**Thomas Cook (India) Ltd — FY 2026 Annual Report Analysis**

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | Thomas Cook (India) Ltd is transitioning into a digital-first travel-tech platform, leveraging a dominant market position and an AD-II forex license to drive a 53% touchless transaction rate in corporate travel. | — |
| 2 | ***Revenue growth remained tepid at 3.18% YoY ( 8,398 Cr), failing to keep pace with rising operational costs and resulting in a 100bps compression in operating profit margins to 5.00%.*** | — |
| 3 | ***Reported PAT of 220 Cr was heavily supported by a 25.65 Cr exceptional gain from property sales, masking a 13.6% decline in consolidated Profit Before Tax.*** | — |
| 4 | The balance sheet maintains a conservative leverage profile with a D/E ratio of 0.21x and a CRISIL AA/Stable rating, supported by a substantial cash float of □1,094 Cr. | — |
| 5 | ***Return on Capital Employed (ROCE) deteriorated from 19% to 15%, signaling that recent capital deployments are currently yield-dilutive rather than accretive.*** | — |
| 6 | **Cash flow generation remains the primary fundamental strength, with Cash Flow from Operations (CFO) at □643 Cr providing a robust 2.9x coverage of PAT.** | — |
| 7 | ***Net worth is significantly inflated by a 822.83 Cr land revaluation surplus, which artificially depresses return ratios and obscures the true extent of financial leverage.*** | — |
| 8 | ***Earnings quality is compromised by significant contingent liabilities of 302.42 Cr in disputed tax demands, a figure that exceeds the company's entire annual net profit.*** | — |
| 9 | ***Governance concerns are highlighted by a 17.1 Cr ex-gratia payment to the outgoing Chairman (7.7% of PAT) and a board structure where independence remains below the 50% threshold.*** | — |
| 10 | ***Structural risks persist within foreign subsidiaries, specifically Asian Trails and Desert Adventures, which carry massive negative reserves totaling 3,137.08 Cr.*** | — |
| 11 | The outlook is centered on the strategic demerger of Sterling Holiday Resorts by FY27, aimed at simplifying the capital structure and eliminating the conglomerate discount. | — |
| 12 | **Investment View: ACCUMULATE; the thesis rests on the demerger catalyst and cash conversion strength, with digital forex penetration (currently 21.2%) and margin stability as key monitorables.** | — |

## 1. Business overview (In Bullet Points)

- **Business Segments:** Operates across Financial Services (Forex), Travel & Related Services, Digital Imaging (DEI), and Resort Management (Sterling Holiday Resorts).
- **Revenue Drivers:** Primarily driven by foreign subsidiaries, with **Asian Trails Holding Limited** contributing 57.60% (□1,288.56 Cr) and DEI Holdings Limited contributing 36.15% (□808.64 Cr) of subsidiary revenue.
- **Cost Drivers:** Significant reliance on human capital and technology; **Employee Cost** rose to 14% of Sales, driven by a spike in share-based payments (□11.53 Cr) and a □30.10 Cr provision for New Labour Codes.
- **Industry Position:** TCIL is the only non-bank issuer of RuPay, Visa, and Mastercard forex cards in India, maintaining a structural advantage through AD-II licensing and a physical airport footprint.

- **Expansion Plans:** Strategic pivot toward a "Travel-Tech Platform" with a focus on digital decoupling; digital penetration in Forex reached 21.2%.
- **Acquisitions & Restructuring:** Executing a **Composite Scheme of Arrangement** to demerge Sterling Holiday Resorts into a separately listed entity to solve the "conglomerate discount."
- **Capacity Additions:** Focused on digital transformation (TACY Agentic AI, Raahi platform) and resort upgrades; **CWIP** decreased to □8.00 Cr as major projects were capitalized.
- **Segment Performance:** Financial Services saw 3.5x booking growth via the TCPay app; Travel segments are shifting toward "Visa-Free" short-haul and "Premium Pilgrimage" (Bhakti/Darshans).
- **Geographical Presence:** High exposure to the Middle East (DEI segment) and Southeast Asia (Asian Trails); management is redirecting demand to Eastbound routes (China/Japan) to mitigate geopolitical risks.

