

## Thomas cook India – Fairly Valued?

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With over 137 years of operating history in India and headquarters located in Mumbai, Thomas cook is the largest integrated travel and forex company in India offering a broad spectrum of services that include Foreign Exchange, Corporate Travel, MICE, Leisure Travel, Vacation ownership, Insurance, Visa & Passport services and E-Business.

TCIL was acquired by Fairfax holdings limited in 2012, which currently holds 67.6% stake in TCIL.

Thomas cook Acquisition details.		
May, 2012	Thomas cook was acquired at 1138 Cr.	Prem watsa led Fairfax holdings acquired 77% Stake in Thomas cook @ Rs 52
Feb, 2013-	Bought 74% Stake in Quess corp at 259Cr	Acquired Quess corp valuing the business at 350 Cr.
Feb, 2014	Sterling holidays at 870 cr	Vacation ownership biz with 33 Resorts and 2177 Rooms
June, 2015	Acquired Luxe Asia at 2.3 Cr	Destination management company based in Srilanka
Aug, 2015	Acquired Kuoni Travels at 550 cr	Acquisition focused on gaining inbound travel market share.
Oct, 2015	Sterling acquired Nature trails at 50 Cr	Entered adventure tourism with this acquisition.
June, 2017	Acquired Kuoni Destination mgmt. at 126 Cr	Deal comprises of 5 Destination management specialist 1. <a href="#">Asian trails</a> (Apac) 2. <a href="#">Desert Adventures</a> (Middle East) 3. <a href="#">Allied T pro</a> (North America) 4. <a href="#">Private Safaris</a> (Africa)
Oct, 2017	Acquired Tata capital's forex for Rs 120 Cr	Rechristened Tata Capital's Travel and forex division to TC Travel & TC forex.

Apart from travel related acquisitions, TCIL acquired Quess corp a business service provider in 2013 at a valuation of 350 Cr. Post which Quess made a spree of acquisitions and got listed in NSE during 2016. Currently Quess currently trades at Rs 788 i.e a market cap of Rs 11524 Cr.

Corporate restructuring: In March 2018, Thomas cook decided to spin off Quess corp where it holds 49 % Stake moving its current holding structure from TCIL to Fairfax as it holding company.

Hence Thomas cook shareholders for every 100 shares would receive 18.8 Shares by March 2019. As of today, Thomas cook is trading at Rs 218, Quess's value in TCIL based on current market price of 788 would be 148. Assuming this remains the same on spin off date, TCIL's stock value post spin off would be 218-148 =Rs 70 per share i.e. valuing the travel services company at **2591 Cr.**

Is Thomas cook at Rs 2591Cr / Rs 70 per share fairly valued? Here are some data points:

1. Thomas cook was acquired by Fairfax in 2012 for Rs 52 prior to all acquisitions. Does it mean all the acquisition have created only Rs 18 per share incrementally in the last 6 years?
2. Acquisition price paid by TCIL of all the subsidiaries since 2012 is Rs 1718 Cr i.e 46 per share.

So this totals to Rs 98 per share or total value of 3637 Cr of Value(Note- I have not included Sterling's Capex of 300 Cr in the recent past and 1091 Cr of cash in balance sheet). So why is TCIL trading at a discount? There could be two reasons to it a) Market is pessimistic about TCIL's future b) Market believes Quess Corp is overvalued at current price. Let's find out.

### a) TCIL's future prospects:

- Prior to its acquisition by Fairfax TCIL was a local travel and tour operator, Currently it is a global player with foot print across 24 countries and 4 continents with a team of 6600 professionals.
- TCIL ramped up its online presence competing with online players like Makemytrip and Yatra and currently generate 25% of its packaged holiday business and 30% visa business from online.
- Pre-acquisition Sterling had 1512 Rooms 19 resorts throughout India, Since 2014 TCIL has spent 270 cr in renovating all its properties, rebranding and spending additional 100 Cr in building new resorts increasing the room inventory to 2200.
- Sterling directly competes with Mahindra holidays which has a room inventory of 3472, Sterling has increased its occupancy from 20% in FY 11 to 65% FY 18.
- In contrast to its direct competitor Cox & kings, TCIL gets paid much before it provides services indicating competitive strength and helps in managing the operations on a negative working capital.
- TCIL's Forex business is literally a cash cow with wide distribution network and 70% of its customer buying forex from TCIL.
- Under travelled Middle class, Rising discretionary spending and rising foreign tourist arrivals are tailwinds for TCIL with 1091 Cr cash on its book.

- b) Now coming to Ques , it is a business service provider with 5 service lines
1. People services
  2. Technology Solutions
  3. Facility Management
  4. Industrial management
  5. Internet business

People service and technology solutions are the biggest contributors in terms of revenue @ 76%. Ques has grown at an astounding pace in the last 5 years with compounded sales & profit growth of 57 % and 100% respectively with increasing operating margins from 4 to 6% . All service lines expect Internet business are positive on the operating level. During the last year Ques entered Internet business with acquisition of Monster and HCL digital computing products at 90 Cr and 30 Cr respectively.

Markets love growing companies and Ques was always paid a premium since its time of listing price of Rs 500 in 2016 which quickly moved up to 1300 in a short span due to exponential growth. Here we could assume Ques continues the growth trajectory and consider the price of 1300 going forward which will Value of TCIL at  $98+244= 342$  per share and Now pessimistically speaking let's assume Ques slows down and let's consider Ques Stock price which it was listed at i.e. Rs 500 that would Value TCIL at  $98+94= 192$  per share.

With Valuation of 192 per share for Thomas cook Market would be valuing the company assuming:

1. Ques corp is going to hit major road blocks in the coming years.
2. Thomas cook and subsidiaries are fairly valued at acquisition price assuming no growth in profits and cash flows.
3. Discounting the Capex on Sterling, Ramp up in online business, Advertising & sales promotion of 123 Cr in FY18 92 Cr in FY 17 compared to Nil or negligible amount in the previous years.
4. Disregarding the structural tailwinds for the sector.

#### Food for thought:

As of writing, Make my trip which operates only in ticket booking, travel insurance and visa processing is valued in Nasdaq at \$ 2.25 Bn(Rs 16500 cr). It is interesting to note that it has been posting losses with negative cashflows since last 4 years.

TCIL which operates in ticketing, forex, tour packages, Vacation ownership, DMS at the current market price is valued at 2591 Cr.

Disclaimer: As of this writing, it is fair to assume that Thomas cook forms significant portion of mine and my relative's portfolio and you might want to take this analysis with a pinch of salt. This is not a recommendation to buy, sell, or hold. I am not a SEBI registered analyst. I wrote this document to organize my thoughts and deepen my understanding about the business.