



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## THOMAS COOK INDIA LTD

### WHAT WE LIKE

#### LARGE INDUSTRY SIZE

India is one of the top 10 contributors to global travel and tourism GDP. In India, the industry plays a significant role in economic and social aspects, generating \$247.3 billion in 2018 growing by 6.7% and contributed 9.2% to the country's economy. It has also earned foreign exchange to the tune of \$28.9 billion, accounting for 5.4% of total exports. TCL is the oldest and the largest player in the space.

#### GLOBAL REACH & WIDE SCOPE TO EXPAND

TCL has presence in 5 continents and 29 countries, as they expand both organically and inorganically. Their operations span across nine business segments within travel and travel related financial services.

#### DEBT FREE BALANCE SHEET & CASH ON BOOKS

TCL on standalone basis is debt free and even on consolidated basis, the debt equity ratio is < 0.25. The TCL group has Rs 1389 Cr of cash on books as on 30.06.2019. Annually, TCL group produces cash flow of around 250 Cr.

#### CHANCE OF VALUE UNLOCKING THROUGH QUES DEMERGER

As on 23rd August, TCL was valued at around Rs. 4824 Cr by stock market. It has a 49% stake in a listed company Quess Corp, which on that date was valued at Rs. 6586 Cr. (P.S. Quess was valued @ Rs 18000 Cr about a year ago)

- Market Cap of TCL: 4824
- Less 49% of Quess: 3227
- Value of TC Business: 1597

Pending regulatory approvals, the demerger of Quess from TCL is expected to happen soon.

#### INVESTMENT BY PREM WATSA OF FAIRFAX HOLDINGS LTD

through its wholly owned subsidiary Fairbridge Capital (Mauritius) Limited, Fairfax controls 66.94% stake in TCL. Prem Watsa is often known as The Warren Buffett of Canada. He said this for TCL in a recent interview on 2nd Sept:

"The ones that have an established and proven track record, where the promoter wants to stay and build the business, come to us. We are good, long-term partners for these. We stay invested. Look at Thomas Cook. I've said it before – we will always control Thomas Cook India"

### WHAT WE DON'T LIKE

#### INTEGRATION RISK

Their investment in diversified businesses in divergent geographies requires harmonious integration of people, assets, processes and systems. Any deficiency in the integration process may impact the growth prospects significantly.

#### INVESTMENT IN STERLING RESORTS

TCL paid around 900 Cr to buy Sterling Resorts in the year 2013. It has also spent a decent amount on upgrades and renovation over the years. However, even after 6 years of acquisition, the Sterling business is yet to turn profitable.

#### VALUING THE BUSINESS

It is difficult to value the business of TCL as it has acquired multiple businesses in different fields which are at various stage of development. Thus, assessing the exact value of the whole entity of TCL remains a challenge.

#### DIVERSIFICATION INTO UNRELATED BUSINESS OF QUES CORP

Quess Corp Limited is India's leading business services provider which drives majority of its earnings from buying various businesses and turning them around.

We do not see any synergies between Quess and TCL.

Thus, in our view, management has taken the right decision to demerge Quess from TC.

#### TECHNOLOGICAL DISRUPTION

Travel and tourism has gone through a lot of changes. With the advent of technology, increasing awareness, digital media platforms and online travel aggregators, our style and preferences related to travel are changing all the time.

TCL will have to be on the edge to constantly innovate and upgrade themselves in order to remain ahead of the competition and stay relevant in the ever-changing travel industry.

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