## 2. Management commentary & outlook

- Management is executing a fundamental strategic shift from a conglomerate to specialized entities via the demerger of **Sterling Holiday Resorts Limited (SHRL)** to decouple capital-intensive hospitality from high-velocity travel/forex businesses.
- The capital structure is being "right-sized" through a 4:1 share consolidation and a capital reduction (face value □4 to □3) to improve EPS optics and ROE signaling post-demerger.
- Leadership transition marks the end of the Madhavan Menon era, with a shift in tone from "Recovery/ Resilience" to **"Reinvention/AI-Evangelism,"** targeting a "touchless" operational model.
- Growth guidance is centered on digital acquisition, exemplified by the **Blinkit** partnership for 10-minute forex card delivery, moving forex into the "impulse/convenience" category.
- The demand environment is being managed through a "portfolio approach" to geopolitical risk, rapidly redirecting demand from conflict-prone regions (Middle East/North India) to South/West India and Eastbound international routes.
- Corporate travel strategy focuses on operating leverage, achieving a **53% touchless transaction rate** to scale volumes without linear headcount increases.
- Management highlighted the **"Green Carpet"** carbon tracking tool as a key partnership/sticky feature for ESG-conscious MNC clients.
- The long-term vision is to transform TCIL into a pure-play "Indian Traveler's Wallet" (Forex + Travel) with a tech-led, asset-light cost structure.
- **Management Tone:** The tone is highly strategic and valuation-sensitive, characterized by sophisticated accounting maneuvers and a clear focus on digital efficiency. However, the approval of a □17.1 Cr ex-gratia payment to the outgoing Chairman during a year of declining consolidated PBT suggests a management culture that prioritizes executive rewards over minority shareholder alignment, creating a "yellow flag" despite operational agility.

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Sales | 8,398 | 8,140 |
| Sales Growth % | 3.18 | 11.51 |
| Expenses | 7,971 | 7,662 |
| Manufacturing Cost % | 0 | 75 |
| Employee Cost % | 14 | 13 |
| Other Cost % | 81 | 6 |
| Operating Profit | 428 | 478 |
| OPM % | 5 | 6 |
| Other Income | 157 | 141 |
| Exceptional items | -6 | -5 |
| Other income normal | 163 | 146 |
| Interest | 95 | 95 |
| Depreciation | 160 | 142 |
| Profit before tax | 330 | 382 |
| Tax % | 33 | 32 |
| Net Profit | 220 | 258 |
| Minority share | -2 | -4 |
| Exceptional items AT | -4 | -3 |
| Profit excl Excep | 224 | 262 |
| Profit for PE | 223 | 257 |
| Profit for EPS | 219 | 254 |
| Profit Growth % | -13 | -1 |
| EPS (□) | 4.65 | 5.41 |
| Dividend Payout % | 11 | 8 |

