

"Thomas Cook (India) Limited Q2 FY2018 Earnings Conference Call"

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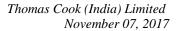
MARKETING - THOMAS COOK (INDIA)

Mr. Sanjay Shroff - CFO India & South Asia -

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Moderator:

Ladies and gentlemen good day and welcome to the Thomas Cook (India) Limited Q2 FY2018 Earnings Conference Call, hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhijit Akella from IIFL Capital Limited. Thank you and over to you Sir!

Abhijit Akella:

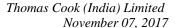
Thank you Stanford. Ladies and gentlemen, a very good afternoon and thank you for joining us on the 2Q FY2018 post results conference call of Thomas Cook (India) Limited. This is Abhijit Akella here and I am Midcap Analyst at IIFL and it is my great pleasure to introduce to the senior management team of Thomas Cook group who are here with us to discuss the results today. We will begin the call with opening remarks by Mr. Madhavan Menon, Chairman and Managing Director following which we will open up the call for Q&A session. I would now like to hand the call over to Menon to take it forward. Thank you and over to you Sir!

Madhavan Menon:

Thank you Abhijit. Good afternoon everybody. Let me just sort of introduce everybody from the Thomas Cook group management that is present today. We have got Mr. Mahesh Iyer, CEO of Thomas Cook. I have got Mr. Debasis Nandy who is Group CFO for the Thomas Cook Group. I have got Mr. Abraham Alapatt who is from Thomas Cook who has also dialed in then we have got Mr. Udhay Shankar from CFO of Sterling and Mr. Brijesh Modi who is CFO of Thomas Cook on the call. Let me kick of by just sort of highlighting some of the events in the last quarter and then obviously I will come around to what is stuff that you know, but let me just reiterate that.

I think we end of June we completed the acquisition of the Destination Management Unit and you will see some numbers of that in our results; however, I must reiterate that they came into group in a lean season for the inbound business and therefore it is when we have costs rather than revenues being generated so that is an important point. The DMS Group in effect 17 countries have been added to us as a result of which we now have a global footprint that spans four continents and we have a total of 29 nationalities to work for us. Most of the operations are obviously India centric still with Thomas Cook, Thomas Cook and SOTC, spearheading the retailed element along with Sri Lanka and Mauritius then we have the inbound business in the form of the TCI, in addition to that we have got DMS business, which as I mentioned span four continents.

I think coming to the quarter specifically I can only classify as a very difficult quarter because even though we were ready for the cutover to GST what we have discovered is that our corporate businesses specifically corporate travel or business travel as we called it, MICE and corporate foreign exchange have faced problems not only in turnover, but have faced problems in terms of collecting money so we have actually seen payments coming out of corporates that we deal with getting slowed down significantly and due to a variety of reasons, which I am sure you have





heard before I mean we found that several to the corporates were not ready. There was a lot of confusion around the reporting requirements. There continues to be some confusion over the classification, which tax bracket, how to classify the GST all that continues so as a result to which we have actually seen our working capital requirements rise significantly in this quarter and I will leave it Debasis to sort of get into the detail, but I think the positive on this is the fact that we anticipated this and started going out and talking to corporates then we need to address this problem immediately and right now as we talk the focus is entirely on collections and not necessarily going out and booking fresh business. I am not saying that we are not booking fresh business, but clearly the focus seems to be is to address this. Now my expectation is that there will be some overhang of this in the October, November and December quarter, but I think the positive year is that we have actually started collecting money and our expectation is that over the next two months, we will bring the working capital requirements down significantly.

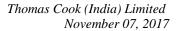
Second important point I want to address is that on the retail side we have engaged Accenture to assist us in a program around analytics and this is an integral part of injecting technology into our retail businesses at Thomas Cook and SOTC and it is expected that once we get through the program over the next 18-24 months, there would have been incremental sales and in our topline will go up significantly and obviously all that will feed into the bottomline. I must mention here that the costs are only what we will end up paying the consultants in reality we will not have to increase the manpower within the two organizations to build this. We are looking at a variety of other technology inputs, which will actually increase our efficiency and our productivity going forward. So with that I am sort of going to handover to Mahesh Iyer and then Debasis who will make their introductory remarks and we can take it from there.

Mahesh Iyer:

Good afternoon all. This is Mahesh Iyer, CEO from Thomas Cook. As Madhavan has kind of articulated this was a little bit of soft quarter for both Travel and Financial Services side of the business and more importantly on the B2B side of both businesses. Because of GST a lot of destocking and stuff like that happened so clearly RnR, which is what runs the MICE business did not happen and that has impacted topline sale for the MICE business across Thomas Cook and SOTC.

If I look at the B2C side, which is what we spoke about, we are actually saw volumes growing albeit a little marginally, but a healthy growth in the number of passengers traveling through us. What it meant is that we had an lower ATV on a higher turnaround of customers largely because people who were choosing to pickup short hauls as compared to long hauls and that is also reflective of the fact that all of us witnessed some amount of terror attacks in the US, in Spain and other places . Many people chose to take short haul destinations and travel to nearby markets.

On the foreign exchange side of the business while the B2C side did continue to grow and we saw about 5% to 6% growth both in terms of our sales as well as profitability, but we actually saw a healthy growth in our margins from 1.01% to 1.3%, which was driven largely by better utilization on the retail side of the business. A little bit of degrowth or a little bit of slow down





that we saw on the financial service side of the business was on wholesaling and that is more because where there were third party operators with whom we work with and clearly because of the uncertainty around GST a lot of demand kind of subdued. Also because corporates slowing down wanted to grapple with the GST related issues, a lot of outbound travel did not take place for them and hence the resultant impact on the corporate and the wholesale business for the financial services. Obviously the impact of receivables were high and as Madhavan said we had significant dent into our working capital requirements because of delays in collections on all our B2B businesses be it corporate travel, be it the B2B side of the FX business or MICE business but as we have progressed we started to see things stabilizing, customers have started to clear bill and payments have started to flow back. While there could be a little bit of overhang in the coming quarter, but we are almost certain that that most of the issues that we spoke around the GST seems to have been plugged and there is a fair bit of certainty about how it will pan out over the next three to six months. Over to Debasis!

