Thomas Cook (India) Limited

Q3 FY2023 Earnings Conference Call

February 03, 2023

MANAGEMENT TEAM

MR. MADHAVAN MENON – CHAIRMAN & MANAGING DIRECTOR, THOMAS COOK (INDIA) LIMITED

MR. MAHESH IYER – CHIEF EXECUTING OFFICER & EXECUTIVE DIRECTOR - THOMAS COOK (INDIA) LIMITED

MR. DEBASIS NANDY - PRESIDENT AND GROUP CHIEF FINANCIAL OFFICER – THOMAS COOK (INDIA) LIMITED

MR. BRIJESH MODI – CHIEF FINANCIAL OFFICER – THOMAS COOK (INDIA) LIMITED

MR. VIKRAM LALVANI – MANAGING DIRECTOR –STERLING HOLIDAY RESORTS LIMITED

MR. KRISHNA KUMAR – CHIEF FINANCIAL OFFICER - STERLING HOLIDAY RESORTS LIMITED

MR. K S RAMAKRISHNAN – MANAGING DIRECTOR DEI

MR. ABRAHAM ALAPATT – PRESIDENT AND GROUP HEAD MARKETING – THOMAS COOK (INDIA) LIMITED

MS. URVASHI BUTANI- INVESTOR RELATIONS - THOMAS COOK (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Thomas Cook (India) Limited Q3 FY '23 Earnings Conference Call hosted by IIFL Securities 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 star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akul Broachwala from IIFL Securities Limited. Thank you, and over to you.

Akul Broachwala: Thank you, Yashashvi. Ladies and gentlemen, good afternoon, and thank you for joining us on the 3Q FY '23 Earnings Conference Call of Thomas Cook India. I invite the company's senior management team, who are here to discuss the results and business strategy. We'll begin the call with the opening remarks by Mr. Madhavan Menon, Managing Director, followed by the management team. And thereafter, we'll open up the call for a Q&A session.

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

Madhavan Menon: Thank you, Akul. Good morning -- good afternoon, ladies and gentlemen. Let me just introduce the speakers around the table. I've got Mahesh Iyer, who is the Executive Director and CEO of Thomas Cook (India) Limited. I've got Vishal Suri, who is the MD of SOTC Limited. I've got Debasis Nandy, who is the Group CFO of the Thomas Cook India Group; Brijesh Modi, who is the CFO of Thomas Cook (India) Limited; and Abraham Alapatt, who heads up marketing and other functions within the company; Mr Vikram Lalvani, the MD of Sterling Holiday Resorts, and Mr. Ramakrishnan, Managing Director of DEI is also on this call.

Since this is a call relating to the Q3 FY '23 performance of the Thomas Cook India Group, I'm pleased to report that we've had a third consecutive profitable quarter coming out of the pandemic, the bounce back or the recovery, as I would call it, has been a lot quicker than we anticipated originally.

So, for the quarter ended December 31, income from operations for the group grew year-on-year by 105% to INR 15,363 million. And the operational PBT was INR 584 million versus a loss of INR 289 million in the corresponding quarter a year ago.

We've seen a rebound across all our segments. If you look at the foreign exchange business, income from operations has grown 113% over the same corresponding period in the previous year. Travel has grown by 141% over the previous year. Leisure and hospitality and resorts grew by 8%. Digital Imaging has grown by 57%.

I'm also pleased to report that CRISIL has upgraded our rating from negative to Stable, which is an important reflection of the fact that the ratings agency now sees us fully back from the earlier situation that we faced on.

I just want to mention in terms of recovery from the pre-pandemic, which is effectively 2019, the Travel and Related travel services has recovered 83%. If you look at Foreign Exchange, it is 90%. If you look at Leisure, Hospitality and Resorts, which is essentially Sterling Holiday Resorts, 137% and Digital Imaging Solutions, DEI, 144%.

At this stage, I will hand over to Mahesh, who will take this forward.

Mahesh Iyer: Thank you, Madhavan. Good afternoon, everyone. I'll try and quickly give you a brief update on the highlights for the current quarter and also for the 9 month performance. Clearly, to focus on the standalone. At a standalone level, the profit before tax, before MTM and I'm qualifying it before MTM because that's an investment loss, and I want to take that up.

The operating PBT grew by 46% from INR 15 crores in the previous quarter to INR 22 crores. So that's a sequential gain of about INR 7 crores in the current quarter and swung to a profitability of

INR 22 crores from a loss of INR 18 crores compared to a year ago. So, from a performance point of view, this has been one of the strongest quarter as Madhavan said, 3 consecutive quarters of profitability, but this has been one of the strongest recovery that we have seen in the current quarter.

On a consolidated basis, Madhavan already mentioned about the INR 58 crores n PBT as it stands is against INR 1 crore profit that we had in the previous quarter. So again, a gain of about INR 57 crores on a sequential basis and compares to a loss of INR 29 crores on a year-on-year basis. So clearly, the recovery across all lines of businesses has been very, very strong. I'll focus on the 2 important segments for the business, which is Travel as well as Foreign Exchange. And when I focus on Travel, I will speak to you all about the India businesses and then hand over to Debasis, who will talk to you all about the international businesses.