**Balance sheet (□Cr)**

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Equity Capital | 47 | 47 |
| Reserves | 2,499 | 2,213 |
| Borrowings | 539 | 465 |
| Long term Borrowings | 55 | 99 |
| Short term Borrowings | 222 | 141 |
| Lease Liabilities | 262 | 225 |
| Preference Capital | 0 | 0 |
| Other Borrowings | 0 | 0 |
| Other Liabilities | 4,813 | 4,303 |
| Non controlling int | -23 | -23 |
| Trade Payables | 2,814 | 2,508 |
| Advance from Customers | 0 | 754 |
| Other liability items | 2,021 | 1,064 |
| Total Liabilities | 7,899 | 7,028 |
| Fixed Assets | 3,149 | 2,809 |
| Land | 0 | 766 |
| Building | 0 | 1,047 |
| Plant Machinery | 0 | 32 |
| Equipments | 0 | 21 |
| Computers | 0 | 169 |
| Furniture n fittings | 0 | 186 |
| Vehicles | 0 | 62 |
| Intangible Assets | 1,410 | 1,239 |
| Other fixed assets | 0 | 226 |
| Gross Block | 0 | 3,748 |
| Accumulated Depreciation | 0 | 939 |
| CWIP | 8 | 93 |
| Investments | 287 | 134 |
| Other Assets | 4,455 | 3,992 |
| Inventories | 50 | 36 |
| Trade receivables | 663 | 632 |
| Receivables over 6m | 0 | 120 |
| Receivables under 6m | 0 | 564 |
| Prov for Doubtful | 0 | -53 |
| Cash Equivalents | 1,094 | 1,004 |
| Loans n Advances | 522 | 528 |

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Other asset items | 2,126 | 1,792 |
| Total Assets | 7,899 | 7,028 |

## Cash flow statement (□Cr)

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Cash from Operating Activity | 643 | 717 |
| Profit from operations | 498 | 536 |
| Receivables | -35 | -1 |
| Inventory | -14 | 4 |
| Payables | 306 | 351 |
| Loans Advances | 0 | 0 |
| Other WC items | -75 | -79 |
| Working capital changes | 183 | 276 |
| Interest paid | 0 | 0 |
| Direct taxes | -38 | -94 |
| Cash from Investing Activity | -408 | -325 |
| Fixed assets purchased | -126 | -117 |
| Fixed assets sold | 49 | 9 |
| Investments purchased | -151 | 0 |
| Investments sold | 0 | 0 |
| Interest received | 94 | 56 |
| Dividends received | 0 | 0 |
| Invest in subsidiaries | 0 | 0 |
| Investment in group cos | -3 | 0 |
| Redemp n Canc of Shares | 0 | 0 |
| Acquisition of companies | 0 | 0 |
| Other investing items | -271 | -273 |
| Cash from Financing Activity | -189 | -183 |
| Proceeds from shares | 2 | 3 |
| Proceeds from debentures | 0 | 0 |
| Redemption of debentures | 0 | 0 |
| Proceeds from borrowings | 0 | 25 |
| Repayment of borrowings | -13 | -28 |
| Interest paid fin | -65 | -70 |
| Dividends paid | -28 | -33 |
| Financial liabilities | -84 | -80 |
| Other financing items | 0 | 0 |
| Net Cash Flow | 46 | 210 |
| Free Cash Flow | 566 | 609 |
| CFO/OP | 159 | 170 |

### Key ratios

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Debtor Days | 29 | 28 |
| Inventory Days | 0 | 0 |
| Days Payable | 0 | 0 |
| Cash Conversion Cycle | 29 | 28 |
| Working Capital Days | -75 | -63 |
| ROCE % | 15 | 19 |