Debasis Nandy:

Thank you Mahesh. Thanks for the introduction. I think you have covered the critical points and just couple of things that I want to just reiterate to the analysts who are on the call. One is that this being the first quarter when we have consolidated the DMS units, this is not exactly a like-for-like while the DMS units obviously has added to the topline but this being a lean season, they are in a negative, which is very natural. Going forward in the next two the outlook would be quite different from what it is today. I think just to add on the working capital, I think business also suffered from increased finance charges, which is very evident from the results and in this particular quarter as compared to any other quarter for that matter even last year. This we are expecting to come down significantly in the next two months or so by end of December, we will happy to get into normalized situation and DSOs, which is DSO debtors days, which are running at fairly substantial level. It is highest in the last two years or so. We expect that to stabilize as well. I would leave the Sterling related comments to Udhay, so may be Udhay you can come in now and talk briefly about Sterling before we open it up to question and answers.

Udhay Shankar Davey:

Thanks Debasis. I think the backdrop of lean season. I think our EBITDA losses have come down with various initiatives we have taken apart from the growth that you would have seen in resort income. Our ARRs have gone tremendously high at 22% jump in the H1 and also we have happy to share with you that we have opened two new resorts, one at Kanha which is in Madhya Pradesh and first Greenfield resort in Wynand, North Kerala happened almost a gap of 15 years. Over to Debasis!

Debasis Nandy:

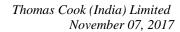
Okay Abhijit may be you can open it for questions.

Moderator:

Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta:

Good afternoon Sir. Sir as seen in regular announcements by the company, their prospective looks very good for the travel industry, but when we see the numbers EBIT margins for quite sometime now seems to be declining so while we see topline growth we are not seeing any EBIT





growth from the travel segment and also if you could give me normalized EBIT margins one can expect in travel segment so I have got two questions I will just club it up and when do you see Sterling Holidays turning around in profitability? If you could share the organic growth numbers of travel vertical overall and if possible breakup of Thomas Cook SOTC sale in Destination Management Company?

Madhavan Menon:

Sorry I did not get the last part of your voice was sort of trailing off Anuj and when the last question after Sterling third question.

Anuj Gupta:

Sir that is if you could share organic growth numbers of travel verticals overall and if possible breakup for Thomas Cook, SOTC, core Destination Management Company?

Debasis Nandy:

Anuj, we do not share legal entity wise numbers in calls like these because if do that I am actually obliged to put up in the website first before I do that. While I leave the Sterling related questions to Udhay obviously, I would like to answer your first questions, which is on EBIT margin. Now the EBIT margin that you see on travel services obviously includes the diverse range of travel services, which is outbound and inbound corporate travel and it also includes a new DMS businesses. The reason why you see that depressed is becasue some of this business like inbound business for example is, in its lean season. So this is not the season when they make money and therefore it goes and depresses the overall travel services EBIT because all it gets clubbed up together.. The other reason is obviously that we are incubating businesses within the system. Our online businesses were incubating two businesses the domestic and the online business, which some of them are yet to reach critical mass in terms of attaining profitability, which obviously has a strain on the EBIT.

Anuj Gupta:

What I am asking is so basically degrowth and the EBIT side for travel segment is due to, it was not the peak season?

Debasis Nandy:

Yes you need to compare on a full year basis and as I said we keep on acquiring businesses like we have done the DMS acquisition now and obviously it works on a different set of EBIT and this is a lean quarter. To be honest this is a loss making season for them because it is the time when they get ready for the upcoming season.

Anuj Gupta:

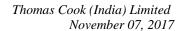
Sir now in the coming time do we see growth in the travel segment?

Debasis Nandy:

We are seeing a turnover growing year-on-year, and hence the EBIT with this acquisition, the acquisitions that we are doing, will obviously add to overall profitability. We will have to give it sometime will settle down. The acquisitions are new. No acquisitions works from day one, it is likely to take sometime before we start adding to the bottomline.

Anuj Gupta:

Sir regarding the EBIT margin what can we expect normal EBIT margins?





Debasis Nandy:

We do not make forward-looking statement, Anuj, it is prohibited, it is not our practice to make forward-looking statements on EBIT margins so for that matter any other financials.

Mahesh Iyer:

This is Mahesh here, to your specific question on travel side and growth I would like to highlight as Debasis has been saying what you look here as the travel segment includes outbound and inbound both. The inbound side of the business generally gets softer during this period because it is the lean period. On the outbound side it kind of starts to taper off because the peak for outbound is April to June while July still comes in for the North market, August and September are predominantly low season so effectively this quarter is not a great comparison in terms of the growth and business, but having said that so in spite of the challenges on GST on the B2B side of the business, which is MICE and Corporate travel, we still had close to about 12% to 14% growth in terms of passenger count across Thomas Cook and SOTC for the current quarter.

Anuj Gupta:

Sir regarding do we have any kind of increasing competition from there like how are you trying to tackle the competition from Make My Trip?

Mahesh Iyer:

Anuj I think we have said this before on the call and this question has come before We are aggregator of service and our core competencies lie in bundling products together and creating the experience instead of trying to sell a standalone commodity, which is basically hotel or probably an airline tickets. So our core competency like it is putting this together and as Madhavan said in his introductory message that acquisition of DMS entity actually allows us to build that scale further because that gives us the backward integration because in many of the outbound markets that we operate in these four continents, which are very relevant for us and having acquired those companies in those specific markets allows us to go and do better contracting and negotiations, which help us build a backward integration that allows us to grow the business going forward.

