# "The Thomas Cook (India) Limited Q4FY16 Earnings Conference Call"

## May 30, 2016

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| **MODERATOR:** | **MR. ABHIJIT AKELLA - RESEARCH ANALYST, IIFL** |

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Thomas Cook (India) Limited Q4 FY16 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 questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note, this conference is being recorded. I now hand the conference over to Mr. Abhijit Akella from IIFL Capital Limited. Thank you and over to you, sir

**Abhijit Akella:** Thank you, Raymond. Ladies and Gentlemen, a very good afternoon and thank you for joining us on the 4Q FY16 post results conference call of Thomas Cook (India) Limited. This is Abhijit Akella here, I am the Midcap Analyst at IIFL and it is my great pleasure to introduce Mr. Madhavan Menon - Chairman and Managing Director of Thomas Cook and the senior management team of the Thomas Cook Group who are here with us to discuss the results today. We will begin the call with opening remarks by Mr. Menon, 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 so much and over to you, sir.

**Madhavan Menon:** Good afternoon, Ladies and Gentlemen. Thank you, Abhijit. I think let me, as I always start by introducing the participants from the various companies in the Thomas Cook Group, let me start off by introducing Sterling Holiday Resorts Limited' Mr. Ramesh Ramanathan – Managing Director and Udhay – CFO are present on the call. Quess will not participate in this call as you are aware that they are in an IPO process and therefore are in their silent time and therefore are not able to participate. For Thomas Cook we have got Mr. Mahesh Iyer who was recently appointed as the Chief Operating Officer of Thomas Cook along with Debasis Nandy who all of you know is the CFO of Thomas Cook. As you are aware, Thomas Cook went out and made an acquisition of the tour operating and the Inbound businesses of Kuoni in India and in Hong Kong, so I have the pleasure of introducing Mr. Dipak Deva as the Managing Director of TCI and Kuoni Destination Management, Mr. Vishal Suri – Managing Director of SOTC which is the Outbound player that was the part of the Kuoni Group and Kuoni Hong Kong lead by Maria Ng, but for obvious reason Maria and her team are not participating on this call.

Let me briefly talk about the trading conditions, I mean the highlights before I get into the call and we get into answering your questions. I think, obviously if I look at Thomas Cook, the first quarter was not the easiest of times especially given the fact that we had the terrorist attacks in Paris at the end of last year followed the terrorist attacks in Brussels early this year. Europe being the mainstay of our tour operating business clearly saw some impact of this, however I am glad to report that in April and May we have seen a return of these guests and the apprehensions about travelling to Europe seem to have faded to some extent, but having said that, we have managed to replace some of those passengers with trips into Asia as well as Australia.

As far as the Inbound business is concerned, clearly source markets are in recovery mode but I think the Kuoni Inbound business, clearly the largest of its kind in India, lead by Dipak, have clearly set the trend, they have managed to keep earning stable despite the fact that we saw a decline in Russian tourists as well as some of the other tourist.

As far as SOTC is concerned, the outlook is very similar to the Outbound business in Thomas Cook because they operate in Outbound business and the one highlight I can mention here is that the meetings in incentive business at both companies has seen a very strong performance over the first quarter as well as into the second quarter.

As far as Quess is concerned, I would like to mention that they not only had outstanding results, they did increase the headcount from 99,300 in March 2015 to 121,500 which is growth of 22% in the headcount growth.

As far as Sterling Holidays is concerned, and Ramesh will spend some time explaining the results, and without getting into too much detail at my end, let me just mention that I think in terms of expansion we have seen the number of vacation ownership memberships grew by 14% to 6,233 as well as the average unit sales value has grown from INR 2.38 to 2.52 lakhs. Similarly, vacation revenues have also grown. And on operating level the performance has been particularly good in Sterling Holiday Resorts also.

I will not take any further time from here, beyond mentioning the fact that at least in the travel space we have seen April and May has shown a clear improvement in sentiment as well as performance and therefore whatever we witnessed in the first quarter is essentially has sort of disappeared and things are back to normal. I also want to qualify my statements by saying that the financial statements that you are seeing contains just one quarter results of the Kuoni Group in it. So obviously they are not comparable to last year and the other factor last year was 15 months, I mean that is year ended March 31, 2015, was 15 months whereas this period ending March 31, 2016, is 12 months.

Thank you, Ladies and Gentlemen. Ramesh, would you like to say something?

**Ramesh Ramanathan:** At this point, Madhavan, would you want me to or I will say as and when the questions come up?

**Madhavan Menon:** I think we will stand in queue for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Binoy Jeriwala from Sunidhi Securities & Finance. Please go ahead.

**Binoy Jeriwala:** Certain book keeping questions, at a consolidate level we have got a debt of approximately Rs.820 crores and some more maybe in the other current liabilities, so could you help me with the Gross debt figure at the consolidated level as well as the standalone level? Likewise, could you also help me with the cash and liquid investments figure at the consolidated level?