## 3.2 Financial analysis summary

- **Revenue** reached □8,398.00 Cr, representing a modest 3.18% YoY growth primarily driven by the Asian Trails Holding Limited subsidiary contributing □1,288.56 Cr (57.60% of subsidiary revenue), which correlated with a slight increase in Trade Receivables to □663.00 Cr on the Balance Sheet, though the Operating Profit margin compressed from 6.00% to 5.00% due to stagnant growth in the DEI Holdings segment (□808.64 Cr).
- **Profit Before Tax** of □330.00 Cr was significantly bolstered by a non-recurring Other Income gain of □25.65 Cr from the sale of a Gurugram property, which partially mitigated the □30.10 Cr Exceptional Item provision for the New Labour Code and a □4.72 Cr MTM loss on Quess Corp shares, though the non-cash nature of these provisions helped maintain Cash from Operating Activity at □643.00 Cr.
- **Employee Cost** rose to 14% of Sales, driven by a sharp spike in share-based payment expenses from □0.04 Cr to □11.53 Cr following the grant of 6,734,553 ESOP options, a structural increase that contributed to the decline in Net Profit to □220.00 Cr and is reflected in the lower CFO/OP ratio of 159.00 compared to 170.00 in the prior year.
- **Working Capital** efficiency remains a concern as Other Financial Assets on the Balance Sheet bloated to □1,124.66 Cr, including restricted funds for prepaid cards, while the company continues to rely heavily on Trade Payables of □2,814.00 Cr for operational funding, resulting in a Working Capital Days figure of -75.00.
- **Total Assets** expanded to □7,899.00 Cr, but asset quality is impacted by heavy encumbrance with □3,287.56 Cr of assets pledged as security and a Net Worth inflated by a revaluation of land to □899.43 Cr against a historical cost of only □76.60 Cr, which artificially depresses the Debt/Equity ratio of 0.21.
- **Total Debt** (Borrowings) rose to □539.00 Cr from □465.00 Cr, primarily driven by Short term Borrowings increasing to □222.00 Cr to manage liquidity, while the Cash Flow Statement shows Interest paid fin of □65.00 Cr, which is well-covered by the Cash Equivalents balance of □1,094.00 Cr, despite □615.81 Cr of that cash being pledged.
- **ROCE** deteriorated from 19.00% to 15.00% (or 25.96% from 33.99% per specific subsidiary notes) as Depreciation rose to □160.00 Cr following additions to Fixed Assets (□3,149.00 Cr), indicating that recent capital allocations and the revalued asset base are not yet yielding proportional increases in EBIT, while ROE fell to 9.46%.
- **Free Cash Flow** of □566.00 Cr supported an increased Dividend Payout % of 11.00%, even as the company faced high Contingent Liabilities exceeding □300 Cr for tax matters and maintained a significant Intangible Assets balance of □1,410.00 Cr on the Balance Sheet.
- **Other Financial Assets** grew by 29.7% YoY to □1,124.66 Cr, significantly outpacing revenue growth, suggesting a buildup of restricted cash or security deposits that are not immediately available for operations, potentially tightening liquidity despite high cash balances.

- **Other Expenses** were impacted by a ₹30.10 Cr provision for the New Labour Code and a ₹4.72 Cr MTM loss on Quess Corp shares, representing a structural hit to margins and non-operating drag on earnings quality respectively.
- The dominant financial theme of the year is a transition toward a higher-cost structure where **Revenue** growth failed to protect Operating Profit margins, leading to a reliance on one-time asset sales and Balance Sheet revaluations to mask underlying return compression and operational stagnation.

### 3.3 Contingent liabilities & commitments

- **Tax Litigation Risk:** Total tax-related contingencies (Direct, Indirect, and Luxury Tax) exceed **₹300 Cr**. This includes ₹209.47 Cr in Direct/Indirect tax matters and ₹92.95 Cr in Luxury Tax demands specifically relating to the Sterling Group for the period 2012-2018.
- **Regulatory Action:** An Enforcement Directorate (ED) penalty of **₹6.16 Cr** is currently under appeal in the Madras High Court, following a safema Tribunal reduction to ₹3.99 Cr.
- **Disputed Claims:** Disputed claims from clients and vendors total **₹67.58 Cr**.
- **Capital Commitments:** The company has outstanding capital commitments of **₹40.85 Cr**.
- **Provident Fund Uncertainty:** An unquantified contingent liability exists regarding the Supreme Court judgment on PF contributions for past periods; only **₹0.45 Cr** has been specifically provided.