Anuj Gupta:

Thanks a lot.

Moderator:

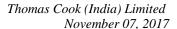
Thank you. We will take the next question from the line of Shariq Merchant from Quest Investments. Please go ahead.

Shariq Merchant:

Good afternoon and thank you for the opportunity. My first question is on the financial services space. So when you look it at on a quarterly basis there is a fairly meaningful fluctuation in margin that is the margin band that you have seen in the last four to six quarters has been some 26% to 42%. So how should we look at margins going forward for this part of the business? And also given that for the second half you will have the demonetisation in your base, would that lead to a significantly higher growth from the second half point of view?

Mahesh Iyer:

Shariq first from a margin point of view, typically the EBIT margin on the financial services business is roughly about 40% to 42% and we continue to trend at that. What you see here is because of the regrouping on account of Ind-AS and some swap charges which we incur on the overall company level, which sits in the forex books because the swaps are of the foreign





currency nature and because of the Ind-AS rule we need to qualify it under the financial services business, hence the comparison is not like-to-like as I mentioned previously. This quarter we were particularly a little stagnant with our collections in terms of our working capital and hence the swap cost incurred on account to meet the working capital requirements was slightly higher, but our margins typically on the financial side is close to the 40% and I am quite confident that it will continue to play out accordingly. To your point on demonetisation last year, well we did not see much of an impact. Actually it did help us because a lot of customers who would otherwise be trading on the unorganised market actually came to the organised play, so we will actually see a downfall on the product side. While the holiday business did see some amount of impact, but on the forex a lot of business moved from the offline channel to the online channel and we did cover up for some of the deficits that we saw. So I presume that going forward too we do not see any demand shortfall coming in and it should play out well. I am anticipating.

Shariq Merchant: So, 5% to 6% growth should be a fair expectation even going forward?

Mahesh Iyer: Yes it has been the trend for the business and we expect that to continue.

Shariq Merchant: Given that we do not have data on the swap cost, how should we be looking at that number, is that going to be a rising number and if you could quantify that for us that would be very helpful.

Mahesh Iyer: For the current quarter in question our swap cost has been in excess of 4.5 Crores which normally trends around 2.5 Crores. So we have kind of seen an increase of almost 100% on that cost.

Shariq Merchant: Sir but a normal run rate that we should look at is around 2.5 Crores?

Mahesh Iyer: Yes.

Shariq Merchant: Secondly on the acquisition of the TC business, the Tata business that you all have acquired, so

could you help us understand what was the rationale behind the acquisition and given that it will give you access only to one client, what was the thinking behind going through with that and will this give you assured margins or will the client again negotiate and squeeze you for margins

going forward?

Mahesh Iyer: Shariq there are two parts to your question and I will try to get to the first one first. Well the

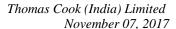
rational for the acquisition we said this before, look foreign exchange and travel businesses are large businesses for the Thomas Cook Group. Foreign exchange has been the engine for growth for the Thomas Cook standalone business for a very long time. With the acquisition of Tata

Capital products business we have further cemented our position in the market place and I must highlight here that the business that we acquired on the forex side is not only the Tata Group companies but they have businesses other than Tata Group Companies. So the dependency of

Tata versus non-Tata is in the ratio of 60:40, so there are 40% of customers, which are non-Tata

group companies and that is a substantial portion which is definitely B2B the corporate side of the business and as you will know we sell prepaid product in this market, which is owned by

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Thomas Cook Borderless Prepaid Card and this allows us to further cement our position because the total portfolio at the Tata Capital Forex. was roughly about Rs 2000 crs. So we clearly get an access to Rs 2000 crs of extra volumes that we can look for to flow through our product offering. Other than that with the kind of scale that we have on the forex side Tata capital essentially was a license business, so they could not do a lot of the transactions or set of transaction that they could have otherwise done, which was a limitation on their license. Now by virtue of the fact that they are part of the group they can run those businesses to Thomas Cook, so essentially we see that as an opportunity to grow the retail footprint for the Tata capital business. They also have a network of 25 locations, which further augments our distribution reach and it works well trying to make preset on the omni channel strategy for the forex side of the business also. What we acquired with this acquisition is the travel side, which is the corporate travel, and we have a book, that will come to the Thomas Cook fold. Clearly margins on this business are slightly under pressure, but you will appreciate that the volume benefit that we get allows us to negotiate better with airlines when we acquired SOTC, we started putting all the synergies together and this acquisition of Tata Capital further augments that position for us in the market place.

Shariq Merchant: All right. Excellent. So did the current quarter, see any consolidation of this business?

No. We have completed the acquisition on October 30, so there is no consolidation of the

numbers in the current quarter numbers.

Shariq Merchant: All right and my last question is on Sterling, Sir could you help us understand what were the

member additions this quarter and share of nonmember sales?

Udhay Shankar Davey: The share between member and nonmember has been 50:50. In fact we have seen a healthy

growth on the nonmember room nights, it has grown to almost 15% on the nonmember room nights. To answer your question on the member addition, we have added 934 members this

quarter.

Shariq Merchant: And the same quarter in the previous year what has been?

Udhay Shankar Davey: 1400.

Mahesh Iyer:

Shariq Merchant: All right. So would 900 to 1000 kind of run rate be a steady state run rate given that you are also

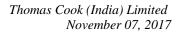
increasing share of nonmember sales?

Udhay Shankar Davey: Both are two different businesses, so the vacation ownership while if you recollect we had in few

other pervious calls we had mentioned that we have increased our payments substantially high and by virtue of that we saw some slow down but the good part of it is that we have restricted by EMIs to only now 18 EMIs, which was earlier 48 EMIs, which is that means higher cash number

one. Number two, we will continue to see while it has slowed down this quarter we will continue

to see growth on the vacation ownership.