**Debasis Nandy:** So, at the standalone level the on debt on 31st March was about Rs.200 crores which consist entirely of the two series of non-convertible debentures that we issued and the balance is in the various subsidiaries including Quess, Sterling and Kuoni Hong Kong.

**Binoy Jeriwala:** So what is the consolidated debt at gross debt level?

**Debasis Nandy:** So if I add up the following due within one year, the 820 number will go to about 870.

**Binoy Jeriwala:** And likewise sir, for the cash and equivalents?

**Debasis Nandy:** So I think that the figure is given there, the exact amount of investments that we had, is that the question?

**Binoy Jeriwala:** Yes, so I wanted cash and equivalents which would be captured within investments line item.

**Debasis Nandy:** So the total investments that were there on 31st March at consolidated level was Rs.130 crores plus cash and cash equivalent was including liquid fund investments was Rs.985 crores.

**Binoy Jeriwala:** Sir, this comes to the question that you have got about gross debt of Rs.870 crores and cash in excess of Rs.1,100 crores, I believe a part of that cash would also be due to the float that we generate on prepaid card.

**Debasis Nandy:** Yes, it is.

**Binoy Jeriwala:** But nonetheless I think our total cash balance at consolidated level, ex the float, would be a substantial sum. So would it be possible, is it possible to repay that debt using this cash?

**Debasis Nandy:** See, , under the current Indian Companies Act cash is not really fungible across group companies right, so debts between parent and 100% subsidiary is not something which is allowed easily under the Companies Act, and therefore there are restrictions on that. You are right when you say that the float on the BPC definitely cannot be utilized with pay back debts and so that is one restriction. And this is a position, as we have mentioned time and again that this is a position as on a particular date, our working capital situation keeps on fluctuating, It is dependent on the seasonality etc and therefore this may not be the cash on every day basis.

**Binoy Jeriwala:** Absolutely sir, but Rs.1,100 crores of cash, can nothing be used to repay that, I believe there would be a substantial sum even at Quess level, even at Sterling level, for that matter even Thomas Cook level also. So…

**Debasis Nandy:** So see most of the debts that we are talking about, a large amount of the debts that you are talking about are longer-term debts and there are certain restrictions in fee payment. Also, having the cash also keeps opportunities for acquisition, etc, alike, so it gives us an opportunity to do something at a very short notice. Prepaying a debt it owes certain amount of penalties etc, and then again arranging for debt will take some more time, so it does take away some of the freedom that we have or the flexibility that we have. Having said that, you will see the debt balance is going down because we have started paying back the longer term loans starting April.

**Binoy Jeriwala:** So only about Rs.50 crores of debt is going down this year, is it? I mean scheduled to be repaid this year.

**Debasis Nandy:** So it will be more than that, it is there in across multiple companies so it will be more than that, more than Rs.50 crores is in Thomas Cook and Kuoni Hong Kong alone and there will be similar numbers and there will be more than that in Quess and Sterling.

**Binoy Jeriwala:** Sir, could you help me with the float amount?

**Debasis Nandy:** I think, since our time is limited Binoy, probably we have a separate one on one because these are very detailed questions which all of the guys may not be interested.

**Binoy Jeriwala:** Sure, I will get back in the queue.

**Moderator:** Thank you very much. Our next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

**Gaurav Maheshwari:** I have got three questions, my first question pertains to the travel and related services business. So would it be possible with the acquisition Kuoni as to if you can give the total billing that is done by the two entities combined now on Inbound, Outbound and MICE, the three segment pieces?

**Madhavan Menon:** At a consolidated level, for both the companies put together, the sales are close to about Rs.395 crores for first quarter on Outbound and MICE together. On the Inbound side that is about Rs.270 crores and on the Corporate Travel side that is about Rs.465 crores.

**Gaurav Maheshwari:** Okay, Rs.395 crores is for Outbound plus MICE and Rs.275 crores for Inbound?

**Madhavan Menon:** And Rs.465 crores for Corporate Travel.

**Gaurav Maheshwari:** Sir just one question, since now these two entities would be becoming one and most of these corporates would have a limit to the business than they give to one entity, so would you be facing such challenges or wouldn't that be a challenge and do we see that MICE kind of a business for the Corporate Travel going down from here on since both the entities become one?

**Madhavan Menon:** So Gaurav, what we have decided to do is given brand royalties as well working relationships that exist in both companies, SOTC and Thomas Cook will function as individual brands in the Outbound space, when I am talking about Outbound I am talking about Leisure and MICE. They will compete for customers with a Chinese wall in between them, this is essentially not to destroy market share, at the same time also be able to allow each company to build on its own shares, number one. Number two, if you look at the two companies, if you look at the products of the two companies, they are not identical, they are not sourced from one source, in reality both companies have their own strategies and as far as the MICE's business is concerned, there is limited overlap and therefore we are very comfortable keeping both these companies separate.

**Gaurav Maheshwari:** So sir in that case we do not expect that part of the business to be renamed Kuoni or…?

**Madhavan Menon:** Yes, so we have renamed the Outbound business both MICE and Leisure which was in Kuoni has been renamed as SOTC and the business that Leisure Outbound as well as MICE and Thomas Cook remains to be known as Thomas Cook. What we are doing is we are taking the inbound business out of the old Kuoni Company and merging it into TCI and will call it TCI going forward.