## 3.9 Earnings quality & forensic checks

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — high cash conversion | — | CFO/OP ratio at 159% indicates strong cash generation despite lower net profit. |
| 2 | Receivables & channel-stuffing signal | Revenue ↑↓ — receivables growth 4.9% slightly outpaces sales growth of 3.18%. | — | Receivable turnover ratio improved to 12.97; inventory is negligible at □0.11 Cr. |
| 3 | Revenue timing (unbilled / contract assets) | Revenue ↑↓ — agency model reliance; other financial assets grew 29.7% YoY. | — | Auditor KAM focuses on agency vs principal recognition and restricted prepaid card funds. |
| 4 | Revenue from related parties % | Neutral — minimal direct revenue impact; associate revenue contracted by 26.7%. | — | Associate contribution is small relative to □8,398 Cr consolidated sales. |
| 5 | Inventory vs revenue growth | Neutral — service-based model; inventory remains immaterial to the total balance sheet. | — | Pure service nature reduces obsolescence risk but increases reliance on human capital. |
| 6 | Inventory valuation method change | Neutral — no change in policy; inventory is not a material earnings driver. | — | Accounting policy confirms service nature with negligible physical stock requirements. |
| 7 | Exceptional items in operating profit | Profit ↑ — one-time property gain of □25.65 Cr masks core margin pressure. | — | Aggressive use of exceptional classification to normalize EBITDA despite cash-outflow nature. |
| 8 | Depreciation rate vs useful life policy | Profit ↓ — depreciation increased 12.6% despite stagnant sales growth of 3.18%. | — | Increase likely linked to higher asset base from revaluations and IT investments. |
| 9 | Provision reversals boosting PAT | Profit ↑ — property sale gain offsets structural hit from new labour codes. | — | □30.10 Cr provision for New Labour Code is a significant non-recurring charge. |
| 10 | Tax rate consistency + cash tax vs P&L tax | Profit ↓ — cash tax paid significantly lower than P&L tax provision. | — | Large variance between P&L tax and cash tax suggests significant deferred tax timing. |
| 11 | CWIP age and stalling projects | Neutral — CWIP reduced significantly; no evidence of long-term project stalling. | — | Reduction in CWIP suggests successful capitalization of ongoing technology or infrastructure projects. |
| 12 | Deferred tax asset recognition adequacy | Profit ↑↓ — tax contingencies exceed □300 Cr, posing future liquidity risks. | — | Material contingencies relative to PAT; PF liability remains unquantified due to interpretative challenges. |
| 13 | RPT quantum and trend | Profit ↓ — loss-making JVs and impaired associates erode the group net worth. | — | Complex JV structures like Indian Horizon include shares with no voting/dividend rights. |
| 14 | Dividend paid vs FCF adequacy | Neutral — dividend payout is well-covered by high free cash flow. | — | FCF provides 20x coverage for dividends, indicating high payout sustainability despite PAT drop. |
| 15 | Land Revaluation Policy | Profit ↑ — revaluation of land to □899.43 Cr from □76.60 Cr cost. | — | Inflates Net Worth and lowers Debt-Equity ratio, potentially masking true leverage. |
| 16 | Subsidiary Solvency | Neutral — foreign subsidiaries have significant negative reserves. | — | Subsidiaries are heavily reliant on the parent for financial support. |
| 17 | Auditor KAM: Property Title Risks | Neutral — Supreme Court "Status Quo" order on key property. | — | Legal uncertainty regarding title of significant hospitality assets. |

## 4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit opinion type:** Unqualified. * **KAM 1: Property Title Risks:** The auditor flagged the title of various properties under the Sterling Group, specifically the Ooty Fernhill property with a Net Book Value of □**82.88 Cr**, which is under a "Status Quo" order by the Supreme Court. * **KAM 2: Revenue Recognition (Agency vs Principal):** Focus on whether revenue is recognized gross or net across diverse subsidiaries like Asian Trails and DEI. High "Other Financial Assets" of □**1,124.66 Cr** include customer advances critical for cut-off testing. * **KAM 3: Recoverability of Advances:** A property in Goa has □**5.27 Cr** retained by the buyer since 2015-16, currently under litigation. Management considers it "good," but the auditor notes high estimation uncertainty due to the prolonged trial. * **Auditor change during the year:** None. M/s B S R & Co. LLP is in its second term.