Shariq Merchant: Yes. I am guessing at sense your competitor has also now moved to a similar model like you – it

will help your member additions because they were earlier at 40 margin, they have also brought

that down.

Udhay Shankar Davey: No comments on that.

Shariq Merchant: Lastly the Darjeeling and Gangtok resorts that were shut for a while they are now back in action?

Udhay Shankar Davey: Yes, it has opened in almost end of September after the situations got better there.

Shariq Merchant: Also you were looking at some asset sales those empty land banks that you have had, any update

on that?

Udhay Shankar Davey: One has got fructified in the first week of October and we will continue to seek opportunities to

monetize the land bank as in when it comes, which are non-strategic in nature for us.

Shariq Merchant: Sir could you quantify the same thing?

Udhay Shankar Davey: Above Rs.7.8 Crores that we had got from that.

Shariq Merchant: Great. That is from my side. Thank you so much and good luck.

Moderator: Thank you. We will take the next question from the line of Binoy Jariwala from Sunidhi

Securities & Finance. Please go ahead.

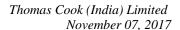
Binoy Jariwala: Good afternoon team. Thank you for giving me the opportunity to ask questions. The question on

forex first, just margin volatility, which actually not only in Q2 of FY2018, it is also in Q1, see if you look in the whole of previous year, we saw margin expansion between 700 and 1300 BPS at least in the first three quarters of FY2017 and now in the first two quarters we are looking at some kind of trend reversal so I cannot understand that in Q2 it was a difficult quarter because of GST reasons, but how would you explain Q1. Am I missing anything on the steady state on understanding that steady state EBIT margin is 40%? Second is I am also trying to relate our prepaid forex card sales have been going faster than your overall forex business, now the prepaid forex card sales also enjoy slightly higher margin, which should actually have translated into at least steady EBIT margins if not decline, so I am actually unable to kind get it. Can you please

explain?

Mahesh Iyer: So Binoy I reiterate the EBIT margins for the forex business is in the range of 40% to 42% and it

continues to be, so there is no difference in that. What you seek in the current quarter as I explained is an aberration on account of the GST related impact on cash flow, which required us to do a lot more swaps as compared to what we would otherwise normally do and because of the Ind-AS re-calcification of the same it is reflecting here. If you look at the management book for us you are actually seeing that the margins, which are the traded margins on the forex have





actually been moving up consistently over the last 18 months or so, so for the last six quarters or so our margins have been moving up by about five or six basis points every quarter, so as I mentioned for the current quarter our margins are trending at close to about 1.32% which I believe is the highest point that we have reached over the period in time.

Binoy Jariwala: Okay and what was the forex prepaid card sales for H1 of this year vis-à-vis H1 of FY2017?

Mahesh Iyer: Binoy I am sorry but we do not put this number in the public domain because of competitive

reasons so I cannot share that number on the call please.

Binoy Jariwala: Sure. But is the understanding correct that the prepaid forex card enjoys much higher margins

than the overall business, right?

Mahesh Iyer: Well, from our product point of view there are intrinsic benefits and you will appreciate that we

run the product on our own, so obviously there are sale benefits and that is the precise reason we

do so but yes, prepaid cards do enjoy and are slightly higher click as compared to other products.

Binoy Jariwala: Now on the travel segment, we have seen revenue delta the increase in revenue of roughly about

Rs.320 Crores during the quarter, you also mentioned that there was consolidation of the DMS piece in this, so if I understand the DMS annualized that topline is about Rs.1300 Crores or so,

could you explain the seasonality of the DMS business in which quarter does it, most of the

revenue were captured?

Debasis Nandy: Yes, I was about to comment. So Binoy the DMS business that we have is across US, Africa,

Middle East and South East and Far East Asia and the seasonality is a little different but very

broadly speaking it tends to follow the inbound business in India. So for Asia the peak season

would be between now and March or April. As far as Africa is concerned, the peak season is in

the summer and then again it comes up again in December and January. ,. US is a smaller

operation as compared to the others. In US summer, which starts about end of May and goes on till about July or August, so the season is about four months. Dubai except for the summer is

almost round the year destination except in the peak summer months. The peak summer months

are now over, so this is in the starting of the season. , So Dubai picks up from now and goes on

till about May.

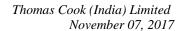
Binoy Jariwala: How much of the revenue was actually captured because just to look at a light-to-light

comparison of the travel division, how much of DMS revenue was captured in this quarter?

Debasis Nandy: So DMS units is all together, I cannot give you the break up.

Binoy Jariwala: Yes all together.

Debasis Nandy: All together is about Rs.380 Crores that was captured in this particular quarter.





Binoy Jariwala:

Now on the EBIT margin in travel segment, we have just broken even this quarter versus about Rs.23 Crores, Rs.24 Crores in Q2 of FY2017, if I also recollect there were some one of cost Rs.7.5 Crores setting in Q2 of FY2017 so that makes up the EBIT of Q2 FY2017 was about Rs.31-Rs.32 Crores, this is come down to about Rs.2 Crores, would you like to highlight anything on this, there are one of cost integration cost on account of DMS division, anything that you will like to highlight?

Debasis Nandy:

I think, we covered it in one of the previous question. Mahesh covered is fairly adequately, when he broke up the business into outbound and inbound. As you know this is the season when outbound business tapers off. At the same time this is a new season for the inbound business, so we effectively have nothing to compensate for the tapering of the outbound. At the same time because of GST related reasons, the other B2B businesses have been muted in their performance both in corporate travel as well as MICE and so therefore there is nothing to compensate for the off season of inbound. In the off-season obviously inbound suffers a loss and the other businesses normally make up. There are two things that happened – first, normally other businesses make up for the shortfall in the inbound. Second is the proportion of the DMS business which basically is an inbound business. So proportion of the overall inbound business has gone up and that is also resulted overall reduction in EBIT margins. For us the annualized margin is the much better way of looking at Thomas Cook because quarter-on-quarter, there will be significant variations and it will be very difficult to sort of understand the business.