To begin with Foreign Exchange, as Madhavan mentioned in his opening remarks, we saw a 90% recovery on the foreign exchange business in the current quarter. So clearly, from bouncing back point of view, the business is already back in action. And I would think that for the full year FY 23, the business should be closer to 100% or maybe 110% to the pre-pandemic level. So that's our expectation for the full year as far as the Foreign Exchange business is concerned.

Some of the key highlights for the business in the current quarter has been the retail recovery has been very, very strong. It's come back to 107% of the pre-pandemic level. In the retail segment again, education segment has actually grown phenomenally. The current quarter registered a 128% recovery to the pre-pandemic level. The digital initiatives that we are driving for the business continue. We are at about 11% penetration in terms of our digital adoption, which essentially means that all transactions that we undertake on the retail side, 11% of that is actually happening online.

The other important element that I want to mention here is about the FX partners that we have on boarded during the pandemic. We have about 1,500 plus FX Mate partners that we have on boarded during the period. And this actually contributed about 9% of our overall retail business. So close to about 20% of our overall retail business currently comes from digital channel, and that kind of gives us a lot of leverage in terms of cost as well as productivity.

Also, important to mention that from a Q-o-Q point of view or a sequential growth point of view, revenue from operations for the Foreign Exchange business grew 10%. And when I compare it to a year before, that grew about 113%. So clearly, from a recovery point of view to a year ago, it's a phenomenal growth. From an EBIT point of view, if I compare it to a year ago, the recovery has been close to 4.5x that's 450%.

And when I compare it to the quarter before, which is the sequential quarter, we are seeing about less -- marginal dip, and that's largely because we have invested in digital initiatives and marketing initiatives, which is what we are driving on our digital side. So clearly, from a recovery and a growth point of view, Foreign Exchange business is back, and we expect full normalcy or normal return to profitability for the business for the full year of FY '23. Speaking about the card loads on the FX business, again, a very substantial quarter and the total volumes of card loads in the current quarter stood at $143 million.

It is also heartening to note that the total number of new card issuance in the current quarter is 72% higher than what it was a year ago. So clearly, from an acquisition point of view, we are bringing in new customers. And as I've mentioned before, the card has a validity of 5 years. So, this 72% growth in terms of addition of new customers bring customers to us for a 5-year period. From a market standing point of view, our market share has been slightly higher and there is a benchmark that we do to the data that's published by the Reserve Bank of India. We are roughly about 1.8% a year ago. We are now at close to about 2.1%. So, we are trying to benchmark ourselves to some kind of market share data, and we see that shift that's happening in our favor. And this shift is largely currently happening on the education sector. And as the travel and tourism sector also opens up fully, we will start monitoring that and report that back to you all. Coming to the holiday side of the business, overall, the India holiday business has seen an 83% recovery over the pre-pandemic level. Specifically, India business, is at 91% to the pre-pandemic level in terms of recovery.

The key segmental performances in this has been from a corporate travel point of view where the recovery in the current quarter has been 106% to the pre-pandemic level. Key reason for this has been the growth in turnover, and that's been led by some of the new acquisitions that we had done in the previous quarters, which have all started trading and the benefit of that is visible. We acquired about 13 new accounts across banking and insurance, IT infrastructure, and those have started to trade and that volume is adding to the profitability in the current quarter also.

From a technology adoption point of view, 60% of our overall customers are currently adopting the digital means of interacting with us or dealing with us, and that's kind of giving us a benefit in terms of cost and productivity.

Travel Segment: I'm covering the B2B part of the holiday business first. The other part of the business, which is MICE, had a phenomenal recovery in the current quarter. As you would know, in the previous quarter, it was trading at about 87% recovery to the pre-pandemic level. But in the current quarter, the recovery is at 108% to the pre-pandemic levels.

Now the key contributor is, as we've have informed, we bagged some government businesses. We did the 'Khelo India' last year. We've bagged some G20 accounts. We are currently also managing the 'Khelo India' that's happening at Madhya Pradesh. So, government businesses coupled with opening up of international travel which has opened up and a lot more corporates that are now having confidence to travel with us. We also managed a lot of delegates coming into India for various events, and that has all added to the volume growth that we have seen on the MICE business.

Coming to the holiday business, and there are two parts to it, which is domestic as well as international holidays. As you will know, we mentioned that our expectation in the current quarter is that we'll come close to about 90% recovery on the domestic side and happy to report that we are at about 89% recovery to the pre-pandemic level in the current quarter. And our expectation for last quarter is about 128%. So clearly, from a domestic recovery point of view, volumes are coming back and the impetus from the government in terms of various initiatives that we announced in the budget, specifically for the domestic tourism is also going to help us grow volumes on this segment.

Coming to the international side of the business, it will be one of the best quarters that you've seen from a recovery point of view, from about 45% recovery in Q2 FY '23. The current quarter has a 60% recovery to the pre-pandemic level in Q3 FY '23. The improvement that we have seen is across multiple segments, we've also seen the demographics of our customers change. They have actually fallen down by about 10 years. We have attracted a lot of Gen Z customers. We also launched our European holiday bookings, and you've seen some very encouraging signs coming from our customers. Forward-looking number are very healthy.