**Gaurav Maheshwari:** And we can use the TCI name going ahead?

**Madhavan Menon:** Yes, the TCI name, the SOTC name and the Sita name and Digital Frontier are owned by us in perpetuity.

**Gaurav Maheshwari:** So SOTC would be outbound plus MICE, Inbound would be called TCI and Corporate would be called Sita?

**Madhavan Menon:** No, no, sorry I should have clarified. In the SOTC brand there is Corporate Travel, there is MICE and there is Leisure Outbound. In the Thomas Cook brand there is Corporate Travel, Leisure Outbound as well as MICE.

**Gaurav Maheshwari:** So my second question pertains on the HR business side, on that side we are seeing margins going down on a quarter-on-quarter basis, so is it lead by a further deterioration in Brainhunter and MFX or would it be lead by some other reasons or is it a one-off?

**Madhavan Menon:** So Gaurav, I am restrained by SEBI from answering questions on Quess at the moment because of their pending IPO, you will have to refer to the figures that is published on the SEBI site.

**Gaurav Maheshwari:** My last question pertains to Sterling, so can you just explain the, not the first point of the project under completion but the mini two points where you have taken a write-off?

**Ramesh Ramanathan:** The first provisioning that we made was on our receivables, you are all aware that we sell memberships on installments where we fund it ourselves. We had a provisioning policy, what we have done this year is to have sort of accelerated and taken a more aggressive policy. We had a policy in place which would have seen us write-off around Rs.28-odd crores and we used to provision receivables overdue greater than 24 months.what we have now done is to say that all receivables which are 12 months and above overdue will be provisioned immediately. So that is something that was done that added another Rs.15 crores. In addition, we have also been very aggressive, so for the income during the year 2015-16 we have also made additional provisions, even though they are all not 12 months old or whatever, in fact only now April, May, June will come in, we have already made those provisions so all put together this was Rs.72 crores. In addition to this, we also had capital work in progress in our books, these are all works which are pertaining to 2005 and before. We decided that there is no point, we cannot use them any more so we have written them off around Rs.21.67 crores. So that is the total, totaling Rs.94-odd crores.

**Gaurav Maheshwari:** The third point I am okay with, but just dwelling on to the first two points whereby you have written off the membership fees, so how does it work, for example if you get in thousand members per annum and what is the typical what you earn, what is the typical write-off that you do from here on?

**Ramesh Ramanathan:** From here on, as we said, anything which is over 12 months will automatically get written off, but going into the future there are two things that I want to add here, one is that along with these changes we have changed the payment terms on the product with a view to reduce overdue. So what we have done is, we were normally taking around 10% and 15% as down payment when initially the product was signed by the customer, we have taken this up to between 30% and 40%. And in the last two months, April and May, we have found great acceptance, in fact we have almost 60% of our customers going in for these terms which means in rupee terms where they were earlier paying us around 25,000 - 30,000 they are paying almost 70,000 - 80,000 to us. So the idea is that they will end up being sticky and they think twice before paying. On this basis what we have done is, people who are paying us the higher value we are going forward, 80% of it we say will continue and 20% will go out. There is a small portion which comes in which are with higher payment terms but which are on regular EMIs which are 12, 24 and 36, we have incidentally cancelled the 48 EMIs, we are not offering it any more, on those we provisioned for around 40% in 2015-16 and this year will tell us the actual story on what is happening.

**Gaurav Maheshwari:** Can you give the number of active members right now?

**Ramesh Ramanathan:** Number of active members as of March is 75,000 members, 74,741 to be exact.

**Gaurav Maheshwari:** These are the ones who are paying right now currently?

**Ramesh Ramanathan:** That is right.

**Moderator:** Thank you very much. We have the next question from the line of Kaustubh Pawaskar from Sharekhan Ltd. Please go ahead.

**Kaustubh Pawaskar:** My first question is on the travel business, sir on organic basis what is the growth, whether we have seen flat sales or there is a decline because of the issues you have faced in Europe excluding the Kuoni.

**Mahesh Iyer:** So on the Outbound side we were a little slow to start I would say because the market was very soft for the reasons that Madhavan mentioned, then we opened the conversation. We had the terrorist attacks in parts of the world and people were a little reluctant to kind of go out and do bookings. Typically, the period between January to March or even some parts of December is when people start making their decisions about work and travel and start planning their holidays, and most of it gets consummated or they travel actually in the period which is April to June. Now because there was a bit uncertainty that happened, people moved their attention away from Europe and they are contemplating whether to travel into that market or not. So clearly from an organic point of view we did see a slowdown in the first quarter but coming into April and may you actually see people coming back and reconsidering the instance of Europe and starting book with the tickets.

**Kaustubh Pawaskar:** Sir, can you just give a quantification, like there was a 4%to 5% organic growth in this quarter and maybe rest of the growth was driven because of the consolidation of Q&A, just a quantification?

