"Thomas Cook (India) Limited Q4 FY 2017 Results Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Thomas Cook (India) Limited 4Q FY 2017 Earning Conference Call hosted by IIFL Institutional Equities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijit Akella from IIFL Institutional Equities. Thank you and over to you, sir!

Abhijit Akella: Thank You. Ladies and Gentlemen, a Very Good Afternoon and Thank You for joining us on the 4Q FY 2017 Post Results Conference Call of Thomas Cook (India) Limited. We apologize for the delay in beginning this call. My name is Abhijit Akella, I am the Midcaps Analyst at IIFL. And it is my great pleasure to introduce the senior management team of Thomas Cook Group who are here with us to discuss the results.

We will begin the call with opening marks by Mr. Madhavan Menon -- Chairman and Managing Director; following which we will open up the call for a Q&A session.

I would now like to hand the call over to Mr. Menon to take it forward. Thank you and over to you, sir!

Madhavan Menon: Thank you, Abhijit. Ladies and Gentlemen my apologies for delaying this call, the Board Meeting got a little delayed and we had to get our numbers straight. So, thank you very much.

Let me just introduce everybody who is on the call today. I am Madhavan Menon -- Chairman and Managing Director for the Thomas Cook (India) Group. I have got Mr. Ramesh Ramanathan -- who is the Managing Director of Sterling Holiday Resorts on the call. I have got Mr. Dipak Deva -- who is the Managing Director, TCI Sita which is the inbound business of Thomas Cook (India) Group. And I have got Mr. Mahesh Iyer -- who is the CEO of Thomas Cook (India) Limited. Additionally, I have got Debasis Nandy -- who is the Group CFO of the Thomas Cook (India) Group.

Just to kick-off, let me sort of give you an overview of the full year results that we announced today.

But let me talk about the Thomas Cook (India) Group consolidated which includes Quess and then I will give you a view of Thomas Cook (India) Group minus Quess which I call the travel vertical.

So, if I take the Thomas Cook (India) Group consolidated total income grew by 41% from Rs. 61.6 billion to Rs. 86.8 billion.

Profit before tax increased by a 102% from Rs. 947.7 million to Rs. 1,913.7 million or Rs. 1.9 billion.

In the travel vertical, the operating revenue from the travel businesses grew by 79.7% to Rs. 39.1 billion. The profit before tax grew by 63% to Rs. 93 crores.

I think if you look at the way the numbers are structured, you will see that in the travel vertical we have added the Kuoni businesses which is Kuoni Hong Kong, TCI Sita and SOTC India into the numbers that were available to you a year ago but only for one quarter whereas this year we are showing it to you on a full year basis.

I think from a group point of view the travel businesses have performed well this year and our expectation is that in the coming year due to a lot of restructuring that we undertook during course of last year as well as integrating some of the backend business of SOTC and Thomas Cook (India) we will see some of those benefits in the form of cost savings that will flow into our businesses.

Now, I am going to stop there for a moment and just address the acquisition we made recently, so that, I put it in perspective and once the other gentlemen finish talking we will open up to questions.

You may be aware about a month ago, we went and signed an agreement with Kuoni Holdings which is Swiss Travel Company to buy their inbound businesses in a total of 18 countries stretching from Australia through Asia into the Middle East, Southern Africa, and Eastern Africa and into the United States. These business essentially bring in tourists from around the world into these respective countries and they are high-end tourists who generate significant margins for the business.

The one comparable business if I may put is Abercrombie & Kent which is a U.S. based business, which to only operates outbound as well as inbound businesses. Essentially, what we did the transaction will close by the end of June and our expectation is that we will allow these entities to function indecently going forward. And our expectation is that in the first year as on where is basis it will generate approximately $5 million worth of profits and in year two which is essentially 2018 - 2019, our expectation is that this will grow significantly and this is based on the experience of having acquired the Kuoni businesses earlier where we have actually seen a ramp up in their profitability.

Now, I am going to stop here for a moment. I am going to hand over to Ramesh who will talk about Sterling Resorts then I will bring in Dipak and Mahesh and finally we will open up to questions which we will all answer. Over to you, Ramesh.

Ramesh Ramanathan: Thanks, Madhavan and Good Evening, everyone. I have got a few short statements to make on Sterling. The first is that during the course of the financial year 2017 we have completed the refurbishment of most of the properties almost 95% is complete with the few rooms in Puri remaining. This will ensure that the pressure on CAPEX during the forthcoming year would be much reduced because we had to refurbish all these rooms.

For the financial year, we ended up with a total income of Rs. 239 crores versus Rs. 205 crores a 16% increase over the previous year. EBITDA stood at minus Rs. 9.5 crores, the comparable number is Rs. 56 crores for the previous year. We had and the vacation ownership business, we ended up with new membership sign-ups with less by around 900 numbers as compared to the previous year. We did around 5,300 numbers against 6,200 in the previous year.

This was primarily due to the fact that, during the year we had increased our payment or the down payment that we take along with new members this has gone up to between 25% and 40% against the 10% that we were collecting. While this had an impact on the volume along with the demonetization effects for three months - four months, what it has done have increased our cash flows substantially as well as our yield. It has almost doubled our yield in terms of retention of customers and also the average sale value for the membership increased from Rs. 2.51 lakhs to Rs. 3 lakhs per member.

During the year, our overall available room nights increased from 551,000 to 658,000 an increase of around 19%. On this increased room night based, our occupancy went up to 63% from the previous 57%.