Also to mention here that both in terms of MICE as well as the holiday business, our pipelines for the next year has already started to build up, and we remain a lot more optimistic about the outcome for the full year of FY '24.

Debasis, on that note, I'll hand it over to you for the DMS.

Debasis Nandy: Okay. Thank you, Mahesh. I'll quickly take a few minutes to talk about the operations of the DMS segment in India and overseas. So the inbound business in India, which is conducted under Travel Corporation of India, result show operation after a gap of about two years or more than two years. So, this is the first quarter of operation after COVID. It is a smart recovery. The recovery was against the FY '20 level. The recovery is about 40%. They did about sales of about INR 80 crores. And this is just the first quarter, the second quarter, which is the current quarter, Jan-March quarter, is expected to be even better.

On the overseas DMS unit, the DMS units, almost all of them have turned profitable, and the profitability trend continues. The one unit, which is trailing behind was Asian Trails, which is headquartered in Bangkok and operates across about 9 countries in Southeast Asia. Asian Trails restarted the operations in sometime in July, and this was the second quarter, and they have been doing well.

So, to give a bit flavour of numbers, their quarter-on-quarter growth over -- is about 25% and the recovery, and they are actually fully recovered. If you look at the overall DMS numbers, they're actually fully recovered in terms of sales against the 2019. So at an overall level, they are back to 100% recovery, also certain components of the business are still trailing If I delve down a little more, it will be unit by unit. As I said, TCI first quarter business, and therefore, it's shown a 40% recovery against pre-COVID, but more to come in the next quarter. On Desert Adventures, which is based out of Dubai or UAE had its peak season. The volumes are much higher than what we have seen in the past, largely the volumes are coming out of CIS, Latin America countries and India. They are focusing more on the individual markets in the current quarter and looking forward to expanding the footprint across the Middle East.

In case of East Africa- Kenya, the quarter was an off peak season, (their peak season, of course, is July-August) and in spite of that, the volumes tend to be very different. They have a record year as far the calendar year is concerned with business coming in from Europe, largely UK, Germany, France, as well as from the US and in the last couple of months, there has been a good number of customers coming in from India.

The other unit that we have in Africa, which is Southern Africa turned profitable in the last month, which is this last month of the quarter, which is in December. And we look forward to better performances from this unit in the quarters ahead.

Horizon or AlliedTPro, which is a unit in USA- this is a low season at present given that its winter but even then, this year has been one of the best ever for them and they became profitable in this year. And they are preparing ahead for the summer season, which will start sometime in May-June.

Coming back to Asian Trails, as I said, they operate across over 9 different geographies in Southeast Asia and Australia. Some of the units like Thailand, Vietnam and Indonesia have started performing really well with the COVID restrictions gone and a lot of tourist flocking to those markets. They have also launched their online sales. This is the first time we have ventured into that. And the sales from the online business is quite significant.

I will spend a minute on the EBIT margin. If you look at the overall EBIT margins and the segment results at a group level, while will not spend time on individual segments, but at a group level, there has been a substantial improvement in the EBIT margin. EBIT margin is now for the quarter is about 5.8%, and if I compare that to the FY '20 EBIT margin, that was about 2.9%. So it's a substantial increase. For the 9M FY23, the EBIT margin about 4.4%. So this is largely possible for the reasons that Mahesh and Madhavan talked about, which is on growth of revenue and also on containment of the cost, and we expect this to continue in the future.

I will now hand over Vikram Lalvani from Sterling Resorts to give you an update.

Vikram Lalvani: Good afternoon, ladies and gentlemen. I trust I'm audible. My name is Vikram Lalvani, and I represent Sterling Holiday Resorts Limited as its Managing Director and Chief Executive Officer. I'm also joined by Mr. L. Krishna Kumar, who is the Chief Financial Officer at Sterling Holidays Resorts Limited. It's a privilege to interact with all of you again this afternoon.

In this session, we shall present a snapshot of our performance that has impacted Q3 FY '23 as well as touch upon the YTD 9M FY '23. The company had a turnover of INR 1,030 million for the quarter ending 31st December 2022. I'm happy to inform all of you that this is the highest income the company has achieved when compared to any quarters of the previous years.

On a YTD basis as well, the company has surpassed the performance of the full financial year of any previous years and we've done so in 9 months. Our EBITDA margin continues to be healthy at about 33%, which is INR 343 million in Q3 FY '23 as well as it remains at 33% for the 9M FY '23, which is at INR 908 million. The company's PBT is at a healthy level at INR 197 million for Q3 FY '23 and INR 515 million on a YTD basis, thus recording a growth of 60% on a YTD basis, year-on-year basis and a breakthrough turnaround from the pre-pandemic levels to where we are currently today.