Moderator:

Excuse me this is the moderator. Mr. Jariwala may we request you to come back in the queue please.

Binoy Jariwala:

This is just a continuation. I am just finishing it off. The annualized margin would you hold true would be in the margin of 5.5%-5.75% for travel business?

Mahesh Iyer:

5% of what sorry?

Binoy Jariwala:

5% of topline?

Debasis Nandy:

5% of topline that is the new way of looking at it but...

Binoy Jariwala:

We are at 5% of revenue I mean, revenue, and topline revenue?

Debasis Nandy:

There are two parts to it. We consider the topline as turnover and the revenue is the gross margin, that is how we look at it and we have had several discussions up here on this on one-on-one basis. I think you are fairly close to that.

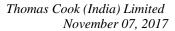
Binoy Jariwala:

I will come back in the queue. Thank you.

Moderator:

Thank you. We will take the next question from the line of Vineet Maloo of Birla Sunlife Mutual

Fund. Please go ahead.





Vineet Maloo:

Good afternoon. I just wanted to know acquisition is a primary way of growth, I just wanted to understand Quess has done pretty well for us, but Sterling still seems to be struggling, so just wanted to know what is the thought process in terms of what kind of payback period we look at and what kind of timeframe we look at in terms of turning around these businesses because after these acquisition Quess and Sterling, we have made a number other acquisitions in travel business and what kind of timeframe are you looking at in terms of turning around the profitability in these businesses. That will be very helpful because we have been waiting for quite sometime for Sterling to turnaround and now we have quite a handful of other businesses also to turnaround, so if you could provide some insights from these?

Debasis Nandy:

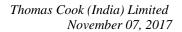
I will leave the Sterling part to Udhay. I will talk about the other parts of the subsegments of the travel. If you look at the travel businesses everything we had till that DMS, have healthy operating profit margins. As far the DMS business is concerned, this is an inbound business, which typically operates at gross margins of 15%-16% just like the inbound business in India does. What we need to do there is see some of these units are actually profitable and in order to achieve the desired level of profitability, I am sure the growth we probably need about the year to stabilize and move these businesses forward. There are multiple plans that we are looking on each of this business are chalking out there plans for next year as we speak and the idea is to expand both the volume as well as the margins and as Mahesh had pointed out earlier, there would be some of the synergies that they will enjoy with both Thomas Cook and SOTC on the outbound front and that would also helping in moving forward in terms of profitability and growth. So maybe we will need about a year to start earning money from this business that is what we estimate right now.

Vineet Maloo:

So when you say some of the units profitable and the other ones, which are not as profitable currently, is it more of, more effort required on revenue side or is it to more cost rationalization or how it will work? Now with the combination of two but where is your primary focus, I mean which is the one, which we need to bring up to the par with the other units?

Debasis Nandy:

We will work both on the cost optimization and the revenue maximization, but between the two, the revenue maximization would be our priority as compared to the cost optimization. We have already taken some steps to control the costs you see some benefit coming in from calendar year 2018 and so from the last quarter of this financial year we will see some benefit of that kicking in On top of that we are working on, the units are working on getting more contracts. Now that most of these units did not get a great deal of business from India, so some of the India businesses would now possibly get routed if you have decent deal in terms of pricing, etc. then some of obviously the businesses that we do with other who will get routed through the DMS unit that we have now. In addition, they are now independent operating units. Just like say for example the other units that we have and they have been encouraged to go out and seek business in markets, where they have not tapped before, so in Kuoni they had certain restrictions in terms of getting businesses, so those restrictions are off now and so they have lot more freedom in getting new business, so that is as far they will be pushing for. Some of them had expansion plans in terms of





moving into other territories going beyond the countries that they operate in so that would also keep on adding to the overall topline.

Vineet Maloo: So would that require investments?

Debasis Nandy: Not really, because these are bundlers of services actually, so they do not really require

investment in terms of equipment or things like that. So it would be more in the term of opex

rather than capex.

Vineet Maloo: Right so but do you still confident that with all that within one year's time will be able to achieve

improvements?

Debasis Nandy: Yes, it would be.

Vineet Maloo: All right and how about the Hong Kong entity where have we reached in that in terms of turnover

of that?

Debasis Nandy: With Hong Kong unit, this year we are actually doing much better than last year. They had a bad

2016 more because of external circumstances than internal because their main market is Europe and the Europe market also got affected last year because of the terrorist attack etc., Thisyear they have turned out a much more improved performance - if you look at only for the quarter their sales is up by about almost about compared to last year, the sales is up by about 25% and EBIT is almost double as compared to last year. The size of the unit is not very large, which is why at an overall level it does not show a great deal of impact, but the units has really turned

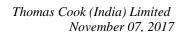
around and doing very well.

Vineet Maloo: Sure. That is great. Finally how about Sterling?

Udhay Shankar Davey: I think you will have to look at it from the background that when Thomas Cook acquired Sterling

most of our resorts were not refurbished, close to 10 resorts had to be refurbished and that is what we did in the last two and a half years. So that is one. So there are two impacts on that. One the rooms were not available fully. Second, the rooms that are available does not command higher ARRs and if you have seen the Q1 results, our ARRs grew in those resorts which are refurbished grew at almost 35% and occupancies are at upwards 80%. So that gives you a reflection of when the resorts are ready, what prices it commands in the market. Number one. Number two is that Sterling has not put any money on marketing especially on the branding side of above the line and we are in the process of doing a relaunch of our brand, which should come in Q3. The third thing is what Debashish touch based is the focus both on the revenue maximization and cost rationalization, so you will see substantial benefits following the next year and a part of it in Q4. The last one is the changes we made in vacation ownership business will help us growth and

EBIT margins.





