

Thomas Cook (India) Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline to Beat **One-line:** Strong operational leverage in core Travel and Forex segments—with Travel EBIT margins hitting management's long-term 5% target early—more than offset temporary geopolitical and weather-related friction in the DEI and Middle East segments.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat	Travel EBIT margin hit 4.9% vs 3.85% in Q1; Forex EBIT grew 41% YoY.	☐
Earnings Quality	High (Core driven)	Growth driven by high-margin retail Forex (Education +49%) and DMS recovery.	☐
Guidance Confidence	Strong	Reiterated 5% Travel EBIT and 45% Forex EBIT margin floors.	☐
Management Credibility	Strong	Specificity on DEI headwinds and Sterling's "asset-right" execution (5 new resorts).	☐
Business Quality Signal	Improving	Diversified DMS portfolio (Asia/US) compensated for Middle East softness.	☐
Key Q&A Exchange	Q#8 Sterling Pivot	Management confirmed the total sunsetting of membership sales; now 100% hospitality.	☐
The Street's Primary Anxiety	DEI & Middle East	Analysts feared a structural decline in DEI; mgmt proved it was weather + tech costs.	☐
Capital Cycle Stage	Harvesting / Investment	Harvesting Travel/Forex; aggressively investing in Sterling inventory (23 resort pipeline).	☐
Margin / Return Ratio Trajectory	Improving	Travel EBIT expanded 100bps QoQ; Sterling EBITDA remains healthy at 32.7%.	☐
Pricing Power	Stable	Sterling maintained ₹5,400+ ARR despite the leanest seasonal quarter.	☐
FCF Conversion & Quality	Strong	Total cash of ₹1,800 Cr; negative net debt maintained.	☐
Competitive Moat Signals	Widening	Sterling now top 10 in India by locations (54 resorts); Forex app volumes 2x YoY.	☐
Balance Sheet Strength	Strong	₹300 Cr in truly "free" cash with zero corporate debt at Sterling.	☐
Working Capital Efficiency	Stable	High float (₹1,500 Cr) provides significant "other income" interest tailwinds.	☐
Mgmt Guidance Track Record	Reliable	Delivered on the "long-summer" thesis and Travel margin expansion.	☐
Key Vulnerability / Red Flag	Geopolitical Drag	Middle East (Desert Adventures) and DEI remain sensitive to regional tensions.	☐
Management Tone	Confident	Shifted focus from "recovering volumes" to "sustainable profitability."	☐

Sentiment: ☐Positive

Key Takeaways: * Travel Leverage Hits Target: The Travel segment's EBIT margin reached 4.9%, effectively hitting the management's 5% medium-term guidance 4-6 quarters ahead of schedule. This was driven by a turnaround in the DMS business (Asia/USA) and high-margin MICE/SOTC performance. *** Forex Yield over Volume:** While revenue growth was a steady 9%, EBIT grew 41% YoY as the mix shifted toward high-margin retail (overseas education +49%) and card loads (\$250M this quarter), allowing the segment to maintain a 48.8% EBIT margin. *** Sterling's Successful Pivot:** Sterling has officially sunsetted all membership sales (10-year and 25-year), completing its transition to a pure-play hospitality company. Adding 5 resorts in one quarter proves the "asset-right" model's scalability. *** DEI Friction is Non-Structural:** The 11% revenue decline in DEI was attributed to the strategic closure of unprofitable US operations and extreme UAE weather. Overlapping costs from a new tech implementation (WeC platform) are suppressing current margins but represent a future efficiency play.

Watchpoint: Execution of the 23-resort pipeline for Sterling over the next 18 months and the ability of the Middle East DMS business to rebound as regional tensions stabilize.