In fact, I am happy to announce while the membership room nights did grow, the non-members increase substantially by around 42% during the course of this year. This has also allowed us to explore a lower cost option in terms of converting them into members as and when they visit the resorts.

In addition to this, I must also mention because of our higher yields the receivables which stand at around Rs. 102 crores is all good debtors now.

During the year we have had one another significant development which is that we have rolled out a new service philosophy across the company which focuses on experiential holidays. This has had a positive effect in the sense that 17 of our resorts are in the top ten in TripAdvisor and similarly, all other customer satisfaction indices have been extremely good.

So, this is what I wanted to share and as and when we move on to questions, we are here to answer it. Thank you, Madhavan.

Mahesh Iyer: This is Mahesh here. Just as Madhavan said at a standalone travel vertical we have had a good year. Also reaping in the benefit of consolidation with SOTC, we have seen benefits coming out of synergy. Also, the foreign exchange business had a very good year last and profits on that has actually grown by close to about 19% over the previous year and on the holiday business we have actually seen a little more than 50% growth in profits.

So, I think if I add both that essentially what we are saying is that we have had a good year as far as the travel vertical for the group is concerned and looking into the current quarter where we are trading which is the first quarter results that we have announced, we again have a good run on both on foreign exchange and holidays.

The forward pipeline on our holiday's business is looking good and we hope that we will have good quarter getting into the Quarter for FY 2018.

Madhavan Menon: Dipak are you there? Hey, Dipak can you go ahead give us statement and then we will go into questions.

Dipak Deva: Yes. So, as far as the inbound business is concerned, I think India as a destination has done very well last year but the good news is that we are at least 2 percentage points ahead of the India growth story for inbound tourism. And the pipeline going forward is also going good. The destination is doing well. The electronic visa story has helped I think all of us and now, they have relaxed it further. So, that should in any case be very good for our business.

Madhavan Menon: Okay. Abhijit, we can now open up to questions.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. We have the first question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: First set of question is for Thomas Cook, if you could share where are we on the integration of Kuoni India what kind of synergies have started flowing in and what was that impact in this particular financial year? And second question is on the latest acquisition, sorry you made some opening remarks on the acquisition, I could not get them clearly. If you could just repeat them?

Madhavan Menon: Okay. On the integration benefits they have just started flowing in, we saw one quarter of benefits which is approximately about Rs. 3.5 crores in Thomas Cook and I think in SOTC it was certainly lower than that at Rs. 2 crores. In the coming quarters, we expect these integration benefits to go higher. And essentially, how we have done this by collapsing several of our back-end units into single units, at the same time we have also centralized a lot of the indirect purchasing, a lot of other activity. And during the full year, our expectation is that we will see a saving of approximately Rs. 20 crores from the integration. As far as the new acquisition is concerned Kuoni Holdings which is the Swiss Travel Company put their incoming businesses in several countries up for sale. These are essentially 17 countries stretching from Australia through Southeast Asia, China, the Middle East, South Africa, Eastern Africa and the United States for sale and we acquired these businesses. Now, essentially these businesses bring in high-end tourists into their respective countries and they will continue doing exactly what they have been doing so far. And our expectation is that the margins in this business are higher than what is normally available in the mass market. The second point I want to make is that our expectation is that it will be profit accretive from day one because there is a fair amount of cash in the business. Additionally, we intend to leverage the sales force and technology across the various businesses. We will also allow our outbound travel businesses to leverage off the presence of these businesses in their respected markets.

Binoy Jariwala: Can you share some numbers how large are these businesses put together and what is the current profit?

Madhavan Menon: So, they generate approximately $220 million of sales which generates about revenues of about $40 million and the profit is as is where is you must note is that we have not taken over the company as yet, it is $3.5 million. But I think over the first year as we put more and more efficiencies into place and allow them to operate freely my expectation is that this number will cross, it should cross about $5 million in the current year.

Binoy Jariwala: Okay. And what was the consideration paid for this?

Madhavan Menon: I am not allowed to reveal this as per the agreement between Kuoni and us. And once the transaction is done, we will advise you of the amount that we paid. I can only say Binoy that it is well within reason. We do not go out and buy expensive businesses. I am not trying to boast on that one.

Binoy Jariwala: Certainly. Sir, on this business itself, so these are inbound businesses what is the source market for these was Kuoni Group itself the source market and we also have entered into a JV with the touristic group of I think Germany. If you could throw some light on that as well?

Madhavan Menon: So, I am going ask Dipak Deva to respond to both these questions. I think his knowledge of the inbound business is far better than any of us. Can you go ahead Dipak?

Dipak Deva: Yes, sure. Madhavan. So, to answer your questions regarding the German JV that we announced, this is a large German company called REWE whose travel group is DER and they are amongst the top three travel organizations in Germany, they were the ones that had bought Kuoni Tour Operating business a year and half ago, two years ago when Kuoni had put up their businesses for sale while we bought Hong Kong and the India piece they bought the

European piece. Their policy going forward is to work either set-up their own or find reliable partners in each source country to set-up a joint venture. So, they came to us and we agreed on a joint venture with them which will result in (a) substantial amount of their business being secured with us; and (two) this is high quality, high margin business. So, we have secured that business from either the margins dilution or going away to the competition that is the essence of the joint venture.

Binoy Jariwala: So, essentially, they had bought the outbound business outbound piece of Kuoni when it was up for sale in Europe and that was that the source market for the 17 destinations?