Vineet Maloo: So now you are saying that all our investment phase in Sterling is over in terms of refurbishments

and all? There is no further spend required on that account?

Udhay Shankar Davey: Yes.

Vineet Maloo: Do you see now the investment business will start in terms of branding and all, right?

Udhay Shankar Davey: Yes.

Vineet Maloo: What is this kind of scale of activity you are planning in terms of investing?

Brijesh Modi: We would not like to share, at this point in time, but we are working with brands, which have

actually done for large business houses, and we hope to do a good amount of activity in the Q3

and followed by Q4.

Vineet Maloo: These are mostly above the line, right?

Brijesh Modi: We are working on the strategy in a mix of both digital and in the above the line and we will

waive whichever is good for us.

Vineet Maloo: I am saying that eventually this will not be in the form of discounts, right because then it

becomes again difficult to take the pricing up because you said that with difficulty you are

getting pricing to inch up for you, so you really would not want to go the discount way, right?

Mahesh Iyer: As a philosophy we have never ever discounted our prices even when resorts were not

refurbished and you will never do that. We always kind of worked on our pricing that we think

we should commence.

Vineet Maloo: Lastly how long do you think we will take to achieve let us say breakeven on a full year

operations versus the business and the next emphasis reasonable margins?

Mahesh Iyer: I think while we do not give the forward looking statements, but with all the four items that I had

mentioned to you on the refurbishment being over, rebranding exercise and the focus on revenues and the cost rationalization, of course the changes that we have made in our vacational space, I

think we should see substantial growth in the coming quarters.

Vineet Maloo: I understand you do not want to give a forward-looking number, so I am not asking you for a

specific number, how much you will achieve, etc., but it is really important for us, shareholders to understand that if what kind of target the management is working with in terms of timelines, because we have seen this was earlier expected to revive much sooner, but those timelines have

been slipping, I just want to understand what is the thought process now, what kind of timeline

that you are looking at internally?



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Mahesh Iyer: I think the next year we should be able to get better margins. The coming quarters will be the

quarters where we will consolidate and also focus on rebranding. That should put a lot of

advantage on the table.

Vineet Maloo: Sir, by next year we should definitely breakeven right? Is that a fair understanding?

Mahesh Iyer: Yes, we are working towards that.

Vineet Maloo: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Kaustuv Pawaskar from Sharekhan.

Please go ahead.

Kaustuv Pawaskar: Thanks for giving me the opportunity. Most of my questions are answered. Sir, just wanted to

understand what is the current membership under Sterling?

Mahesh Iyer: We are around 82000 members at this point in time.

Kaustuv Pawaskar: Sir, any cancellations or any members who did not continue with their membership in the first

half of the year?

Mahesh Iyer: So this is net of cancellations. We never give gross numbers.

Kaustuv Pawaskar: Then this is net of cancellations.

Mahesh Iyer: Yes.

Kaustuv Pawaskar: Thanks.

Moderator: Thank you. We will take the next question from the line of VP Rajesh from Banyan Capital.

Please go ahead.

VP Rajesh: Thanks for the opportunity. Just revisiting the assets EBIT number for this quarter. So even if I

adjust let us say two, two and a half Crores for additional swaps that Mr. Iyer was talking about, your margins have definitely still come down quite significantly, so is there anything one-off that

is still in the numbers or is that a new reset of the profitability of the business?

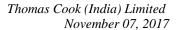
Mahesh Iyer: There were one-offs in the last quarter, which was to the extent of about 7 Crores that was sitting

in the FX numbers. That is not available in the current quarter so it is not a like-to-like

comparison.

VP Rajesh: So, you are saying that we should reduce 7 Crores from last year same quarter numbers, and then

compare that versus this, is that right?





Mahesh Iyer: Yes.

VP Rajesh: So, let me even if I do 19 Crores, and I am adjusting two and a half or 3 Crores for swap basis so

your profitability comes to around 17 Crores and that is still 40% EBIT margin that you are

guiding towards, so I am just trying to understand if I am missing anything on that?

Mahesh Iyer: You must appreciate that the financial services numbers that you see here as per Ind-AS has got a

different connotation and I am referring to the revenue line for the financial services because I

think you are deriving the EBIT margins by taking these two numbers, right?

VP Rajesh: That is right, yes.

Mahesh Iyer: The way this is structured in the financial services is that we are looking at net revenues and that

net revenues applies for the retail side of the business and does not apply for the wholesale side of the business. So there is a different working around it because there are airport operations, there are wholesale operations and retail operations, so it is a little bit of a detailing that happens because of the Ind-AS way of representing these numbers. , From an operating point of view the

business runs at around 42% to 43% EBIT margins, but these numbers will not reflect that.

VP Rajesh: That is helpful and I will connect with you separately to followup. The second question is on the

Sterling business and as some of the colleagues who were asking you know you look at the numbers year-over-year for the same sort of topline the profitability has actually deteriorated quite significantly, so it will be helpful just to understand that for the same revenue line year-over-year which takes care of seasonality why the numbers are down on the profitability side

quite significantly?

Udhay Davey: Rajesh, if you actually see the H1 to the comparative numbers you might have to negate the one-

off gain on the sale of land that we had done and if you minus that in fact our losses have come down, while our income from operations have gone up by 7% our losses have come down by

12%.

VP Rajesh: So you are saying last year's quarter had some one off from the land sale?

Udhay Davey Yes.