2. BUSINESS PERFORMANCE

2A. KEY METRICS *Note: PPT uses Millions (mn); converted here to Crores (÷ 10).*

Metric	Current Qtr (Q2 FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consol)	₹2,003.8 Cr	↑ 9%	↓ 5%	↑	Driven by 11% growth in Travel and 22% in Sterling.
Gross Margin (%)	~15.1%	↑ 50 bps	→	↑	Improved mix in Holidays (B2C) and retail Forex.
EBITDA	₹167.9 Cr	↑ 28%	↑ 2%	↑	Operating leverage in Travel offset DEI weakness.
EBITDA Margin %	8.4%	↑ 120 bps	↑ 60 bps	↑	Expansion led by cost-efficiencies and DMS turnaround.
PAT	₹145.1 Cr	↑ 19%	→	↑	Includes share of associates and tax adjustments.
PBT (Reported)	₹109.6 Cr	↑ 43%	→	↑	Core profitability surge across Travel and Forex.
Travel EBIT Margin	4.9%	↑ 100 bps	↑ 105 bps	↑	Hit the 5% target early; driven by Asia DMS recovery.
Forex EBIT Margin	48.8%	↑ 1100 bps	↓ 120 bps	↑	Shift from cash to card loads (\$250mn) and education.
Sterling Occupancy	49%	↓ 400 bps	↓ 1700 bps	↓	Seasonally leanest quarter; base diluted by 250 new rooms.
Net Debt / (Cash)	(₹1,500 Cr)	↑ (Cash)	→	↑	High float/customer advances; Sterling remains debt-free.
Sterling ARR	₹5,414	→ Stable	↓ 25%	→	Maintained rates YoY despite low-demand lean season.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	EBIT Margin	Trend	vs Co. Avg	Key Development
Travel & Related	₹1,591.5	↑ 11%	4.9%	↑	Below	Asia DMS (Asian Trails) firing; MICE growth strong.
Financial (Forex)	₹84.5	↑ 9%	48.8%	↑	Above	Overseas education +49%; Forex app volume +119%.
Sterling (Resorts)	₹119.6	↑ 22%	25.2%	→	Above	Crossed 3,000 keys; 5 new resorts launched.
DEI (Imaging)	₹208.8	↓ 11%	3.1%	↓	Below	Impacted by US exit, UAE weather, and tech costs.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Travel EBIT Margin	5.0% steady-state target.	Current at 4.9%; needs to sustain Q3/Q4 peak season performance.	Delivered (Up from 3.8% in Q1).	Low
Guidance	Forex EBIT Margin	45% floor.	Current at 48.8%; implies room for slight moderation.	Exceeded.	Low
Guidance	Sterling Pipeline	23 resorts in 18 months.	~1.3 resorts/month. Added 5 in Q2.	On Track.	Moderate
Guidance	Outbound Recovery	85-90% of FY20 levels.	Needs strong Q3 winter bookings; currently at ~65-70%.	Missed Q2 (due to mix shift).	High
Strategy	Digital Adoption	100% video-KYC success.	Currently 85% success rate; tech fine-tuning required.	On Track.	Low
Strategy	Sterling Pivot	100% Hospitality-led.	Full sunset of membership sales in Sep 2024.	Delivered.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Chetan / Systematix	DEI Decline	Financials	"DEI has seen a high single digit decline... what kind of growth and margins can we expect?"	Management explained the decline was due to the strategic closure of unprofitable US operations and adverse weather in the UAE/ Maldives. This de-risks the portfolio by exiting loss-making regions, though it creates a near-term revenue hole.	Specific forward numbers (declined due to policy).	4.0	Directional with evidence
2	4.0	Chetan / Systematix	Cash Breakdown	Financials	"What is the cash for the business, excluding the restricted cash for forex?"	Management clarified that of ₹1,800 Cr cash, ₹1,500 Cr is float, leaving ₹300 Cr as "free" cash. This high float is a structural benefit as interest income on deposits acts as a counter-cyclical hedge.	None	5.0	Specific and quantified
3	4.5	Dhaval Shah / Girik Capital	Outbound Mix	Business Overview	"In our outbound business, how do we see a customer upgrading?"	Management noted a migration from domestic to short-haul (Vietnam/ Baku) and then to long-haul group tours, eventually becoming FIT (Fully Independent	Specific repeat-ratio data (benchmarking paused post-COVID).	3.5	Vague but consistent