Dipak Deva: Well, it was a definitely a large, they were different companies in different source markets they are in UK, they are Holland, they are in Switzerland and in Scandinavia and they were a very big customer for us or are a very big customer for us. So, yes, they were an important client of ours. As far as the other DMCs are concerned, in some cases there will be business that will be available through this and in some cases not. But reach individual DMC that has acquired the destination management company that has been acquired is a specialist in their source markets. So, they are not dependent on one source market or one client they have a variety of customer from different parts of the world. So, that is also one of the reasons we all looked at acquiring this business is because they are specialist in their destination. They are not a general company in each place. Somebody may be a specialist of getting business of Latin America while the others may be a specialist from Europe or a combination of both.

Binoy Jariwala: Okay. And would you be able to share the number, was it in the region of 65% to 75% of the tourist were sourced from the European outbound market for these 17 destinations?

Dipak Deva: No.

Madhavan Menon: No, at all. I don't know where you are getting that number from.

Binoy Jariwala: Okay. And last one on this piece is that essentially what you are trying to say is that we have secured our inflow of tourists. So, with the break-up of Kuoni Group, it is not that we will have to go out and look for another…

Madhavan Menon: Binoy, I may just respond, the REWE joint venture consolidates all REWEs businesses with us. We had most of that business it consolidates it further and we retain that business. As far as the other Destination Management Companies that we acquired recently they have their own source markets which have got nothing to do with India.

Binoy Jariwala: Okay. Now, next set of questions is for Sterling Holidays. You have shared some numbers, if you could help us how is the holiday plus product doing, what is the delinquency on the portfolio we have been in this particular year because I think this year would be first full year of operations? And also, if you could report the revenue and EBITDA numbers because I could not get them.

Ramesh Ramanathan: Thanks. First the holiday plus product accounts for 82% to 84% of our sales now compared to what it was the previous year which was a lower number. The full year numbers are around 80% to 84%, which is why I also mentioned that the cash flows have gone up substantially because we are collecting that higher upfront payment. So, that is one. What was the second?

Management: The total income numbers he wants to get repeated.

Ramesh Ramanathan: The yield on holiday plus product is around almost 80% or so. So, from previously where we use to be on a regular product at around 50% then which is why we took a huge write off last year our yields have gone up substantially and these are continuing. We are collecting subsequent payments from the customers. In terms of the numbers, the total income for the year is Rs. 239 crores versus Rs. 205 crores in the previous year and EBITDA is at minus Rs. 9.5 crores versus minus Rs. 56.1 the previous year.

Binoy Jariwala: Okay. And how many membership sales did we do last year and what was the room night sales as well?

Ramesh Ramanathan: Okay. During the year we had around 5,300 members whom we added. Now room night sale, total room night sold were around 415,000 that was a 33% growth over the previous year.

Binoy Jariwala: Okay. And what was the non-member room nights?

Ramesh Ramanathan: Non-member room nights out of this is 181,504, the non-member room nights grew almost 42% over the previous year.

Binoy Jariwala: Okay. And one last question, within our credit risk model which we have to calculate as per IndAS. What is the delinquency rate that it captures?

Management: What Ramesh was articulating basis the yield of 80% the balance is what we need to provide basis how the portfolio starts performing and that is done periodically ever quarter it is reviewed.

Ramesh Ramanathan: It is a dynamic number Binoy, what we are doing now is that ever quarter we are now provisioning for delinquency, so that it does not come up later. So, the numbers that I have given you for the year are after providing for delinquency and this delinquency is tracked on a dynamic basis based on the previous three months to six months and it is audited on every quarter.

Binoy Jariwala: Right. So, you said about yield is about, so the model captures 80% yield but what is the actual yield in that case?

Ramesh Ramanathan: This is the actual yield because this is what has been happening, so what we are provisioning is almost close to actual. So, any one quarter if it moves or down it is again immediately captured, so that is the actual.

Binoy Jariwala: Okay. And what was the provisions for this particular year versus the last year and all these provisions are done before the EBITDA line or below the EBITDA line?

Ramesh Ramanathan: Yes, before and it is reduced from the income. Except that last year it has shown as one-off provisions but otherwise it is netted off with the income.

Binoy Jariwala: Okay. What was the number this year?

Ramesh Ramanathan: So, this year the provisions were at Rs. 21 crores.

Binoy Jariwala: Okay. Versus?

Ramesh Ramanathan: Last year, Rs. 72 odd crores we have provided.

Moderator: Thank you. The next question is from the line of Shariq Merchant from Quest Investments. Please go ahead.

Shariq Merchant: Sir, my question is on the FOREX business, can you help with full year numbers for both revenue and EBIT**?**

Mahesh Iyer: So, for the full year foreign exchange have grown rather profitability has grown 18% from Rs. 87 crores to Rs. 103 crores. So, that is the full year number for FY 2017 and for the quarter it is registered as 14% growth.

Shariq Merchant: Okay. And on the margin side?

Mahesh Iyer: We have actually improved our margins, so I am talking about operating margins that we call it that was at 1%, we have grown that to 1.1% so that represents about 10% growth.

Shariq Merchant: This is for the quarter?

Ramesh Ramanathan: For the quarter.

Shariq Merchant: Okay. Sir, so my question is on the increasing online competition that is coming in some of it being private equity funded. Some of your competitors are now operating at 0% margin. I fail to understand that model business. But is it putting pressure on your yields you seem have to grown yields even despite this?