Q3 FY '22 also included a one-time net cancellation income of INR 77 million. The company also recorded significant increases in the operating free cash flows for Q3 FY '23, which stood at INR 335 million. And for the 9M FY '23, it stands at INR 799 million. This is a phenomenal growth, 91% growth on a Y-o-Y basis and over 110% growth even over a pre-pandemic level of FY '20. This result reflects the growing strength of the Sterling brand and is a testament in our commitment to grow the company as a leading leisure hospitality brand in India delivered through the resilience and dedication of the entire team at Sterling.

This also reaffirms our strategy to: 1) continue to scale our resort business. Its key business drivers are in the green and continue to scale them and also expand our brand presence across key destinations in India using an asset-light approach. 2) is continue to drive efficiencies in our membership business that's increasing cash and profitability. The key business factors that impacted Q3 FY '23 are as follows: our volumes remained steady at 62%; we've had a healthy average room rate growth of 18% over the same period last year; we were at INR 5,654 in Q3 FY '22; it's gone up to INR 6,688 in Q3 FY '23, while also surpassing the pre-pandemic levels by 47%.

We've improved our food and beverage revenues in our resorts by about 18% over the same period last year. Last year, we had recorded a generated INR 170 million in food and beverage revenues in our results versus INR 200 million in Q3 FY '23. This also is a growth of almost 43% over the same period in the pre-pandemic level.

We recorded a growth in the guest that is a non-member occupancy and rates from 46% in Q3 FY '20 to almost 64% in Q3 FY '23. In the membership business, the focus continued on driving profitable sales. How? 1) with the continuous growth in available model of membership sales. So that affect our on-site sales at the resorts have crossed over 60% in Q3 FY '23, up from 39% last year in Q3 FY '22, thus reducing the overall fixed cost year-on-year basis in this business. 2) we had an increased average unit realization of sales of each of these membership units by about 5%, in which we saw the 2.8 lakhs in Q3 FY '22 to 2.9 lakhs in Q3 FY '23. Higher down payments of 47% in Q3 FY '23, having a great correlation to increasing operational free cash flow, which was at 42% in Q3 FY '22. In fact, this has also crossed 50% as on December 2022, and it shall continue to grow into the months in Q4 FY '23.

Hence, all our business drivers are on the green and on an upward trajectory. In line with our strategy of expansion, we continue to expand on an asset-light model, and we are delighted to announce that we added 2 destinations in Q3 FY '23, Pench in Madhya Pradesh with an upscale boutique Wildlife Resort and Tiruvannamalai, which is a leading destination in spirituality in Tamil Nadu. This quarter, in Q4 FY '23, we shall open 2 more resorts, Haridwar in Uttarakhand, which has opened yesterday, and Chail in Himachal by the month of March. Our pipeline is robust for additions of new destinations even into Q1 of FY '24 and Q2 of FY '24.

Sterling Resorts continues to be rated very highly by its customers. 36 resorts are rated 4 out of our scale, 5-point scale on TripAdvisor, and 12 of our resorts are ranked #1 in their respective destinations. Sterling has also been recognized and is receiving accolades and awards from the industry. In Q3, the company was awarded the best leisure hospitality brand, and Sterling Mussoorie was awarded the best leisure resort in India at the 17th Hospitality India Annual International Trade Awards.

Sterling Wayanad also won the Gold Circle Award from Agoda. Sterling Resorts is the only hospitality company to have launched a unique and a proprietary platform called 'Sterling One' that enables channel partners in length and breadth to country and employees from corporate clients, access resort availability in real time, make reservations at preapproved rates, at a click of a button and fulfil the entire payment cycle within a span of a few minutes. This has helped the company expand its width and depth of distribution into Tier 2 and Tier 3 towns and across channels and has favourably impacted revenues to a tune of even almost INR 18 crores since we launched it in Q1 FY '23. We should continue to evolve our brand presence in the marketplace through such scalable distribution initiatives even as we go forward in Q4 FY '23 as well as in Q1 FY '24. In Q4 FY '23, the company shall also make its impact in leading hospitality trade shows across the country and internationally as well. Even into Q4 FY '23, the company is confident of its business performance this quarter, led by revenues from the resorts, and we are looking at closing this financial year with historic path breaking results practice compared to any of the previous years that we've had so far.

Thank you so much.

Debasis Nandy: So I'll now like to hand it over to Madhavan to talk about DEI and also with the closing comments.

Madhavan Menon: Okay. As I mentioned earlier, DEI recorded its highest profitable quarter-to-date as has Sterling. I think the important feature is that, as Debasis said earlier, DEI saw a lot of activity in the UAE. Additionally, with the reopening of Southeast Asia and China, this activity is expected to increase further. They've entered Saudi Arabia as a new market where they've signed contracts for 4 parks, and they're expected to expand their presence there as well as in several other markets that they are present in. Additionally, they now have all attractions in Singapore as they recently acquired FlySingapore, which is the giant wheel that is located in Singapore.

DEI has another important project that comes online in the middle of February. That is a tethered balloon, which is located in Dubai and is expected to open for commercial use around the middle of February. We expect that this will further improve the revenue streams of DEI and improve their profitability.

We view the balloon as an adjacent segment that we do business in through tourism and it attracts a lot of tourists as well as providing imaging solutions for tourists who visit this location. The balloon is located at the Atlantis Dubai. And as you are aware, they have recently added a large number of rooms with the Royal Atlantis. So our expectation is that this particular project will do extremely well. Thank you.