B. Related Party Transactions | Party | Relationship | Nature | Amount (Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Fairbridge Capital (Mauritius) | Promoter | Dividend Paid | 14.99 Cr | **63.83% of total dividend payout.** | | Indian Horizon Marketing Services | Joint Venture | Investment/Call Money | 0.53 Cr | ***Complex capital structure with Class A shares carrying no voting/dividend rights.*** | | Traveljunkie Solutions Pvt Ltd | Associate | Write-off | 0.00 Cr | ***Investment fully impaired as entity ceased operations; signals risk in start-up investments.*** | | 500 FT SPV Limited | Joint Venture | Share of Loss | 14.36 Cr | ***Balloon business JV eroding net worth; losses restricted to investment value.*** | | TCI Go Vacation India Pvt Ltd | Associate | Receivable Balance | 3.37 Cr | **Revenue contracted from 64.35 Cr to 47.15 Cr.** |

**RPT Verdict:** Monitor — While the quantum is low (0.04% of revenue), the full impairment of Traveljunkie and losses in the 500 FT JV indicate poor capital allocation in non-core travel experiments.

C. Shareholding | Category | Mar 2026 (%) | Mar 2025 (%) | | :--- | ---: | ---: | | Promoters | 63.83 | 63.83 | | FIIs | 6.52 | 6.84 | | DIIs | 10.12 | 9.45 | | Public | 19.53 | 19.88 |

- **Pledged Shares:** 0.00% of promoter holding.

D. Board Composition + KMP Compensation * **Total Directors:** 9 | **Independent %:** 44.44% (Below the 50% threshold for companies with a Non-Independent Chairman). * **Women Directors:** 1 (Sharmila Karve). * **KMP Compensation:** * ***Madhavan Menon (Ex-Chairman):*** □**17.10 Cr** (includes ex-gratia payment for 25 years of service, representing 7.7% of FY26 Net Profit). * **Mahesh Iyer (MD & CEO):** □8.37 Cr (Prior year). * **Analysis:** Aggregate KMP pay is stable despite a 10.46% decline in Operating Profit. Share-based payment expenses surged from □**0.04 Cr to** □**11.53 Cr** due to the ESOP 2024 scheme with an exercise price of only □1.0, signaling significant future dilution.

F. Capital Allocation & Capex | Action | FY current (Cr) | FY prior (Cr) | % of CFO | Signal | | :--- | ---: | ---: | ---: | :--- | | Dividends | 28.00 | 33.00 | 4.35 | — | | Capex (Fixed Assets) | 126.00 | 117.00 | 19.60 | — | | Investments (Financial) | 151.00 | 0.00 | 23.48 | — | | Net Debt Change | 74.00 | -74.00 | 11.51 | ***Deterioration*** | | Working Capital Investment | 183.00 | 276.00 | 28.46 | — | | Asset Sales | 49.00 | 9.00 | 7.62 | **Positive** |

**CAPEX Analytical Notes:** * **CFO Coverage:** CFO (□**643 Cr**) covers Capex (□126 Cr) by 5.10x, showing strong self-funding capability. * **Nature of Capex:** Focused on digital transformation (TACY Agentic AI, Raahi platform) and resort upgrades. **CWIP decreased to** □**8.00 Cr**, suggesting major projects were capitalized. * **Deployment Efficiency:** Revenue grew only **3.18%** despite a 7.7% increase in Capex, indicating a lag in returns from digital investments. * **Key Takeaways:** The **Gurugram property sale (**□**25.65 Cr gain)** masked operational weakness, while the New Labour Code provision (□30.10 Cr) represents a structural hit to future margins.