Mahesh Iyer: Look the way we look at it is that we also play the online space but we are not beating the price down there because for us compliance is of at most importance are there are a set of customers who will go out and look at that zero-pricing model and want to operate with some of them. But from our point of view, we play both the online and offline space and most importantly, you must remember that this is a regulated business where KYC and a lot of touch is required for competition of transaction. And hence, a distribution network that complements an online model it is the key success to be ensuring growth in this business. So, the private equity funded models can come. But if you do not have a distribution model to serve it in terms of servicing point, you are going to fail at some point in time. And I think, from our point of view it really compliments the online and offline actually compliments because we have created both of those networks and it helps retain our margins. And I think you must also remember that the online players that you are talking about are not necessarily foreign exchange players. They are basically intermediaries or may be a market place model who are basically trying to take price from others and trying to cut a commission of others. And in that, there is a lot of leakage that comes in.

Shariq Merchant: Okay. But these models are sustainable models if you work as a market players?

Madhavan Menon: Shariq, let me just say this that we do not know whether they are sustainable or not and I do not think it is fair to comment on their sustainability. Let us just say one thing that we do deliver foreign exchange online we have seen this business grow quarter-on-quarter. However, one important point which Mahesh made and I want to reiterate that as we will do this business at no compromise to our KYC requirements. Point number two, you will appreciate that if it a card, prepaid card load then you can do it without touching customer. You will appreciate in India everybody wants cash as well as prepaid card load therefore there are multiple degrees of handshakes that need to be taken. So, it is not a true online business in the definition of the word, if I may add.

Shariq Merchant: Right, understood. So, what is your outlook for FY 2018 on the FOREX piece?

Mahesh Iyer: You see, if I have to look from a market point of view we look at financial year we look at the calendar year and if I look at the first quarter that we have competed for the calendar, I think we have seen a strong growth. As we speak volumes are looking very good. The rupee appreciation is actually helping because it makes the price of the product a little lower. As you also know we have an outbound business and the outbound travel business is growing, so FOREX is very complementary with that business. So, that are the right kind of levers for us to see the growth in this business going forward too.

Shariq Merchant: All right, sir. Thank you, sir. So, my next question is on the acquisition that you all have announced. How do you see synergies from this playing through over the next two years to three years, you talked about next year where you are looking at profits going from 3.5 to 5. But more from a three-year standalone what areas do you see the synergies coming through and if possible could you quantify it?

Madhavan Menon: Dipak, you wanted to go for this?

Dipak Deva: I will add after you go through.

Madhavan Menon: Sorry, I did not get the question clearly.

Shariq Merchant: Sir, what areas do you see synergies coming through in the new acquisition that you announced the Kuoni one and if you could quantify it from a three-year point of view?

Dipak Deva: See, I think firstly, each of these DMCs like I said are specialist exactly like we are in India for the Indian market space inbound into India. So, the synergies are that we have the same, we have common customers in different source markets. Some of them we have already as common customers but there are a lot of customers who probably just work with one of these destinations. They would obviously be a great opportunity for us to have a sales synergy and bring the business to the other five destinations. And the second thing is we will also be setting up a sales organization worldwide which would then drive the businesses to funnel the businesses into the different outbound companies in these different destinations. In order to quantify it, I think Mr. Menon said that we are still closing the deals, so I think it is too early to be to discussing these numbers. But I am sure, on the next possible opportunity we could easily answer this question. We have not gone that far yet. But we have a good enough idea do not forget these companies were all together two years ago under the Kuoni umbrella. And we were part of the same organization where there was synergy and there were great opportunities to build the business together. We are going to leverage that now the Thomas Cook umbrella.

Shariq Merchant: Okay, sir. And sir, have you all identified any more blank spaces that you would want to now fill via acquisition?

Dipak Deva: Yes. So, we would first want to digest this and make sure that we get it off the ground. But more importantly, after this, we have a land escape and a strategic plan which we are looking at in the next few years, Latin America would be a potential area which we could grow in and also Eastern Europe. It all depends where DMC services will have a play. Latin America definitely is a source market or a destination which does attract a lot of tourist in a company like us or a bunch of these collective DMCs would definitely find Latin America would be a good fit in this whole piece.

Madhavan Menon: Dipak has talked about organic growth. Let me talk about inorganic growth. The reality is we never go out looking for businesses. Opportunities do come to us and that is what the history has been over the last four years. And we do not go out looking for businesses under any circumstances. If we see a good opportunity and we believe that it is profitability accretive we will look at it and if it throws up free cash as we expect all our business to do, we will identify those targets, but nothing in an industry per se.

Shariq Merchant: Okay, all right. And sir, my last question is on Sterling. So, if you could talk about the outlook for FY 2018 and how you see margins panning out and if you are planning any price increases?

Ramesh Ramanathan: Okay. We have started in fact the first month with a much stronger performance and as I mentioned, over the last year we have substantially increased our, we had an increase in price plus we have also improved our product mix with a result our average sale value is in the region of Rs. 3 lakhs as against Rs. 2.51 lakhs in the previous year. Currently we are expecting it to move further up to around Rs. 3.15 lakhs to Rs. 3.2 lakhs or so. So, we are not planning any immediate price increases. But what we are looking at is to ways and means to increase our membership volumes. Our room nights, non-members continuous grow very strongly. As I said, last year we grew 42% and our ARRs, average room rates are also growing strongly. We are now working on our marketing efforts to make sure that we get these sort of prospects which meets with the product. We are not planning to dilute our payment pattern. The competition still works on 10% down payment. We are not planning to do that. The idea is to increase and I think we will be successful. So, the outlook is positive and we expect to end the year well.

Shariq Merchant: All right, sir. Thank you, sir. And any chance you could quantify margins that you all are targeting?