**Mahesh Iyer:** It is just overall growth, because clearly when you talk about B2C model there is nothing that organic, you can probably track organic more in the B2B space, but in the B2C space honesty of a customer is not something that we can claim for which is why I keep saying it is not about organic it is overall growth that we track.

**Kaustubh Pawaskar:** Sir my second question is on Sterling Resorts, what is the room addition you are planning over the next two years and what is your CAPEX plan in Sterling? That is first one. And the second thing is, this membership base this year it has gone up by around 14%, so what is your expectation in terms of membership base?

**Ramesh Ramanathan:** I will answer the first question on CAPEX. See we finished our final round of refurbishments, one of the good developments this year was that most of the resorts and rooms were refurbished and delivered which has actually ended up in the business getting higher especially the resorts occupancies going higher. We see that continuing into April and May where occupancies have gone fairly high. Now next year in terms of CAPEX we are planning to spend around Rs.100 crores, this will be part refurbishment of our Puri Resort. We are also starting off on Greenfield projects which are our projects at Wayanad and Coorg, so these two will happen. In addition to this, Wayanad will give us around 60-odd rooms, in addition to this during the course of this year we will add another 300-odd rooms. So we expect to add totally, including the refurbished rooms, around 425 rooms during the year. So our room count from the present number will go up to almost around 2,300. The second question was on membership, right?

**Kaustubh Pawaskar:** Yes.

**Ramesh Ramanathan:** Membership growth, last year as we said we have around 6,000-odd members whom we added, we expect to add around 7,500 members during the current year.

**Kaustubh Pawaskar:** And sir on the profitability because last two quarters I think there was a loss and I believe that is mainly because of the investment you have done behind increasing your membership base and this quarter there is a profit of around Rs.1 crores at a PBIT level. So going ahead what kind of profitability do you expect from the Sterling's business?

**Ramesh Ramanathan:** You have seen that in this quarter we have reported EBITDA of 15.6%, we are hopeful of continuing, starting off on that and growing further during the course of this year.

**Kaustubh Pawaskar:** Sir my last question, on the working capital. If you just give us a sense whether it has improved on YoY basis and how is the positioning of the cash flow?

**B Udhay Shankar:** Basically, adding to what Ramesh was mentioning, with the changes in the payment plans for the product and the buoyancy that we are seeing with the resort business, we expect it to strengthen further from working capital perspective. In fact, if you see the cash from operations is at Rs.1 crores for the year and we only expect it to go positive from there which will also help us to fuel expansions.

**Kaustubh Pawaskar:** And sir, at the consolidated level for Thomas Cook how the positioning of working capital and cash flow is?

**Debasis Nandy:** So I will take that question. So the cash flow at Thomas Cook remains strong as ever, so if you look at the 12 months' period, at a standalone level the total cash flow was about Rs.234 crores, year-on-year we have been generating about Rs.200 crores of cash, this year we did about Rs.233 crores. At the Group level, we are in, as you know that both Sterling and Quess are still heavily into investment mode and therefore at a Group level the cash flow is about Rs.218 crores for the year.

**Moderator:** Thank you. Our next question is from the line of Prateek Poddar from ICICI Prudential AMC Ltd. Please go ahead.

**Prateek Poddar:** Just one question on Sterling, you mentioned the EBITDA margin this quarter for Sterling were 15%, is that a correct understanding?

**Ramesh Ramanathan:** That is right.

**Prateek Poddar:** And sir what was this number same time last period?

**Ramesh Ramanathan:** 0.8%.

**Prateek Poddar:** And is it fair to say that going forward all incremental revenue would flow down to the EBITDA because most of the investments we are doing with?

**Ramesh Ramanathan:** That is right Prateek, because as I mentioned most of our refurbishments are done and if you compare operational rooms, I am saying operational rooms because we had shut rooms for refurbishment, almost 200-300 rooms, there has been a huge jump. And from around September last year, September - October progressively we have been getting these rooms and that has resulted in higher occupancies, number one; and number two, as you are aware we follow a mixed use for business, that means you have members as well as non-members, we have seen a huge increase in both from members as well as non-members. In fact, on April and May we have had occupancy which have been at 71% and 80% respectively. So we expect this to fuel the growth in EBITDA.

**Prateek Poddar:** And sir, out of broadly 1,900 rooms which you say you have as of March, all these are available for sale or there are some rooms out of these which are still yet to be refurbished and should not be counted as a part of?

**Ramesh Ramanathan:** Around 150-odd rooms out of this are being refurbished during the course of this year. So they will be progressively delivered over the year. Most of them are available now.

**Prateek Poddar:** So when we say 57% occupancy rate, that is on the base of 1,800 rooms broadly?

**Ramesh Ramanathan:** Yes, because last year most of them became operational, so yes.

**Prateek Poddar:** And sir last year same time how many rooms were operational, as in which were completely refurbished and were available for sale?