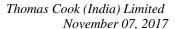
VP Rajesh: Sir, then overall on the consolidated financials it is a line item of income tax relating to previous

year around 68 Crores or so. Could you just provide some context to that number?

Debasis Nandy: That number relates to Quess and this while I am sure Quess would have covered in their

investor analyst meeting, I will just take a minute to try and briefly explain this. This pertains to the provisions of one particular session called 80JJAA, which was introduced sometime in 2015. When it was introduced there was a bit of confusion in terms of whether it is applicable only for

manufacturing companies or it is applicable to all companies at large. So initially the





understanding was it was applicable to manufacturing companies which is why for 2016-2017 the benefits were not considered. It is an incentive given to employ more people who are at lower income levels that is salaries of up to Rs.25000 a month. Quess is in the manpower business and therefore it could gain immensely if it is extended to service organization. Subsequently during the current financial year Quess went out and spoke to several consultants, obtained several tax opinions, all of who said that the way the section is drafted it is applicable to all companies and not necessarily only to manufacturing companies, which is why they decided that they should consider this as a tax benefit. Now the benefit that has been taken is for the current year, which is April to September in addition it has been taken for the year 2016-2017 as well. So there is a large one-time item, which is sitting in the deferred taxes, which is the item that you see there. The benefit would continue as long as the section is there, so it will continue in the future years as well, but the amount would not be obviously not be as large.

VP Rajesh: Thank you so much. That is all I have.

Moderator: Thank you. We will take the next question from the line of Sandeep Behl from Quest

Investments. Please go ahead.

Sandeep Behl: Good afternoon. Debasis Sir my question was again on the travel piece. I think both you and Mr.

part is taken care of the fact that inbound business is lower in Q2 that was the case last year as well. Now we see a difference of about 21 Crores in the EBIT number for these two quarters. So difference that we see in this quarter vis-à-vis last year quarter was that one you did not have a

Iyer had tried to induct, now when I compare Q2 of last year with Q2 of this year the seasonality

DMS business last year, second the MICE business and the corporate ticketing business had a tough time this time. Would we say that this decline in profit by almost 21 Crores is primarily

because of these two reasons? That retail inbound and outbound continues to do okay?

Debasis Nandy: The retail inbound in the sense the India inbound, yes.

Sandeep Behl: Excluding the DMS piece, yes.

Debasis Nandy: Now the other portion that is obviously there in all this is there has been the DMS acquisition and

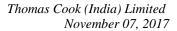
therefore the cost are there.

Sandeep Behl: By taking off DMS and I am taking out the corporate ticketing and the MICE?

Debasis Nandy: There are two parts. You are right. What I am trying to emphasize is there are two parts to the

DMS cost, one is this is a loss making season for DMS, one. Second is that we have incurred some amount of cost for the acquisition itself, which we have obviously expensed out during the quarter. So that is also sitting in the results of the quarter in the segment results in terms of legal, provision fees, travel expenses, etc., so all that is sitting best part of the normal expenditure. We

have not segregated that separately. So that would also add it to the cost.





Sandeep Behl: Can you quantify that?

Debasis Nandy: I do not have the number right now, but I will touch base one on one later with a more accurate

number. Having said that between MICE, corporate travel, inbound would account for most of the inbound/DMS which would account for most of that. We also had some one-time gains in

one of the units on the outbound side last year, which has not happened this year.

Sandeep Behl: Sir, now going forward given that we are entering the inbound season what kind of growth are

we expecting in the season for the inbound business?

Debasis Nandy: So, the India inbound business we are seeing decent amount of booking, so we are assuming that

we will grow at better than market rates Market rate of growth is lower than 10% as per the government statistics. We normally grow at higher than that. We will continue to maintain that. As per the DMS business is concerned, it is entirely new business. The growth in the DMS business is a bit difficult to say right now because it is different in different markets and as I said

there are multiple markets.

Sandeep Behl: If we exclude the DMS part, we just look at the non-DMS part?

Debasis Nandy: That is about may be 10% to 12%.

Sandeep Behl: Secondly, in the initial commentary, you have mentioned that we are looking at hiring Accenture

and we had hired another consultant, I think, last year and we are in the midst of implementing the cost rationalization suggestion that they have given. So one, wanted to know what is the

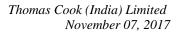
status of that and why do we have Accenture now? What exactly will they be doing and how much is the cost that we are going to incur on that?

Mahesh Iyer: Two parts to your question. One we have hired Accenture last year for an exercise which was

ZBB and ZBO and you will appreciate that Accenture is known in the market for their work around cost optimisation and you can actually see that in our results. If you could just compare the quarterly numbers, you would actually see the overhead cost, the employee benefit cost have all come down or even in some cases remain at the same level as last year. This is after factoring in the fact that they have suffered about +8% to 10% inflation. On the consolidated may not be a like-to-like comparison for the reason that there is a DMS enterprise that has come in so it may not be visible. So clearly the work that we started off with Accenture in May 2016 did give us some benefits and these are sustainable continuing benefits which we believe will continue to accrue to us over a long period of time. The current projects that we are undertaking with Accenture is more about in terms of analytics or sales acceleration program on the outbound side of the business - both domestic and international. On the holiday side of the business, we spend a lot marketing money in acquiring a lot of leads and you will appreciate that the conversion on those leads will be in the range of about 14%, 15% and 20% depending on the channel that you

acquire through and how you will like to convert them. Now through this sales acceleration program what we are essentially doing with Accenture is to look at the customers differently,

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prioritize the lead. If you got about 1000 leads in response to an advertisement that you put in, you may start calling them in a certain sequence, but how do you actually walk through that sequence to get to the most potent lead is something that Accenture will help us. This will also mean that it will rewrite the way the CRM tool that works in the organization both SOTC and Thomas Cook operates. , It would also rewrite the capabilities that you are building at the sales center and will be your focussed activity that will happen at a grass root level to ensure that we handhold and acquire customers much faster or at a higher cliff as compared to what we have been doing all this while.