Ramesh Ramanathan: No, I do not think we will give guidance on that but we are expecting it to go up. Can I just reiterate the fact that we do not give forward guidance and therefore, I would request that to any questions in that direction will not be responded to.

Moderator: Thank you. The next question is from the line of Jatin Agarwal from Perfect Research. Please go ahead.

Jatin Agarwal: I just wanted to have a clarity on our M&A side. So, given the opening of Fairfax India as a separate investment vehicle fund for expansion in India, we have seen that most of our acquisition done by us in our travel space. So, my question is that would it that be a constant phenomena? Means are not we going to see any Quess or IKYA type acquisitions in near future?

Madhavan Menon: No, I do not think that is absolutely correct way. It is only that we have seen opportunities in the travel space and therefore we have acquired them over the last two and a half years. In reality, there are two holding companies in India one is Fairfax India and the other one is Thomas Cook (India). You will appreciate that the Fairfax India's balance sheet as much larger and can carry more acquisitions then our balance sheet can come. Tomorrow if Fairfax identifies a particular traction which it beliefs is primarily in the services area then it will actually come to us.

Jatin Agarwal: Okay. So, sir, just a follow-up question, so take an example, if both vehicles are looking for compelling opportunity and then we find one which we can fit into our criteria. So, which one will go after it means the Fairfax, is there any deal criteria means the size criteria or any basics could we differentiate that?

Madhavan Menon: Look, these are essentially questions that are decided upon at the time of an acquisition. If I try to read Fairfax's mind at this point of time, I would be conjecturing and therefore, I will stay far away from that. And I do not want my boss to turnaround and tell me who the hell are you to decide where an acquisition goes?

Jatin Agarwal: Right. So, even can go up but you are open for acquisitions in other space too apart from the travel, right?

Madhavan Menon: We throw up enough cash every year and this capability has grown with the acquisition of the Kuoni businesses in 2015 and with the acquisition of the current set of Kuoni businesses I believe that our cash generation will only increase and therefore, our ability to go out and acquire companies will continue as it is in today's state.

Moderator: Thank you. The next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.

Pratik Poddar: Could you just talk about your travel numbers for quarter four? How much was the revenue growth? How much was the EBIT margins? On like-to-like basis is what I was looking for?

Madhavan Menon: Pratik, Mahesh will take you through the numbers based on that segment.

Mahesh Iyer: Sure. Pratik, just to quickly tell for the corresponding quarter we have grown from Rs. 19 crores to Rs. 23 crores in terms of profitability on their travel businesses. You will also appreciate that this quarter is predominantly an investing quarter where we spend a lot money in terms of acquiring our customers and April, May, June is the peak in terms of outbound. But in spite of that we have managed to grow our numbers both in terms of passenger volumes and also in terms of profitability.

Management: Primarily on account of the inbound?

Mahesh Iyer: Yes.

Pratik Poddar: Inbound to my understanding was still bleeding, so that has stopped or?

Debasis Nandy: Inbound is never bleeding. Let me clear that understanding, so your understanding is correct before we actually taken over Kuoni or SOTC, Sita. So, at that time we had only TCI which were smaller business, it was Rs. 170 crores - Rs. 180 crores business. With the acquisition of Sita this became much larger Rs. 600 crores plus business and which is definitely very profitable.

Pratik Poddar: Understood. Also, could you just talk about the free cash flows generation which Thomas Cook would have done the travel vertical would have done this year which is FY 2017?

Debasis Nandy: See, on free cash flows I can tell you what we did last year, last year in the sense that for the calendar year because that is how we measure our performance. For calendar 2016 for the companies in the travel vertical that is Thomas Cook, SOTC, and Sita, we did about Rs. 220 crores of free cash flows between the three companies

Pratik Poddar: This includes the FOREX part also, right sir? Just clarifying.

Debasis Nandy: It includes the FOREX part, yes. It basically excludes Sterling and Quess.

Pratik Poddar: Sterling and Quess that is fair. Sir, just one more question, Quess is looking for capital raise, I just wanted to understand what are Thomas Cook's thoughts about it in terms of…

Debasis Nandy: I will pass on this question to Mr. Menon.

Madhavan Menon: So, yes, they are looking at a capital raise, no decisions have been made, I think it is only an enabling resolution that we passed this will be decided in the coming months and very honestly, I do not think I am able at this point of time to tell you what is structure the capital rise leave alone were getting to the dilution or whatever.

Pratik Poddar: Okay, understood. Sir, one more question on Sterling side, could you just help me understand, you mentioned that the room rates available went up by 19% to 658,000 room members.

Ramesh Ramanathan: That is right.

Pratik Poddar: Correct.

Ramesh Ramanathan: That is correct.

Pratik Poddar: And going forward the intensity or the increase in this number should go down is that a fair understanding and you would look to now ramp-up the utilization?

Ramesh Ramanathan: We are looking at both Pratik because one is that as I mentioned, for the year we were at 63% but we are now experiencing much higher occupancies that is one. The second one is that we have already signed on for some leased resorts, we have already had one coming this year which is in Goa around 71 rooms have come in. And for the rest of the year we should add another 150 odd rooms. So, that will be the addition for the year.

Pratik Poddar: And could you just help me with your quarter four numbers in terms of revenue and the EBIT to EBITDA.

Ramesh Ramanathan: So, revenue is at Rs. 52 crores versus Rs. 58 crores and the net profit is Rs. (-22) crores compared to Rs. 97 last year.

Pratik Poddar: Rs. 52 crores is for this quarter?

Ramesh Ramanathan: Yes.

Pratik Poddar: So, there is a de-growth in revenue?