**Ramesh Ramanathan:** 1,254, around 1,300.

**Prateek Poddar:** Which have now become roughly 1,800-ish?

**Ramesh Ramanathan:** That is right.

**Prateek Poddar:** So 50% jump in your available inventory which will be utilized this year for selling?

**Ramesh Ramanathan:** Absolutely.

**Madhavan Menon:** As you know Prateek, first quarter we lost because quite a bit of our key resorts rooms were under refurbishment and that is what Ramesh is saying that it was gradually handed over in September and March.

**Prateek Poddar:** Sir the second question is, why has Quess infused Rs.100 crores into Thomas Cook?

**Madhavan Menon:** So, this is actually two reasons why we did this, first of all, we thought it was important to reinforce our support to the management team of Quess and provide them with the necessary capital to facilitate the expansion. The second point was also that we were also reworking the cross holdings that existed through the various acquisitions we have made. So with this one soap we have actually cleaned up all the shareholdings and now all the subsidiaries will be 100% owned subsidiaries of Thomas Cook.

**Prateek Poddar:** So this Rs.100 crores has been completely infused into Sterling or some of…

**Madhavan Menon:** It has been completely infused into Sterling, Prateek. It happened in April so you would not see it in the balance sheet.

**Prateek Poddar:** Sir, and just one question, on the Thomas Cook side standalone, if I were to compare your results on a YoY basis it is strictly not comparable because we have Kuoni this year, so could you just give us some indications or color as to what was standalone Thomas on a like-to-like base, if I were to compare?

**Debasis Nandy:** Actually Kuoni goes into the consolidation, it does not stickup in the standalone, the standalone is pure pure Thomas Cook and we do not have other companies like Travel Corporation of India or Thomas Cook also in that. So honestly speaking, standalone does not really represent much and the number that we would like you to look at is consolidated, because that is where large part of the travel business also is there. But to answer your question, you are looking at a quarter picture or the full year picture, what is the sort of picture that you are looking at?

**Prateek Poddar:** Quarter picture YoY pure Thomas Cook, ex of Kuoni, I am just trying to compare had Kuoni acquisition not been there, which is Hong Kong and India, what would the EBIT picture look like.

**Debasis Nandy:** So you are actually taking part of the consolidated there also, because the Travel Corporation…

**Prateek Poddar:** Yes, that is correct sir.

**Debasis Nandy:** So that way if you look at it the quarter was fairly flat that way in some of the businesses, Madhavan started off with that saying that the sentiments in the travel sphere, the global sentiments are not very strong and therefore we did have problems in terms of keeping up the performance standard that is expected from us. Also we had certain exceptional write-offs, we have taken a Rs.7.4 crores write-off which was an old receivable that we had in Travel Corporation of India in the Inbound business. So that also contributed to the poor show in the first quarter.

**Madhavan Menon:** This was essentially around bankruptcy of some tour operators

**Prateek Poddar:** So sir, is it fair to say that in quarter four FY15 you had done an EBIT of Rs. (-3) crores and this year the amount would have been similar in that range which this is after adjusting for the Rs.7 crores of one-offs?

**Debasis Nandy:** Yes, if you take out the one-offs, see the interesting last year one-off incomes and this year are some one-off expenses, so if we adjust for both the numbers for both the years will be similar.

**Prateek Poddar:** Sir one last question on Sterling, has Nature Trails business which you had acquired, has that got consolidated this time in this quarter?

**Ramesh Ramanathan:** For the 15 days, March 15th it became a 100% subsidiary so the results you see is a consolidation for that from March 2016 onwards.

**Prateek Poddar:** Is it possible for you to share the numbers?

**Ramesh Ramanathan:** Very small actually, because overall turnover is only Rs. 8-odd crores for the year.

**Prateek Poddar:** So most of the Rs.10 crores kind of EBITDA is broadly Sterling?

**Ramesh Ramanathan:** They are negative, so the entire thing is from Sterling.

**Moderator:** Thank you very much. We have a follow-up question from the line of Binoy Jeriwala from Sunidhi Securities & Finance. Please go ahead.

**Binoy Jeriwala:** With your thoughts on the prepaid card business, how much sales did we do, how was the business extra?

**Madhavan Menon:** We did about close to $80 million of sale on the card for the quarter.

**Binoy Jeriwala:** No, for the whole year sir?

**Madhavan Menon:** For the whole year we were about $300 million.

**Binoy Jeriwala:** And how does this stack up, so this is FY16 number?

**Debasis Nandy:** Yes, FY16 number.

**Binoy Jeriwala:** And how does this compare with FY15?

**Madhavan Menon:** We have registered a 28% growth over the previous year.

**Binoy Jeriwala:** Sir, second question is on the travel business, I just want to understand what are the steady state margins in the travel business, because after the acquisition of Kuoni India and Hong Kong, this year we posted an EBIT profit of about Rs.12 crores on a turnover of approximately Rs.160 crores, so if you could give us some color on the margins in Kuoni India and Hong Kong for the whole year, and the revenue also for Kuoni India and Hong Kong.