Sandeep Behl:

Thanks for that. Just on the last year exercise, which is carried out, I understand that only part of the benefit is visible today and large part of the benefit will start becoming visible from later part of this year and next year.

Mahesh Iyer:

Yes. You must appreciate that we started off the work with Accenture in 2016 end by the time they did the analysis and it has to be done across three organizations because at that point in time, we had just acquired SITA and SOTC and we were doing that exercise across the group, so all those identified benefits had to be implemented and post implementation there is obviously a period or a cooling period after which things start flowing back to you. So we have started to see some benefits coming in already and obviously the full benefits will come over the next three and four quarters.

Sandeep Behl:

The other question Debasis was on the two loss making businesses, which are in the incubation period right now, which is your online business and the domestic business. How much would be the cumulative loss on these two businesses this year?

Debasis Nandy:

So I do not have cumulative numbers, I am so sorry, but I will have to get back to you on that one.

Sandeep Behl:

Lastly have you booked any SEIS benefit this quarter or we plan to book everything in the March quarter?

Debasis Nandy:

No. We have not in the July, August, September quarter. We plan to do that in future. We have got a couple of licenses. We knew that the GST rates are likely to come down, so we were waiting for the rates to come down. As you know the rate is now zero, it was earlier 5%. So now that the rate is zero we can sell it at a better value. We have got once more license for the inbound which we will also plan to sell during this quarter.

Sandeep Behl:

How much is the total benefit that we expect from SEIS?

Debasis Nandy:

On an annualized basis the benefit would be the total benefit for at the consolidated level would be around 25 Crores or so.

Sandeep Behl:

Last year it was about 20 Crores, right?



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Debasis Nandy: Yes. That is why I said it depends on the turnover and we do not accrue this, we have a policy of

taking the benefit as and when the license comes to us effective like a cash basis.

Sandeep Behl: Understood. Thanks for this. One or two items, which are pending, may be we will touch base

one-on-one.

Debasis Nandy: Surely.

Sandeep Behl: Thank you.

Moderator: Thank you. Ladies and gentlemen we will take the last question. We will take the question from

the line of Binoy Jariwala from Sunidhi Securities and Finance Limited. Please go ahead.

Binoy Jariwala: I have a question on Sterling. If you could just help me with the occupancy level for this quarter,

the total membership base, number of rooms and number of room nights available for this

quarter?

Udhay Shankar Davey: Occupancy is 58% this quarter. On the room nights available for the quarter it is 174000. Does

that answer Binoy?

Binoy Jariwala: Room night sales?

Udhay Shankar Davey: Room night sales has been almost a lakh.

Binoy Jariwala: And of this lakh you are saying about 50% is member and another 50% is non-member?

Udhay Shankar Davey: Yes.

Binoy Jariwala: Now if you could also highlight how is the Holiday Plus product doing and in your opening

remarks or somewhere during the call, you mentioned that you now only offer up to 18 months

EMI. Did I get it correctly?

Udhay Shankar Davey: Correct, you got it right, Binoy. What we have done is further to the changes that we made last

year with the Holiday Plus this quarter we have launched another product which is only restricted to 12 months and 18 months. Net-net we have moved away from 48 and 36 months and also we

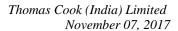
will slow down the 24 months.

Binoy Jariwala: So you are offering 24 months as well?

Udhay Shankar Davey: Yes we were offering 24 months.

Binoy Jariwala: What percent of sales are going through Holiday Plus?

Udhay Shankar Davey: Currently almost 50% to 60% are through Holiday Plus.





Binoy Jariwala: I believe during Q4 you said it was about 85% or so, is that correct?

Udhay Shankar Davey: Yes correct. So in this quarter almost 25% to 30% has been on the new product which is the

12.5% down payment with 12 EMIs and 18 EMIs for the higher scale. So net-net our ability to

get the cash upfront will be higher.

Binoy Jariwala: Last question was on this one-off income from monetization of land, which was in Q2 of

FY2017. What was that amount?

Udhay Shankar Davey: This is 7.8 Crores of gain. This is a land at Goa that we had sold.

Binoy Jariwala: This was sitting in Q2 of FY2017 quarter?

Udhay Shankar Davey: Sorry, you are referring to the one that we sold the October month or you are talking about the

FY2017?

Binoy Jariwala: FY2017.

Udhay Shankar Davey: FY2017 was the sale of the Goa land, 6.8 Crores.

Binoy Jariwala: 6.8 Crores and that sit in the EBIT also.

Udhay Shankar Davey: Yes.

Binoy Jariwala: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to

Mr. Abhijit Akella from IIFL Capital Limited for closing comments.

Abhijit Akella: Thank you. Gentlemen from the management any closing remarks you would like to make.

Mahesh Iyer: Thank you very much for participating on the call. As Madhavan said in his opening remarks this

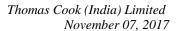
quarter has been a little bit of a tough call on us for some of the reasons which are attributable to the largest reform in the country, but I think the long-term story for Thomas Cook Group remains very intact. We have diversified our risks by acquiring more businesses outside India and today we are a travel enterprise, which pans outside the Indian geography also. With the acquisition of the Tata Capital Business we further cement our position on our pledging businesses, which is foreign exchange and corporate travel, and I am very confident of the growth prospects ahead for

the Group.

Abhijit Akella: Thanks a lot Mahesh. With that I would like to thank the management team for taking the time to

participate on this call and a big thank you to all the participants for joining in. Thanks again and

with that we conclude this call.





Moderator:

Thank you very much Sir. Ladies and gentlemen on behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.