Mahesh Iyer: Yes, that is what Ramesh was articulating in terms of while we have seen a small dip in terms of the volumes but we have seen substantial improvements in other yields and the increase in cash flows.

Pratik Poddar: Sorry, could you just repeat the EBITA numbers for this quarter.

Ramesh Ramanathan: I was talking about the net profit. We will give you the EBITA numbers. It is (-14.5).

Pratik Poddar: Versus what was that same period last year?

Ramesh Ramanathan: (+3.8).

Pratik Poddar: So, there is a swing from (+3.8) to (-14.5)?

Ramesh Ramanathan: Correct. Because it is primarily on due to the lower volumes which we experienced in the vacation ownership business. In fact, in the last quarter we have had reduced number coming in that is what has affected the number. We have put corrections in place, already from April onwards we are picking up on those numbers.

Pratik Poddar: Sir, just to understand your top-line went down from Rs. 58 crores to Rs. 52 crores which is just a Rs. 6 crores kind of drop. But your EBITDA went down from I mean from (+3.5) to 14.5. All this is because only of mix change?

Ramesh Ramanathan: No, it is a combination of volume and few expenses and the usual provisioning that we do. We also had to do a catch-up provisioning on the 2015 - 2016 sales. If you remember last year we did a one-time this one. So, small portion of that also have to be done. So, net-net I think it is primarily on account of the drop in the volume and some catch-up provisions that we had to do for the prior year sales.

Pratik Poddar: Even sequentially the results are a bit disappointing, right? In the sense sequentially also losses have widen, is that a fair understanding?

Ramesh Ramanathan: No, if you see the complete year numbers if you see negative…

Pratik Poddar: I understood, the full year. But I am just saying sequentially which is quarter three from quarter four your EBITDA I mean the losses on the EBITDA have increased, right?

Ramesh Ramanathan: Yes, Pratik, you are right, fourth quarter has been unusual, we have already put in place measures to make sure that this has turned around.

Pratik Poddar: Sir, could you just talk a bit about these measures which would help you turn around this?

Ramesh Ramanathan: See, two things we have done in fact or three things which we have done. One is to get our volumes up in terms of members. So, we are focusing on marketing fact on the digital media to get us more focused leads or appointments so that we can increase our numbers. This is one. The second one is we are looking at increasing our room occupancies and ARRs and in fact we have managed to substantially push-up our ARRs because as I said most of our rooms have been refurbished so we have been able to command much better average room rates. So, these are the two measures that we have taken and you will see the result of this in the first quarter.

Pratik Poddar: So, is it fair to say from here on the occupancy rate should keep on going up?

Ramesh Ramanathan: It will. That is what we are looking at, the idea is to push-up occupancies further.

Pratik Poddar: And what is your conversion rate sir, I mean generally for getting new members you must be, I mean if you to approach 100 members or a 100 potential customers how many of them would get converted what is your conversion rate like?

Ramesh Ramanathan: It varies from region-to-region but on an average we approach do a 100 meetings, we convert around anywhere around between 12% to 15%.

Pratik Poddar: And what is the industry average like?

Ramesh Ramanathan: Industry average should be around the same.

Pratik Poddar: But when I look at peers they have grown much faster than you in terms of addition of…

Ramesh Ramanathan: Yes, they do because Pratik as I mentioned they collect a down payment of 10%. I do not want to talk about what they do except to say that they have a very low threshold in terms of what they do whereas we are collecting minimum 25% to 40% and we have also stopped 36 months and 48 months EMIs because they were resulting in a lot delinquencies. We have unilaterally stopped because we want good quality sales and members who want to stick and enjoy the Sterling expense. So, there is some difference if you look at conversion ratios on that basis.

Moderator: Thank you. Next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Sir, my question is on your India travel business and the FOREX business. Would you see impact of GST on this business going ahead? Because competition has already become aggressive and they have started putting advertisements to fly before the implementation of GST. So, what impact you could see on your business?

Mahesh Iyer: So, let me take this on, this is Mahesh. If you look at the holiday business you will know that as on 22nd January the Service Tax applicable on the holiday products moved from 4.5% to 9%, but it also had qualifier which allowed you to take input credit. From the GST regime, it actually raised our price down from 9.5% tax it brings down to 5%. So, from our point of view it actually is a good sign because the price of the product should actually come down to an extent that we can set off some of these. So, to me this is a good move. I think the tax rates are far more stable The anticipation of the industry was that the price will actually move closer to about 12%. But honestly looking at 5% we are quite optimistic that it leaves a good level playing field for all of us to operate. If I take the package holidays out of it and only look at FIT part of it which is basically customized holidays some of the online operators had a distinct advantage because some of those monies got paid directly overseas and they had the play of the 9% that we are currently locking about. I think, at 5% it is a fairly good level playing field. So, from our point of view, overall, we believe GST is not going to change anything. If ever it is going to be a lot more positive than negative. Yes, I am not underplaying the level of paper work that we will need to do from now on in terms of getting our vendors and everything on boarded. So, I think those paper works and some teething issues in initial stages. But form business point of view. I surely see this as a good move.

Kaustubh Pawaskar: And sir, on the financial services business because there the tax rate has gone up. So, on that do you see any impact or it will be in line with what your outbound and inbound travel business would be?

Debasis Nandy: Debasis here. Actually, the tax rate on FOREX products has not really gone up. Wholesale products continue to get the exemption that they enjoy under Service Tax regime. And on the retail side this slab rate continues. So, effectively, the tax rate has not gone up.