**Debasis Nandy:** So Binoy are you talking about the percentage margins?

**Binoy Jeriwala:** I mean the amount.

**Debasis Nandy:** See, this year we have only considered three months of results of SOTC which is Kuoni India and Kuoni Hong Kong. So it gives only a partial picture.

**Binoy Jeriwala:** So sir, I would request if you could share the full year number for Kuoni India and Hong Kong, so as to get a…

**Debasis Nandy:** It does not reflect in our books, how do I take it, because my acquisition date is 1st of January so the balance nine months will never feature in my books.

**Binoy Jeriwala:** No, I completely understand that, but just to get a sense of the kind of margins that Kuoni India and Hong Kong does.

**Debasis Nandy:** No, in terms of percentage the margin is fairly consistent and very similar to ours on the Outbound side, Outbound is between 11% and 12%, corporate travel is between 5.5% and 6%. On the Inbound it will be more, they are at 18% - 19% in percentage terms. We do not want to consider numbers which will not feature in our consolidation, therefore we will not be in a position to share results from April to December.

**Moderator:** Thank you very much. We have a follow-up question from the line of Prateek Poddar from ICICI Prudential AMC Ltd. Please go ahead.

**Prateek Poddar:** Sir just one question on the back end consolidation between Kuoni and Thomas Cook, what are the plans over there and how are we progressing and when can we see the benefits accruing to the P&L?

**Madhavan Menon:** We have just started the process, you will appreciate the acquisition was consummated on the 1st of January and in reality we are currently in the planning process, we are figuring out what portion of the work should be placed into the shared services structure. This study should be over within the next 30 to 45 days after which we will start figuring out exactly how we want to do it. But just to give you a broader sort of sense of what we are looking at, in the Outbound, Leisure, MICE and the Corporate Travel businesses, there are certain inputs that are identical, for example, airline seats, hotels, cars, a variety of other activities are common. So what we are looking at is trying to, first of all, try and manage our procurement, for example, in terms of negotiations with airlines for deals that need to be done. We are also going to look at how we can start contracting food for our Outbound business in Europe together. These will be parts to it, but if you look at HR, IT and Marketing, there is some other work that has been done. Now this is all work in progress, to be honest, by the time we actually see any benefit it is going to be the third quarter at the very earliest and possibly into the fourth quarter of full year 2016-17.

**Prateek Poddar:** And just one question, incrementally is it fair to say that the cash which you generate would be going down towards paying down debt, obviously in a phased manner, as in we do not want to prepay, but…?

**Madhavan Menon:** So I think as Debasis said earlier, Prateek, there are certain limitations, penalty closes for prepayment of the Rs.200 crores. But having said that, I think we repay Rs.33 crores in the first installment, we have already done it in April, we will look at trying to repay these amounts. But having said that, Fairfax is always in acquisitive mode and therefore it believes in building up cash in order that we may look at potential acquisitions as we go forward. So in reality the debts will continue and it will rundown over a period of time, unless something significantly changes in interest rates that they drop so fast that it does not make sense to keep someone else's debt on our books any longer.

**Prateek Poddar:** And sir what are your thoughts on pulling out capital from Kuoni, because last time when we had an interaction, basically Kuoni was similar to what Thomas Cook was before Fairfax Group acquired it?

**Madhavan Menon:** So Prateek, in terms of capital both these companies are adequately capitalized and both are essentially in the cash and carry business and will have very little or insignificant amounts of debt, so they will also go about generating cash. So in reality the cash that we generate as a travel vertical that is Thomas Cook, SOTC and TCI along with Kuoni Hong Kong, we will keep those funds available for potential acquisitions that we may want to make as and when an opportunity arises. No further capital will be required in either of these companies.

**Moderator:** Thank you very much. We have the next question from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

**V.P. Rajesh:** I believe I heard you say that there was a write-off of Rs.7.5 crores in the travel related business, so should we gross up your EBIT number of Rs.12 crores by that and therefore a view that the EBIT margin was around 11% - 12% in the current quarter?

**Debasis Nandy:** Yes, for the quarter you can do that, yes.

**Madhavan Menon:** You are absolutely right.

**V.P. Rajesh:** So then is that the long-term run rate profitability of this business or do you foresee given the commentary around integration etc this margin can be even higher?

**Madhavan Menon** So in the Inbound business, let me put it this way, Kuoni's Inbound business was much bigger than Thomas Cook's Inbound business and once we complete the merger, my expectation is that the quality of the business at a blended level will look better than what it is today, purely because the Kuoni business carries a higher margin than the TCI business does. But that does not represent in any way, at least at this stage, a growth in margin. So I am not giving you guidance Rajesh, I am just telling you what the harsh reality is.

**V.P. Rajesh:** And the other question is, the size of this business, so we did Rs.162 crores in Q4 and given your commentary again it seems like there were some unusual events that brought it down. So how do we think about for the full year, is it just we annualize this number which obviously is probably not correct, so if you can give us some pointers on that.