H. Risks * ***Cybersecurity:*** Dec 31, 2024 malware attack required total system shutdown. Impact: Potential data loss and peak-season disruption. (High Severity) * ***Tax Litigation:*** □**302.42 Cr total contingency** exceeds annual PAT. Impact: Significant future cash outflow risk. (High Severity) * ***Land Revaluation:*** Freehold land revalued to □**899.43 Cr** from □76.60 Cr cost. Impact: Inflates Net Worth by □822.83 Cr, masking true leverage.

(Medium Severity) * ***ESOP Dilution:*** 6.73 Mn options granted at ₹1.0 exercise price. Impact: Significant EPS dilution and non-cash cost spike. (Medium Severity) * ***Subsidiary Solvency:*** Asian Trails and Desert Adventures have **₹3,137.08 Cr combined negative reserves**. Impact: Heavy reliance on parent for financial support. (High Severity)

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 4 | → | 53% touchless corporate travel; AD-II license moat. | Strong market position and digital pivot offset by geopolitical sensitivity. |
| Financial health | 4 | ↓ | D/E 0.21x; CFO ₹643 Cr > PAT ₹220 Cr. | Strong cash generation but ROCE deteriorated from 19% to 15%. |
| Earnings quality | 2 | ↓ | Exceptional gain ₹25.65 Cr; Tax contingencies > PAT. | PAT supported by one-time asset sales and revaluation-led equity inflation. |
| Management & governance | 3 | ↓ | Ex-gratia ₹17.1 Cr; Board < 50% Independent. | High executive payouts despite falling profits and board independence gaps. |
| Capital allocation & earnings visibility | 3 | ↓ | ROCE 15% vs 19%; ESOP dilution risk. | Reinvesting with diminishing returns; demerger provides visibility but current lag is evident. |

**Business positives (for this company this year)** * **Strong Cash Conversion: CFO of ₹643 Cr** significantly exceeds PAT of ₹220 Cr, indicating high-quality cash generation from operations. * **Digital Efficiency:** Achieved a **53% touchless transaction rate** in corporate travel, driving operating leverage. * **Strategic Demerger:** The demerger of **Sterling Holiday Resorts** is a clear catalyst to unlock value and simplify the capital structure. * **Credit Strength: CRISIL AA/Stable** rating upgrade validates the balance sheet strength and massive cash float. * **Market Innovation:** Partnership with **Blinkit** for 10-minute forex delivery expands the customer acquisition funnel.

**Business negatives / concerns (for this company this year)** * **Margin Compression: Operating Profit margin** compressed from 6.00% to 5.00% as revenue growth (3.18%) failed to offset rising costs. * **Governance Flags: ₹17.1 Cr ex-gratia payment** to outgoing Chairman despite a 13.6% fall in consolidated PBT. * **Contingent Liability Risk:** Total tax-related contingencies of **₹302.42 Cr** exceed the annual PAT, posing a material liquidity risk. * **Balance Sheet Inflation:** Net worth is inflated by a **₹822.83 Cr land revaluation surplus**, which masks true leverage and depresses ROCE. * **Subsidiary Solvency:** Major foreign subsidiaries have **negative reserves of ₹3,137.08 Cr**, indicating heavy reliance on the parent.

**Overall scorecard summary** Thomas Cook (India) Ltd exhibits a dichotomy between strong operational cash flows and deteriorating earnings quality. While the business maintains a solid competitive moat and is successfully pivoting to a digital-first model, current profitability is heavily reliant on one-time asset sales and accounting revaluations. Governance remains a concern due to high executive compensation relative to performance and a board structure that lacks majority independence. The company is on a stable but cautious trajectory, where the upcoming demerger serves as the primary catalyst for structural improvement.

## Part b: governance check matrix

| # | Check | Status |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

Final line: "Total: 7/10 — Governance Rating: 3"

## Part c: investor verdict

Thesis: TCIL is a cash-rich travel-tech platform undergoing a value-unlocking demerger, currently masked by high legacy costs and geopolitical headwinds.