Kaustubh Pawaskar: Okay. Sir, my question is on Sterling Holidays. Sir, what is the current membership base we have?

Ramesh Ramanathan: 80,000 members.

Kaustubh Pawaskar: Okay. So, this year you have added 6,300 members?

Ramesh Ramanathan: No, 5,300 members, last year it was 6,300 members.

Kaustubh Pawaskar: Okay, 5,300 members. And sir, you mentioned that you have taken a lot of initiatives to improve your membership base and you are looking for the quality members. So, do you think with whatever initiatives and since you have increased your down payment to 40%, it will have an initial impact on the membership addition. I mean this year you have added 5,300 members, going ahead we see a little lesser addition than what you were doing earlier because of whatever initiatives we have taken?

Ramesh Ramanathan: No, really. See, what we are doing is that with the change in the payment plan there are some customers who probably are in the market to pay 10% or 15% who will probably drop out. So, we are focusing on the larger base and we are also using social member to quality the member better. And later this year we are planning to also reposition the brand, so that should put us on a stronger base with prospective customers.

Kaustubh Pawaskar: Right, sir. And sir, in this EBIT loss of about Rs. 14.5 crores in this quarter, is there any investment behind newer initiatives or brand building activities what you have done?

Ramesh Ramanathan: No, we did not. It was normal tactical advertising that we are doing to generate names or prospects and so on. We have not done anything on brand so far except to some limited extent in the digital media but that is very limited. What we plan to do is only later this year.

Kaustubh Pawaskar: So, may be in FY 2018 also you might see it will take some time for things to get positive on the EBITDA front or you expect it to happen in the current year?

Ramesh Ramanathan: We are expecting it to happen in the current year.

Kaustubh Pawaskar: Okay. And sir, one more on the debt front, what is your current debt at the consolidated level?

Debasis Nandy: So, you are talking about overall consolidated debt, right?

Kaustubh Pawaskar: Yes.

Debasis Nandy So, at an overall level our debt including Quess would be in the range of about Rs. 900 crores, a lot of it in Quess, we also have about close to about Rs. 160 odd crores Rs. 166 crores as of

31st March in Thomas Cook and about Rs. 40 crores in Travel Corporation. These are primarily acquisition debts.

Kaustubh Pawaskar: Acquisition debts. So, any repayment this thing is going to happen?

Debasis Nandy: These are in the nature of term loans or debentures. So, they have fixed payment schedule. So, like for example, the debentures we pay back Rs. 34 crores every year, we just did the repayment in April and the next repayment is due in next April.

Kaustubh Pawaskar: Rs. 30 crores to Rs. 40 crores debt repayment every year?

Debasis Nandy: Yes, we can say about Rs. 40 crores - Rs. 45 crores because the term loan is also there, right?

Kaustubh Pawaskar: Rs. 40 crores to Rs. 45 crores.

Debasis Nandy: So, at this rate if you do not go for any further debt, the Thomas Cook part would be debt free in the next three years' times but of course, there could be and would be future acquisitions and therefore that statement cannot hold good.

Kaustubh Pawaskar: Right. So, if there are any no further major acquisitions then considering the better cash flows, we should expect debt to come down?

Debasis Nandy: Actually the better way you looking at this is look at the net debt position, okay. So, take the cash on the balance sheet and exclude the debt, if you look at that and you can take any of our balance sheet in last couple of years, on a net debt basis we are actually cash positive on a negative debt. Many a times we have cash in our hand and we keep it in short-term investments simply because we are not able to repay our debt. So, that is the better way of looking at things.

Madhavan Menon: Before the next question, can I just add something? If I take you back to 31st of December 2012, our book value per share was Rs. 21 this is excluding Quess, so I do not want to mix it up with Quess. And there was no Quess in this number the time we have not acquired it and currently if you look at it without Quess as of 31st of March 2017, the book value is Rs. 72 per share.

Moderator: We will move to the next question. The next question is from the line of Saket Yadav from India Capital. Please go ahead.

Saket Yadav: I just had a basic question. So, this is the first year where we have fully integrated the Kuoni business that we had acquired in the fourth quarter of FY 2016. Would it be possible for you to share a break-up of the travel side between outbound, inbound, and corporate including the Kuoni business?

Debasis Nandy: We will have a separate call on that, we are not really talking about further break-up of the segment than what is published.

Saket Yadav: Understood. Sir, also I have one more question on the Sterling side, earlier you had mentioned on the call that we are planning to add about 150 odd rooms in the next year. Can you share what is the total number of available rooms that we close the year at?

Ramesh Ramanathan: Yes, we closed March 2017 at 2,124 rooms.

Saket Yadav: 2,124 rooms, understood.

Moderator: The next question is from the line of Mr. Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Just a couple of questions from my side as well. One is just the figure to Sterling, you Mr. Ramesh Ramanathan mentioned that the occupancies have moved up to 63% - 57% last year and we have also been seeing an increase in the average room rate, etc., and yet, that does not seem to reconcile with the decline in the revenues that we have seen in 4Q from Rs. 58 crores to Rs. 52 crores. So, just wanted to understand how we can reconcile those two together?

Ramesh Ramanathan: See, we have a income or revenue line coming from sale of membership as well as sale of room nights other operations business. The operations side has gone up whereas the members side has dipped and that is why you get the difference.

Madhavan Menon: Also, Abhijit, you are aware that the vacation ownership is only at 60% recognition.

Abhijit Akella: Okay. So, even though the number of members has gone up from 74,000 to 80,000. The revenue has not grown because the membership percentage is lower and also the 60% recognition.