Moderator: We have our first question from the line of Nimish Maheshwari from RSPN Ventures.

Nimish Maheshwari: Yes. So a couple of questions from my side. First is on how is the 20% TCS introduced in business is affecting our business and how much it is exposed another international business is exposed to this 20% category TCS. The other thing is finance cost increased by 68% Y-o-Y and 42% Q-o-Q. So what is the split between IndAS 116 and other finance costs? And what is this related to? And one more question is on other income side. Other income this time is INR 26 crores. But what does that comprise of?

Mahesh Iyer: Nimish, I'll try to take the first question, and I'll leave it to the CFOs to answer the other 2 questions. As far as the announcement in the budget of the 20% TCS is concerned, yes, it is a dampener as far as the overall industry is concerned, and I'm sure you would have seen enough and more reports being published out there as to how it's going to pinch the pocket of the government.

But clearly, I think we believe that this needs a representation from the government because the objective of this is completely different. When TCS was introduced on the holiday side, it was to bring a lot of people who were traveling abroad, but were not filing returns. It was to broaden the tax base, that we believe, can be addressed by even a 1% charge, but a 5% was levied then, which we believe was reasonable enough. But the 20% is definitely not justified. And also what has happened is that in this entire announcement, it's been clubbed with outward remittances.

The purpose of outward remittance is completely different. As far as capital account transactions, which are undertaken by larger HNIs were a 20% outflow on that, which can be claimed that the rate does not really make a difference. But to look through holiday products through the same lens, we believe is something where it has been kind of probably not understood.

It's also important to note here that when you look at our packaged product, close to 50% of the value is for services within India, which includes airfare, visa and stuff like that whereas only the balance part of it is where the remittance happens outside for payments to hotels and excursions and stuff like that. So I think this is something that we will -- as an industry and as a company, we'll be representing to the government and we believe there is a good case for us to defend this.

Nimish Maheshwari: How much our business is related to this category?

Mahesh Iyer: So look, the impact is the entire outbound business. So if you look at the overall business that we do at Thomas Cook India as well as SOTC India, the 2 outbound travellers from India, close to 80% of our holidays business is outbound, 20% is domestic. So the 80% of the holidays business get impacted as a result of this circular on TCS.

Mahesh Iyer: Nimish also keep in mind, that when the 5% charge came in, people are paying 5%, so there was no impact of it. But that 20% obviously is going to push the price up. And to that extent, we will expect some impact to happen. We have time till July of 2023. So summer definitely is not getting impacted because people have already started bookings for summer. And I think post this announcement, a lot of people will try to prepone their traveling too. But having said that, I think we will have to make a representation with the government, and we will go that out.

Nimish Maheshwari: So this Travel & Related Services segment is something, which is 80%...

Mahesh Iyer: Nimish you need to understand the Travel Related Services that you see in the segmental results has got multiple segments. One segment out of that is the outbound holiday side of it. There is corporate travel, there is B2B MICE, DMS also, which is the overseas travel businesses also. So, there are multiple businesses. So 80% of that universe is definitely not the universe that you should look for. I think on that universe, it will be roughly like maybe 20% of the total travel segment.

Madhavan Menon: 20% to 25% of the travel segment. Not the overall.

Nimish Maheshwari: Travel segment. Okay, got it.

Debasis Nandy: To answer your second question, which is on interest and finance costs. So out of the overall interest and finance cost of INR 278 million, there are 3 components to this. We think one is the pure interest cost, which is on bank overdrafts, working capital loans, demand loans as well as on term loans, including ECLGS. This constitutes of 44% of the overall cost.
The second part is what we call other finance charges, which is typically charges relating to credit cards, charges relating to cash management, charges related to export and import of currency. That constitutes about 45% and the balance 11% is really the interest on the lease liability. So, we have a lot of properties, typically our shops which are on lease. And in terms of Ind AS 116, it is the interest on these liabilities have to be provided, shown separately as part of interest costs. I hope that answers the second question.

Nimish Maheshwari: Yes.

Debasis Nandy: On the third part, which is on the breakup or rather expansion of the other income of INR 206 million for the quarter. These are typically also termed as other income, these are -- most of these are operational items such as PLBV'S and GDS received from airlines and some similar incentives, which we can't consider directly to income of operations for accounting purpose, but it is really operational income and not non-operational. This also includes some amount of interest income on the various deposits, et cetera, that we have. Does that answer your question?

Nimish Maheshwari: But it has doubled from the last quarter. So, is there any specific thing which came in this quarter?

Debasis Nandy: So, this is more depending on the volumes that we do PLVB's and GDS are linked to the airline or air ticketing volumes, both on the leisure side as well as on the corporate ticketing side. As we have seen or as we have talked about, our overall volume improved substantially in this quarter, which is very evident from the result. And consequently, you'll see increase in these incomes.

Nimish Maheshwari: Got it. Thank you.