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						Traveler) customers. This confirms the "customer lifecycle" strategy is working to increase LTV (Lifetime Value).			
4	4.0	Neerav Savai / Abakkus	Tax Rate	Financials	"How long would this [high tax rate] continue... even for FY26?"	The effective tax rate (ETR) will remain at 30-33% because the parent entity (Thomas Cook) is still in the old 35% tax regime to exhaust MAT credits. This remains a significant structural drag on PAT conversion for at least 2 more years.	None	4.0	Specific timeline given
5	3.5	Deepak Lalvani / Unifi	Sterling Costing	Financials	"Our cost in Sterling are down sequentially despite opening new resorts. Why?"	Pre-opening costs for Q2 launches were largely absorbed in Q1 (May/ June), leading to an optical cost reduction in Q2. This suggests Sterling's EBITDA margins are more resilient than they appear during expansion phases.	None	5.0	Specific and quantified
6	4.0	Mithun Aswath / Kivah	Travel Margins	Financials	"What actually drives your	Improvement from 3.9% to 4.9% EBIT	None	4.5	Clear and quantified

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					margin [improvement in a non-seasonal quarter]?"	was driven by DMS units turning profitable and B2B/B2C gross margin expansion of 30-50 bps. This proves the "turnaround" of acquired international units is finally contributing to the bottom line.			
7	3.5	Sukant Garg / Equible	App Strategy	Business Overview	"What kind of numbers do we have from Thomas Cook app... what is our focus?"	Management admitted the app is currently a "service tool" and they are migrating it to a "sales tool," with current online penetration at 15-16% vs single digits pre-pandemic. This highlights a gap versus "digital-native" competitors like MakeMyTrip.	Specific app download/ active user counts.	3.0	Vague but consistent
8	5.0	Sukant Garg / Equible	Sterling Pivot	Strategy	"Why have we [paused new customer acquisitions for Sterling]?"	Management confirmed they have sunsetted all vacation ownership products to focus entirely on the hospitality segment to maximize asset	None	5.0	Clear and quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						utilization. This is the final step in a 3-year transformation of Sterling into a pure-play resort company.			

PATTERN FLAGS & SENTIMENT Analysts were primarily focused on the **non-core drags (DEI, Middle East)** and the **structural pivot of Sterling**. There was notable anxiety regarding whether the decline in DEI was a competitive loss or a temporary weather event. Management was defensive but transparent, using data to show that the US exit (unprofitable revenue) was a deliberate choice to protect the bottom line.

Analyst Sentiment Verdict: Professional and cautiously optimistic. Friction was highest regarding the app's user experience (low ratings) and the recovery of long-haul travel. However, management's credibility improved this quarter as they delivered on the specific 5% EBIT margin target for Travel that they had been guiding toward for a year. The "structural tax drag" remains the largest unresolved overhang for PAT-focused investors.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Outbound Recovery | Target 100% of FY20. | Now guiding 85-90%. | 10-15% haircut on long-haul recovery expectations. | Moderate - mix shifting to lower-value short-haul. | | Sterling Model | Hybrid membership/resort. | Now 100% Hospitality. | Accelerated exit from Vacation Ownership. | Low - positive for cash flow quality. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
Travel EBIT Margin	3.85%	4.90%	↑ Hit 5% target early
Sterling Inventory	2,700+ keys	3,028 keys	↑ Crossed milestone
Forex Strategy	Volume focus	Yield/Retail focus (Education +49%)	↑ Higher EBIT quality
DEI Performance	Weather-impacted	Weather + US Exit + Tech Costs	↓ Triple headwind
Sterling Business Model	Sold 10-year memberships	Sunsetted all memberships	↑ Pure-play Hospitality
Digital Success	80% vKYC success	85% vKYC success	↑ Improving automation
Management Focus	"Volume Recovery"	"Sustainable Profitability"	↑ Maturity Signal