Chairman’s Speech for Annual General Meeting 2009

Ladies and Gentlemen

I welcome you to this 32nd Annual General Meeting of the shareholders of Thomas Cook (India) Ltd. We met here one year ago when Thomas Cook Group plc had just acquired more than 70% of Thomas Cook India. And on that occasion I introduced many of the Directors to you.

Since our last meeting, much has changed in the world. The global economy took a huge somersault in September 2008 and the developed economies will take 2-3 years before they get back their bearings.

Let me spend a few minutes on the global economy. Many people have asked me what is the reason for such dramatic collapse of the financial market that we knew. I will just give a summary of what I think:

First, the United States and most European countries enjoyed prolonged boom in house prices since the early 1990s right up to end of 2006. People began to believe that house prices can only go up; they would never fall. This led to massive amounts of lending by banks for home purchases, often to borrowers who did not have jobs or steady incomes. In other words, many of these borrowers were “sub-prime” or more simply, not credit worthy

This housing bubble was part of a massive borrowing binge in the United States and some European countries by households and financial institutions that was fuelled by the “easy money” policies of their central banks and huge inflows of funds from capital surplus countries such as China, Japan, Germany and oil exporters. At around this time the US Central Bank reduced cost of money to almost nothing, provoking more borrowings and substantially more lending. Gross debt to GDP of households, businesses and governments more than doubled from 160% to 340% in 2007.

An important reason why this massive expansion of complex financial products, built on a foundation of shaky housing loans, could go on for many years is because of a growing culture of weak regulation of financial institutions and markets that prevailed in the US, UK, and some other countries for the past two decades.

Finally, the enormous increase in imprudent borrowing and excessive lending was fuelled by old fashioned greed, which fuelled the huge asset price bubbles in housing, stock markets and commodity prices.

From 2006-07 housing prices began to fall. By the end of 2007 the “house of financial cards” began to collapse and a number of banks announced losses. This all came to a boil in September 2008 when Lehman Brothers collapsed, AIG all but collapsed and had to be bailed out by the US Government, and Merrill Lynch needed to be saved through a forced merger. The financial melt-down of September 2008 led to a freeze of credit markets in the US and Europe and transmitted the sudden liquidity squeeze throughout the financial world. Governments in these countries launched massive bail-outs of their banks and increased government spending to contain the impact on the rest of the economy.

Despite trillions of dollars of bail-outs and fiscal stimulus, bank credit continued to be almost frozen, leading to sharp falls in consumer spending, investment, production and foreign trade.

The sharp slowdown in economic activity in the US and Europe quickly spread across the world through the channels of a global credit squeeze and a massive drop in demand for goods and services from major exporting nations like China, Japan, Germany and several other Asian countries, including India. In this way the financial crisis in the US and parts of Europe not only damaged production and growth in these countries but led to sharp drops in exports and production throughout all those countries which for many years had relied on the US and European markets for their export growth.

By the beginning of 2009 it had become quite clear that the current global recession is the worst since the Great Depression of the thirties.

Effect on India: India better prepared

While the western world and developed economies were going through such unprecedented time, India was relatively unscathed. The reason for this is that Indian banks and financial institutions are controlled by Reserve Bank of India, who did not permit them to take participation in such esoteric property market financing such as sub prime bonds. Generally speaking Indian banks had cleaned up their books and the non performing loans were about 1% to total assets. Due to the meltdown in America and Europe and some credit defaults, we will now see probably a 3% of non performing loans which is still good. India’s growth rate would reduce somewhat to about 6% from the earlier estimated 8%. But in the context that Europe, America and Japan will all show negative growth for next two years, during which period India will show 6-8%, which is excellent.

I cannot speak to you today and not talk about the election results. The Indian electorate has given a strong show of support to Dr. Manmohan Singh and the Congress party. Whereas all the political pundits were forecasting a hung parliament, we now have a Government which has more than 300 Members of Parliament supporting and it will remain stable for five years. The better news is that this time around Dr. Singh will not have to depend on the Left, which had become a baggage.

The tasks before this government is to provide another round of stimuli for growth, rationalise taxes to enable the individual to have more money in his hand for him to go back to increased consumption, which will support the cycle of industrialisation all over again. Immediate need is to raise Rs.12,000 cr to bring down fiscal deficit and finally reduce interest rates so that the consumer can get back to borrowing.

Travel sector

Global recession coupled with regional instability has hit the tourism sector of Asian countries hard. Thailand, which is heavily dependant on tourism, has seen a 9 percent drop in the number of tourists. Sri Lanka, Maldives, India and Indonesia are also similarly affected.
The Mumbai terror attacks last year coupled with the global slowdown have put a lot of people off travelling to India. The number of foreign tourists has decreased considerably this year. The number of tourists visiting the country touched 4, 71, 627 in March this year as against 5, 41, 478 in March 2008.

Thailand, which experienced prolonged political turmoil last year, is now struggling with the recession and the consequent drop in the number of tourists. Sri Lanka's main problem is not the state of the world economy but the civil war and the resultant instability.
New schemes
Now the Indian government has come up with a new scheme to attract tourists back again. The Visit India 2009 is a new scheme aimed at fighting the slump in the number of tourists. More than 280 million tourists visited Asia last year and experts now believe it will be quite sometime before the feat is repeated. The Tourism Ministry has also launched a series of road shows abroad in association with tour operators to showcase India' s tourists and woo tourists.
Thomas Cook India

During the year, your company introduced many new innovative products for its customers. TCIL became the first travel agent to offer Indian Rail booking online in partnership with IRCTC. TCIL inked a tie up with Axis Bank for pre paid forex card offering exchange of upto 7 countries. Thomas Cook also integrated Hotels4u real time on www.thomascook.in giving customers access to over 30,000 hotels in the Hotels4u inventory.

In 2008, your company won "Best Travel Agent – India" Award by TTG Asia and the "Best Tour Operator" Award in the CNBC Awaaz Travel Awards 2008.

Conclusion

As you know your company has had different shareholders in the past. I am very please to tell you that Thomas Cook Group plc now owns close to 80% of the company and your company now completely belongs to the Thomas Cook global family. The senior management team of Thomas Cook India very ably led by Madhavan Menon has taken the company to much greater heights and I am hoping that in the years to come they will continue with this outstanding performance. They will have the outstanding support from the Thomas Cook family worldwide and the guidance of senior Thomas Cook representatives who are in close contact. It is my belief that the market turbulence is over, the worst is behind us and as far as India is concerned five years of strong economic growth backed by strong government initiatives are ahead. I see stability in the market, consolidation in the businesses, controlling cost, improved margins, betterment in cost to revenue ratio and organic growth. And a great future.

I thank you for being here today.

Udayan Bose