Debasis Nandy: Basically, the way PLVB's work are that there are slabs which operate. So, the higher -- more number of tickets you can sell, the higher you move up the slab. So, there will be some bit of slab movement also across airlines. So maybe, for example, we are accruing at 1%

earlier. In some airlines we might have moved to 1.5% to 2%. So that will explain the higher accruals.

Nimish Maheshwari: Yes. How you are looking for the outward expenditure by the overall industry for the foreign travel?

Debasis Nandy: Sorry, I'm not sure we've got that question right. Can you say that again, please?

Nimish Maheshwari: Yes. For the foreign travellers, how you are looking for the -- how the industry is moving?

Mahesh Iyer: So from a forward booking point of view, as I mentioned, we've launched our summer packages, and the response of the market has been very, very strong. The current booking trends indicate a recovery which is ahead of the pre-pandemic levels at this point in time.
So the comparison is that if I have to look about 2019, if I had launched the summer packages and the kind of response that we had on the booking pipeline that we had on a comparative basis, we are about 20% higher than the pre-pandemic level, that's point #1. Point number two, I think there is a lot of easing of visa challenges that has happened specifically on the European sector, where we initially were talking about challenges there. I think that has kind of tapered down a lot more.
Third, from a supply side point of view, a lot more airlines are now operating into India. So that brings more supply. So we are expecting a good summer remain quite optimistic for the summer of 2023.

Moderator: We have our next question from the line of Mithun Aswath from Kivah Advisors.

Mithun Aswath: Congrats on a good set of numbers. Very unfortunate of what happened in the budget. I just wanted to understand how would you fare in terms of the domestic operator vis-a-vis a global online travel total, if I were to book a package there would still the tax get -- would I get impacted by that? Would all the travel portals operating have to take that into account?
And is there a way of you trying to make the package into a piecemeal sort of thing where you have the flights and the other costs separate as well as only the land package on which the TCS will be charged because 20% would be quite significant for people who would be taking these tour packages to Europe or the U.S. And just wanted to get a sense on that.

Madhavan Menon: There are several questions within that question. So let me address them one by one. All the online travel agencies based in India are subject to the same rules as we are. So if we look at MakeMyTrip or an EaseMyTrip, they would face the same regulations. As far as booking on international booking platforms, yes, this is a loophole that exists. We have drawn the attention earlier to the government on this. We will once again draw the attention of the government to this matter.

Now as far as seeing a trend towards booking on these platforms, unfortunately, these platforms provide you components. They can sell you a hotel room, but you can't necessarily book in their flight, sitting in India on an international platform that would still have to go through the local norms.

So my expectation is that the government will recognize this, as mentioned earlier, that it's been clubbed with the remittances. And our expectation is that the government will realize this and bring about some change in the new regulation that they brought about in the budget.

Mithun Aswath: Right. The reason I asked you this is -- there was, I think, an interview with the revenue secretary and she did not mention it as an issue at all. So I was a little bit surprised on that, I think, a couple of days ago. Apart from this, I just wanted to understand, is there a way of -- do you think as a sector, you can continue offering this and people would get adjusted to the 20% TCS or is there a way of you trying to reduce this for a potential traveller? I'm just trying to understand, say, this is past, how would you work through this? I'm just trying to understand.

Madhavan Menon: So Mithun, I think purely from a governance point of view, we will have to abide by the laws of the land. And therefore, that leaves us with little option to examine other routes, which can be used, but would be in violation of the law. So we will make every effort within our means to try and get this amended. We have also read this particular comment that came from the Secretary. However, we, along with other players in the industry are in the process of making a representation and we hope to have some results out of it.

Mithun Aswath: And this is the applicable from July 1, right?

Madhavan Menon: Absolutely, yes. So we have some breathing space in terms of convincing the government to change it. And we are fairly confident that they will see some reason in what we're saying regardless of what is being said in the press.

Mithun Aswath: Just one last question on -- in terms of what is the net cash on the balance sheet now?

Debasis Nandy: The net cash on the balance sheet. Do you mean the net of debt?

Mithun Aswath: That's right. The total.

Debasis Nandy: The overall cash and bank balance is INR 10.58 billion, that's about INR 1,058 crores. And then if you take out the debt that is there across various businesses, term loans and working capital debt, which is about INR 500 crores.

Mithun Aswath: Sorry?

Debasis Nandy: Close to about INR 500 crores, the net of debt -- the net debt.

Mithun Aswath: So you have net cash of INR 500 crores?

Debasis Nandy: Yes, net cash of INR 500 crores.

Mithun Aswath: And just one last one. We see a mark-to-market hit every quarter. I think this is because we are holding in Quess corp. I just wanted to understand what is the value of that holding? And is there any potential sale or exit that you will make so that this line item doesn't appear every quarter.

Debasis Nandy: I'm happy you asked this question actually. So let me get two minutes to explain this. The shareholding that is adheres as cross shareholding is actually in an employee trust whose results are clubbed along with Thomas Cook. This trust is meant purely for giving benefit to the employees and does not benefit the operating company anyway.