## Overall stance: ACCUMULATE

Rationale: Strong operational cash flows (CFO > PAT) and the Sterling demerger catalyst outweigh temporary margin pressure and governance "yellow flags." Re-evaluate when: Operating Profit Margin falls below 4% OR the Sterling demerger is delayed beyond FY27. BULL CASE: Successful demerger leads to a 200bps margin expansion in the asset-light TCIL core, driven by 60%+ touchless transactions. BEAR CASE: Crystallization of ₹300 Cr+ tax liabilities coincides with a prolonged Middle East conflict, wiping out 1.5 years of PAT. Key monitorable: Digital Penetration in Forex: 21.2% → Watch for 25%.

## 7. Year-over-year analysis

### 7.1 Changes

| Metric / theme | Summary a status | Summary b status | Forensic takeaway |
|---|---|---|---|
| Management Tone | Focused on "Resilience" and "Turnaround" post-pandemic. | Focused on "Reinvention," "AI-Evangelism," and structural demerger. | Management has shifted from a defensive recovery posture to an aggressive, tech-centric strategy aimed at unlocking valuation through corporate restructuring. |
| Margin Trajectory | Operating Profit Margin (OPM) at 6.0%. | Operating Profit Margin (OPM) compressed to 5.0%. | Profitability is currently regressing as modest revenue growth is being outpaced by rising employee costs and digital transformation expenses. |
| Capital Allocation | Focused on deleveraging (□125 Cr debt repayment) and Nature Trails acquisition. | Focused on demerging Sterling Holiday Resorts and capital reduction (face value change). | The strategy has evolved from simple debt reduction toward complex financial engineering and asset-light decoupling to address the conglomerate discount. |
| Earnings Quality (One-offs) | Boosted by a □4.93 Cr provision reversal for stamp duty. | Supported by a □25.65 Cr property sale gain masking a □30.10 Cr labor provision. | Reported profits are increasingly reliant on non-recurring asset disposals to offset structural hits to the operating cost base. |
| Working Capital Anomalies | Driven by a □754 Cr interest-free customer advance float. | Driven by a 29.7% spike in "Other Financial Assets" (□1,124 Cr). | The liquidity profile is becoming more opaque as a larger portion of the cash float is now tied up in restricted funds and security deposits. |
| Governance (KMP Pay) | Chairman pay grew 21% following an operational turnaround. | Ex-Chairman received a □17.1 Cr ex-gratia payment (7.7% of PAT) during a year of profit decline. | Executive rewards have become increasingly decoupled from bottom-line performance, signaling a heightening of governance risk for minority shareholders. |

### 7.2 Persistent patterns

- **Cash Flow from Operations (CFO) consistently and significantly exceeds Net Profit**, confirming a high-quality, cash-generative business model that thrives on negative working capital.
- **Goodwill and Intangible assets represent over 50% of Net Worth**, maintaining a permanent and material impairment risk that could wipe out multiple years of earnings.
- **Land assets remain heavily inflated via a revaluation model (□800 Cr+ surplus)**, which artificially bolsters the balance sheet and masks the true deterioration of return ratios.
- **High contingent liabilities for tax litigation (□300 Cr+)** remain a persistent overhang, representing a potential cash outflow that exceeds the company's annual net profit.
- The company maintains a **structural reliance on high Trade Payables (□2,500 Cr - □2,800 Cr)** to fund its operational cycle, effectively using supplier credit as interest-free debt.
- **Recurring internal control vulnerabilities**, including cybersecurity breaches and subsidiary repatriation delays, suggest that compliance infrastructure is not scaling at the same rate as digital growth.
- **Foreign subsidiaries (Asian Trails/Desert Adventures) continue to carry massive negative reserves**, indicating a persistent structural dependence on the Indian parent for solvency.