 from 66 days in FY2016. We believe improvement in the profitability of the core business in the coming quarters and better working capital management will help in reducing consolidated debt in the coming years.

- **Outlook - Key businesses to perform well in FY2018; profitability to gradually improve:** TCIL has strengthened its travel and related services business by consolidating some of the key Kouni's international businesses. This should aid the company to post strong performance in a better business environment, where international passenger traffic is expected to grow by 10-12% in the near term. Moreover, strengthening rupee (against key currencies) would drive the domestic outbound leisure travel business in the near term. Quess Corp will continue to grow in high teens and would witness gradual improvement in OPM on account of better revenue mix. On the other hand, most properties under Sterling Holidays have refurbished and the company expects the operating performance to improve in the coming years.

- **Valuations – Maintain Hold with a revised TP of Rs.262:** FY2017 can be considered as a year of consolidation and we should expect the performance to improve in the coming years. Any significant revival in the operating performance of the key businesses and reduction in debt would act as key re-rating triggers for the stock. TCIL's stock price has seen good run-up in the recent past on account of improving business fundamentals and the company's sustained focus on inorganic initiatives to drive future growth. We maintain our Hold recommendation on the stock with a revised sum-of-the-parts (SOTP) price target of Rs.262 (the increase in target price is largely to factor in better growth in the core travel and related businesses and increase in the valuation of Quess Corp due to the recent run-up in the stock price in which TCIL has 57.2% stake).

Valuations (Consolidated) Rs cr

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales	6,093.9	8,588.0	10,665.4	12,944.8
Operating profit	184.4	312.6	427.5	683.2
OPM (%)	3.0	3.6	4.0	5.3
Adjusted PAT	4.4	77.5	149.5	260.7
EPS (Rs.)	0.1	2.1	4.1	7.1
PE(X)	-	-	60.9	34.9
EV/EBIDTA (x)	48.1	28.6	20.8	12.6
RoE (%)	0.3	5.6	9.4	14.7
RoCE (%)	8.2	10.3	13.8	24.6

Sum-of-the-part valuations

Valuations	EBIDTA (FY2019)	EV/Multiple (X)	Rs cr.
Thomas Cook (Travel business) - (100% stake)	359.6	14	5,033.8
Sterling Holidays (100% stake)	20.0	12	240.0
			5,273.8
Cash and Cash equivalent			1058.3
Debt			943.1
			5,389.1
Quess Corp (57.24% stake)			6,527.0
Total Value			**11,916.0**
Holding company discount			2,883.2
Equity value			**9,533**
Target Price (Rs.)			**262**

International traffic is expected to grow in double digits

International traffic is expected to expand by 10-12% in 2017 and 2018 in the absence of any geo-political events. Most of the 10 largest international carriers are achieving year-round average load factors of 90% or higher, which gives an indication of better years ahead for the international travel business. As per The International Air Transport Association (IATA), global passenger traffic rose by 6.3% for 2016 compared to 2015, which was well ahead of the 10-year average annual growth of 5.5% and capacity increasing by 6.2%. India has registered growth of over 15.7% in foreign tourist arrivals (56.74 lakh arrivals as against 49.03 lakh in the corresponding period last year) from January to July this year, with many opting for e-visa facility. Retail inflation has softened due to declining oil prices and weak domestic demand. Easing inflationary pressures strengthened the impact of reasonable liquidity conditions on market interest rates.

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