The trust holds about 12 lakh shares of Quess, which are meant to be given to employees. Now, as per accounting norms, these shares will have to undergo a mark-to-market at the end of every quarter, every month actually. And, as you know, the share prices of Quess have been very volatile in recent months and at the end of September, it was something there about INR 645. At the end of December, it fell to over INR 411. So that's a volatility, you've never seen in Quess shares before. And that the differential multiplied by the 12 lakh shares that we -- that the trust holds has resulted in this.

Going forward, obviously, as and when these shares get distributed to the employees and the shareholding in the trust goes down, automatically, these numbers the volatility will start impacting less than less. But there is no other way to -- in terms of accounting, there is no other way to represent this. Does it answer your question?

Mithun Aswath: Yes. So there's no time line for this to happen?

Debasis Nandy: This happens over the next couple of years. So there are some ESOP’s which have been granted, which vests over a period of time. And therefore, this can be exercised only over a period of time. And over the next couple of years, it should get utilized. However, I like to reiterate one fact that this has nothing to do with operational results. There'll be ups and downs in this. As you know the last quarter, there was a small positive on this that we enjoyed, but neither the gains or the losses have anything to do with the actual operational PBT.

Mithun Aswath: Would it be good for you to maybe make a release to the exchanges to this effect, so that there is complete clarity that we've got nothing to do with your operational performance. So that people understand.

Debasis Nandy: I think the very reason for the very reason that we mentioned, if you see our press release, we have specified operational PBT. We have brought in the term for operation PBT, which we had never done before just to make sure that people understand and we’ve tried to explain what is operations PBT, we specifically exclude this item. So yes, and you will continue to do so in our interactions with investors, analysts, et cetera, we'll continue to deemphasize this point.

Moderator: We have a question from Akul Broachwala from IIFL Securities.

Akul Broachwala: So you mentioned already that forward bookings are ahead of what it was in pre-pandemic level. So we are seeing those kind of recovery happening. But I wanted to understand in terms of costs, like we have been emphasizing that right now that our digital initiatives have drastically improved since that and pandemic has happened. And so like since we are heading towards the summer, so what would be the kind of cost advantages or cost savings that one should expect at least for the next 2 quarters or so?

Mahesh Iyer: Thank you, Akul, for asking that question. Keeps us focused on that one. Just to let you know, as Debasis mentioned, he spoke about the EBIT margins. One of the reflection of the EBIT margins and the improvement in the EBIT margin is, one, increase in revenue; and number two, the management of costs and we continue to see the benefits of the cost prudence that we cater about 2 years ago and our drive towards digital initiatives.
We expect that to continue in the quarters to come. And our full year estimate is about 30% reduction over the 2019 base that we had, and we expect to hold on to that savings for years to come.

Akul Broachwala: That's great. And besides that, like again, coming back to forward bookings, like since last few quarters or last year, specifically, you mentioned that short-haul travel was a trend during that time. So are we now kind of seeing that reversal towards more of long-haul travel specifically based on outbound?

Mahesh Iyer: Akul, it's beginning to happen. In the current quarter, if you look at it, while domestic was close to about 80%, it's the short haul that actually came at about 110% to the pre-pandemic level. And that really happens because if people are making their decisions in the last minute, difficult to get a long-term visa, or maybe a U.S. or a European Visa and they make their choices for the short hauls. And again, there is easy accessibility and stuff like that. So that happened in the December quarter. But when I look forward to the forward bookings coming in the March and the June quarter, it's definitely, the trend is towards long haul, and it's the long haul that's recovering much faster as compared to the short hauls. But as we said, we are a travel operator. We are here to give a good experience to the consumer. It's a choice mix, we will put everything on the table for them to make a decision on.

Akul Broachwala: Understood. Secondly, on Sterling Holidays specifically, like overall, like we are seeing right now the kind of inflation that's there around across all these hotel companies. So like, of course, like looking at the kind of occupancy rates that we are at. So there's enough headroom available yet. So I just wanted to get a sense as to how management is looking at selling holiday specifically? And like are there any specific strategic decisions that are yet to be made for Sterling specifically?

Vikram Lalvani: One, yes, while the overall business has significantly grown over last year as well as pre-pandemic. In fact, we had -- Sterling had a turnaround when compared to pre-pandemic.

We are currently at about 62% occupancy. There is headroom to certainly increase this occupancy at least towards 65% to 68%. Given the fact that we are in the leisure business, and there are peaks and troughs even in every week of the month, we still have that headroom. That's point number one.

Point number two, we will continue to maximize the overall yield as we've been doing so both in terms of volume as well as the components' average rate. Number three is, in terms of our strategic direction, we will be focusing on the resort business. We have taken a big shift over the last couple of years towards the resort business. And the resort business is the one that's actually scaling. Both in terms of its performance parameters as well as in terms of expansion into new destinations. As we speak, we are opening more hotels, so capacities will go up and on an asset-light model. And to that extent, the resort business will be the key driver for Sterling. I hope that answers that question.

Mithun Aswath: Right. Understood. And like as you mentioned, like resort business is something which is actually driving this kind of growth. So can one assume that the earlier business model, wherein the membership base business model is something which rather would now stay in sideways and it's more to do with overall how you scale up resort business. So that's the strategy going forward.