**Madhavan Menon:** So Rajesh, without sort of going into too much detail, let me mention that April and May are definitely looking a lot lot better than what we witnessed in the last quarter, my expectation is that what we witness in the last quarter were pretty much one-off and that we will see our businesses returning to normal with this quarter and I think that trend will continue and we will actually register growth for the full year.

**V.P. Rajesh:** And the what is the float number in the financial services business?

**Debasis Nandy:** About Rs.300 crores as of that date, but it keeps on growing because we keep on selling...

**Madhavan Menon:** As the volume of sales goes up percent of it goes into the float, so it is a monthly balance that we track. And as on the date of that balance sheet we are talking about, it is about Rs.300 crores.

**V.P. Rajesh:** And a related question on the financial services is that, I assume those are sort of key numbers for the last four quarters, so can we expect this kind of run rate like Rs.185 crores - Rs.200 crores kind of business with doing around Rs.80 crores of profitability?

**Madhavan Menon:** It will be difficult for us to talk about the future, I am sure you understand our position on that.

**V.P. Rajesh:** I am just talking about fiscal year 2016 being a good benchmark for the business without any one time or without any events that occur which distort the picture, I am just trying to get a sense…

**Madhavan Menon:** Yes you can say that.

**Debasis Nandy:** It is a stable comparison point.

**V.P. Rajesh:** And then, I am just curious, this both I would say impact your probably financial as well as travel related business, the government policy of saying that from July 1st you have to give your PAN Card for any expenses beyond Rs.2 lakhs, what is your take on that, does it impact our business?

**Debasis Nandy:** If you look at the foreign exchange business which is the large part of the financial services business that we are in, the rule was capped at Rs.50,000 a few decades ago, at least decade ago, so that Rs.50,000 rule any which apply where customer has to necessarily furnish his PAN Card for any transaction above Rs.50,000.

**Madhavan Menon:** And we have applied that across all our businesses, Rajesh.

**V.P. Rajesh:** Yes, you are right, sorry, for FX it was Rs.50,000, I am just talking about…

**Madhavan Menon:** Even for travel we follow the same rule across all our businesses Rajesh.

**Moderator:** Thank you very much. We have the next question from the line of Deepanshu Madan from Locus Investments Please go ahead.

**Deepanshu Madan:** I had a question on the Outbound packages business for SOTC and Thomas Cook. Could you share what is sort of the number of packages that you sell across these two individually?

**Madhavan Menon:** I am sorry, Deepanshu you should talk directly to Debasis offline, he may be able to share that information. But it is little early days at the moment because we track it by passengers and we track it by volumes rather than the packages that we sell.

**Deepanshu Madan:** But is there a significant difference in terms of GMV between SOTC and Thomas Cook in packages?

**Madhavan Menon:** What is GMV?

**Deepanshu Madan:** Basically the gross value of the package to your net revenue.

**Madhavan Menon:** No, not dramatically different because we focus on essentially a couple of market, if I look at continents we look at Southeast Asia, Australia, we look at Africa, we look at Europe and the US. And both service these destinations, they will not be significantly different from each other.

**Deepanshu Madan:** And would it be fair to say that the gross value of a package to net would be somewhere around four to five times?

**Debasis Nandy:** What is gross to net?

**Deepanshu Madan:** Basically if I were to book a package for let's say Rs.2 lakhs and the net revenue that you would book on that package, what is the multiplier on that?

**Debasis Nandy:** You want to understand what is the gross margin on that product, right?

**Deepanshu Madan:** Yes.

**Debasis Nandy:** It is about 11%, 12%, I wish it was 20% like you are saying.

**Deepanshu Madan:** Sorry?

**Debasis Nandy:** You were taking a number of 20%, so I said I wish it was 20%.

**Deepanshu Madan:** And then in terms of your sales that you had given, the breakup of sales that you had given, Rs.395 crores from accounts, what I wanted to get was, what is specifically the revenue for MICE for you?

**Madhavan Menon:** The business operates at close to about 9% to 10% margins and we have already given you the base numbers,

**Deepanshu Madan:** You are saying it operates at 9% to 10%?

**Madhavan Menon:** Yes, 9% to 10% margin, the business has seasonality, it has mix of domestic versus international, it is fair to assume it is 9.5% - 10% margin.

**Deepanshu Madan:** And this margin, again if I am reading it correctly, this 9% to 10% is at EBITDA level, that is what you are saying, right?

**Madhavan Menon:** Yes.

**Deepanshu Madan:** Bit within Rs.395 crores would it fair to assume that MICE is larger for you?

**Madhavan Menon:** No, not at all.

**Debasis Nandy:** Just to put things in perspective, and I am talking only from standalone, so in the outbound business in terms of the size of the billing, it is about Rs.900 crores - Rs.950 crores business whereas this is about Rs.400 crores.

**Deepanshu Madan:** And this number that you have provided, this is just for Thomas Cook or now for the combined entity?

**Debasis Nandy:** It is only for Thomas Cook, it does not include SOTC.

**Deepanshu Madan:** And any sense that I could get, is SOTC sort of going to be in a similar sort of revenue range or is it larger than…?