Ramesh Ramanathan: Yes.

Abhijit Akella: Okay. So, I guess that effect should start to reverse in FY 2018 now, right?

Ramesh Ramanathan: That is right.

Abhijit Akella: Right. And second, I also just wanted to check on the travel front, I believe there are some cost efficiency initiatives that are underway in a fairly major way in the travel and FOREX business and also we have been looking to extract some further synergies from Kuoni in terms of consolidated buying benefits from hotels and restaurants and vendors like that. So, what exactly is the progress on those measures and how significant could the progress on that front be in FY 2018?

Mahesh Iyer: So, Abhijit, I will just go back to what Madhavan said. There are two parts to the question that you asked, one is on what kind of benefits we are seeing, we spoke about some work you were doing with Accenture and they were helping us in this process of looking at cost efficiency which is largely on the indirect cost part of it. We have already seen benefits of close to Rs. 4.5 crores to Rs. 5 crores and we anticipate the full year benefit to be in the range of about Rs. 18 crores to Rs. 20 crores. So, that is what we are looking on the indirect side. On the direct cost which is basically procurement, we have done a lot of synergy work. We have said this before, if you look the standalone the results of ours does not give that color because we have carved out the ticketing as a separate unit and mix it with our consolidated. So, a large portion of our ticketing business is now in the consolidating business. So, the revenues and profitability flow in there. We have also started joint procurement and Madhavan emphasized the fact that we have also acquired this new DMS companies in about five different geographies and that will also further augment our endeavor in terms of getting value and volume benefits out of these markets because these are essentially destination management companies and specialist in these markets they buy a lot of inventory and we will add our inventory because for the outbound business it is a very complementary piece and we will go back to them and with our combine volumes we are sure we should be able to leverage more.

Moderator: Sure. The next question is a follow-up question from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: I was just looking at the numbers on Sterling. So, Sterling, you have mentioned that you did revenue of about Rs. 52 crores versus Rs. 58 crores. But the numbers throw up a revenue of about Rs. 63 crores versus Rs. 59 crores and likewise EBIT loss of Rs. 23 crores versus Rs. 99 crores, if you could just help me reconcile. And likewise, the number differed from annual standpoint also, annual EBIT loss of about Rs. 50 crores has been published in the numbers?

Ramesh Ramanathan: Binoy, we can take it offline, we can do that all the reconciliation of numbers.

Binoy Jariwala: Sure, okay, no problem. And also, you have mentioned as a trend this year we have seen improvement in the portfolio mix, the higher priced SKUs has been selling more. If you could just highlight some break-up on what percentage of the portfolio is the higher price the SKUs?

Ramesh Ramanathan: The higher priced SKUs are in the region of 32% to 35%.

Binoy Jariwala: And this is essentially Purple and Red?

Ramesh Ramanathan: Absolutely.

Binoy Jariwala: And how was this, so this is 30% - 35% that you shared in Q4 or this is for the whole year?

Ramesh Ramanathan: This is for the whole year.

Binoy Jariwala: Okay. How does this compare versus last year?

Ramesh Ramanathan: Last year this would have been around 10% or so.

Moderator: Thank you. We have one more question. The last question is from the line of Shariq Merchant from Quest Investments. Please go ahead.

Shariq Merchant: Just a couple of things, how does GST impact the vacation ownership business?

Ramesh Ramanathan: See, I think currently we are at 15%, we think that it will be at 18% but we still are awaiting some clarity because per se there is no specific clarity on that. But we are working on it and we believe it should be at 18%.

Shariq Merchant: Okay. And I was just looking at your numbers the financial services piece has declined from Rs. 72 crores to Rs. 69 crores, is that correct for the quarter?

Debasis Nandy: See, Shariq, Debasis here. The numbers that you see are IndAS number and because of IndAS some numbers have been grossed up. So, that is why the numbers are looking a bit up and down.

Shariq Merchant: Okay. So, they are not comparable?

Debasis Nandy: Yes, there is a bit of problem on that.

Shariq Merchant: Okay. So, should I rely on the base number for EBIT then the Rs. 25 crores down to Rs. 18 crores?

Debasis Nandy: No, that is why there is some reclassification impact. See, the quarter number is more by the way it is derived is IndAS, for this purpose you rework the 2015 - 2016 numbers, right? And the last quarter was very different. I think it will be better if you stick to the year you rather than the quarter because quarter will be subject to various adjustment.

Shariq Merchant: Okay. So, the quarter will not be comparable Y-o-Y but the year…

Debasis Nandy: Yes, the quarter-on-quarter is not comparable, so it is better if you look at the years number there that is on a like-to-like basis.

Shariq Merchant: Okay, that has been restated for the quarter?

Debasis Nandy: Yes, that is like-to-like the quarter number is subject to some adjustment, so the adjustment sit in the adjustment sit in last quarter, so that is the problem.

Madhavan Menon: So, are we done Abhijit?

Moderator: Yes, that was the last question. I would like to hand the conference back to Mr. Abhijit Akella for closing comments.

Abhijit Akella: Yes, so if you would like to make any closing remarks before end.

Madhavan Menon: Yes, Abhijit, I thought you are going to ask us another question. No, thank you very much ladies and gentlemen; appreciate the questions that you have asked. If you do have any further questions, please feel free to connect at Uday at Sterling; Debasis Nandy -- who is the Group CFO at the Thomas Cook (India) Group and both Dipak; Mahesh and I are available if you require any additional clarifications. Thank you very much.

Moderator: Thank you very much. On behalf of IIFL Institutional Equities, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.