Vikram Lalvani: That's right. In fact, the membership business, the entire focus on the membership business is on efficiencies and profitability, which is why we have bought about our business model change even within membership. Previously, our membership sales were a high cost fixed cost-driven sale, and you've actually moved towards a more variabilized cost of sales in membership, Number two, is the overall efficiencies in the membership business, whether it's to do with down payments or our edge to do with the kind of yields that we have in our membership business. So that's been tightened up. Number three, the membership business will be used only as a filler or a competitive advantage, especially in times where we have distress inventories, and we are able to fill up those inventories with member bookings.

Mithun Aswath: And finally, on DEI, like, of course, like the overall, there's a good amount of revenue growth that's being witnessed. And obviously, that this operating leverage once it kicks in, it will help you in terms of adding good EBIT. So overall, what's the potential that management is looking at specifically for DEI?

Madhavan Menon: Ram, you want to take this question?

K S Ramakrishnan: Yes. I will. Hi, gentlemen. My name is Ramakrishnan, I'm the CEO. And thank you very much for the question I guess, we see a huge potential in our growth in every market that we entered. The only market that did not do well for us last year was China, and you all know China is opened in a very big way and the first month, we've already shown directions that we are doing way ahead of what we had planned.
So, the growth potential on the overall business is rapidly increasing at an average of 25% to 30% year-on-year. And that is a non-stopper across as we see, unless there is any natural calamity. So, I think we have an absolute tremendous opportunity on growth. We have signed up contracts like Madhavan said, Saudi Arabia has a huge potential. Saudi Arabia has 4x more resident potential than UAE. The UAE is one of the largest markets for DEI, 40%- 45% of our revenue comes from there. And Saudi is not even opened and we have not even started Saudi and they're starting in this year. So, we see tremendous and fairly big year-on-year growth in the next 3 years on our Souvenir Imaging business. And also the also to add to it to go into the adjacent business of the attraction itself. After serving the attraction industry for over 15 years, I'm fairly confident that we know what a good attraction should look like, and we are taking our first step, with our first balloon going live in another 2 weeks from now at Atlantis, The Palm in Dubai. Now that's one among our 70 key partnerships around the world that has similar potential for balloons, not that they want to put everywhere, but we have a huge opportunity of growing that business, too. So overall, fingers crossed, we are in a very vision for growth.

Moderator: We have a question from the line of Nimish Maheshwari from RSPN Ventures.

Nimish Maheshwari: One last question from my side is, is there any increase in debt during this quarter because the interest has increased from INR 16 crores to INR 28 crores. So is it because of the interest on debt? Or is it because of interest on financial target?

Debasis Nandy: So there's been -- Nimish, there has not been any debt increase in debt during the quarter. What has happened is that, we talked about the ECLGS loan, which is a long-term loan that came to us in the previous quarter. Actually, we took the disbursement in September. So the interest on that-- for the entire load for the full 3 months of the full quarter is actually causing an increase in the interest cost.

Nimish Maheshwari: So what is the amount of debt currently?

Debasis Nandy: Total amount of debt?

Nimish Maheshwari: Yes.

Debasis Nandy: INR 498 crores, say, INR 500 crores. At a group level, the total debt is INR 500 crores.

Nimish Maheshwari: Okay, around INR 500 crores. And the interest cost is around INR 12 crores to INR 13 crores for this quarter?

Debasis Nandy: The overall interest cost, interest and finance cost is INR 28 crores – INR 27.8 crores of which about 44% is the real interest cost.

Nimish Maheshwari: Is there any other increase in these financial charges or is it same like last quarter?

Debasis Nandy: As I said, there are 3 components of it, okay? The second component -- the first component is a fewer interest costs. The second component is finance charges, which is dependent on the business volume. For example, credit card charges. These are credit cards swipe by customers when they buy online. So the more bookings we do online, the more credit cards charges we pay. But I don't complain. I am not complaining because that actually increases revenue. And my revenue -- our revenue margins are fixed in a manner so that I consider those charges.

Moderator: I now hand the conference over to management for closing comments. Over to you.

Madhavan Menon: Ladies and gentlemen, thank you for participating in this investor conference. And let me just very quickly summarize that we are very conscious of the announcement that the budget made and we will make every effort to ensure that this issue is resolved sooner than later. Secondly, we've seen the recovery we expect this recovery to continue. It's not some people term it as a revenge effect and therefore, short term. Our expectation is that this trend will continue for several quarters going ahead because of the diversity that we have.

In fact, I must say that while an announcement of this kind is viewed very seriously, it is mitigated by the diversity that we have across our businesses. So we have foreign exchange -- in the Indian businesses, you've got foreign exchange. You've got the corporate travel, you've got the meetings and incentives. That's the corporate side of our business. We've got inbound as well as domestic. And if you look at the businesses that are offshore, you've got destination management businesses, DEI and of course, Sterling Resorts, which adds to this whole diversity.

So, while we are concerned, it is something that we have enough mitigation in place to overcome. And we expect that with all these businesses firing on all cylinders, it will not affect our earnings by too much, and we will be able to manage it. Thanking you again.

Moderator: On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