**Debasis Nandy:** So revenue range in terms of margin is very similar, in terms of size obviously Thomas Cook and SOTC are different.

**Deepanshu Madan:** But in terms of value they are pretty similar?

**Debasis Nandy:** Margins.

**Moderator:** Thank you very much. We have a follow-up question from the line of Prateek Poddar from ICICI Prudential AMC Ltd. Please go ahead.

**Prateek Poddar:** Just a follow-up, you have four one-offs this quarter, one is the exceptional item of Rs.93 crores, one is additional depreciation charge of Rs.7 crores and then you have a write-off of Rs.7 crores which is towards the European…?

**Debasis Nandy:** Correct.

**Prateek Poddar:** So in all broadly Rs.107 crores to Rs.108 crores of one-offs this quarter?

**Debasis Nandy:** Yes, there is a lot of write-offs. So basically it is good to take up all the clean up action so that going forward you have a clean year and the true results get reflected, instead of taking write-offs in stages we thought it is always better to take it at one go.

**Prateek Poddar:** Any write-offs on Kuoni Hong Kong, Kuoni India?

**Debasis Nandy:** No.

**Prateek Poddar:** Nothing right?

**Debasis Nandy:** Nothing.

**Moderator:** Thank you very much. Our next question is from the line of Kaustubh Pawaskar from Sharekhan Ltd. Please go ahead.

**Kaustubh Pawaskar:** Sir my question is on debt, as you said that you are currently in the investment mode, but at the company level or Thomas Cook as a consolidated level, you must be having certain target, you are reducing your debt, maybe over the next two to three years or three to four years. So any kind of target you have in mind that your debt position will be reduced by this amount?

**Madhavan Menon:** So let me just beat off before Debasis comes in, you must understand that in the Thomas Cook Group certain companies are cash positive and are responsible for the cash balances that we talked about earlier, but there are other companies which are not necessarily cash positive, for example Quess has got substantial working capital requirements. Now I am not in a position to discuss how they are going run off their working capital at this point of time, my assumption is that as the business grows their requirements of working capital remain steady or stable whereas the IPO proceeds would be used in whatever manner they see fit. As far as Thomas Cook is concerned, or for that case TCI and SOTC, we are essentially cash generating businesses because we operate in the retail space and we will continue generating cash, the only debt we carry is Rs.200 crores which is now reduced to Rs.166 crores and will get reduced with every quarter.

**Debasis Nandy:** Every year by another Rs.33 crores?

**Madhavan Menon:** Yes, it will reduce by Rs.33 crores every year going forward.

**Kaustubh Pawaskar:** So out of this Rs.900 crores maximum debt would be related to the working capital requirement of Quess, is it a right understanding?

**Debasis Nandy:** Yes, it would be, there is also about Rs.170 crores of debt in Hong Kong which is also getting repaid at the rate of about Rs.28 crores a year.

**Moderator:** Thank you. Our next question is from the line of Binoy Jeriwala from Sunidhi Securities & Finance. Please go ahead.

**Binoy Jeriwala:** Sir on minority interest, I just wanted to understand, the Q4 number does it reflect the minority interest post rights issue?

**Debasis Nandy:** Yes.

**Binoy Jeriwala:** So that would be about 66% - 67% holding of Thomas Cook?

**Debasis Nandy:** Yes.

**Moderator:** Thank you. We have the last question from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

**V.P. Rajesh:** Just wanted to clarify the EBIT margin for the Sterling business, so if we are saying that Rs.60 crores we made 15% EBIT margin and we took some number of Rs.7 crores and that is why we ended up with EBIT of about Rs.1 crores, is that math correct?

**Debasis Nandy:** I think the EBIT margins what Ramesh is mentioning for Q4 is 15% and in terms… Sorry, your question was in terms of overall how it will turn out in the next year, is that what you are asking?

**V.P. Rajesh:** No, I am just saying in the consolidated the EBIT is roughly about Rs.1 crores so 15% of Rs.60 crores is about Rs.9 crores so there was some write-off which lead to EBIT being only about Rs.1 crores in the consolidated financials.

**Debasis Nandy:** No, these exceptions are after the EBIT.

**V.P. Rajesh:** After what?

**Debasis Nandy:** After the EBIT the exception items have been mentioned.

**V.P. Rajesh:** So then what is this Rs.1 crores mentioned as the profit before taxation and interest in segment results for the vacation ownership this year? Oh, I am sorry, I am looking at the wrong numbers. Never mind. Thank you.

**Moderator:** Thank you very much. As there are no further questions, I would now like to hand the conference over to Mr. Abhijit Akella for closing comments.

**Abhijit Akella:** Thank you, Raymond. With that, I would like to thank the management team for taking the time to participate on this call and also like to thank all the participants for joining in. Mr. Menon, would you like to make any closing comments before we end the call?

**Madhavan Menon:** Thank you, everybody, and we look forward to far better quarters than we have just witnessed and business is back to normal. Thank you.

**Moderator:** Thank you very much. On behalf of IIFL Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.