

November 19, 2009

**THOMAS COOK INDIA (TC)**

**CMP: Rs. 61; STRONG BUY**

**Some 'sights' are worth revisiting...**

**Update**

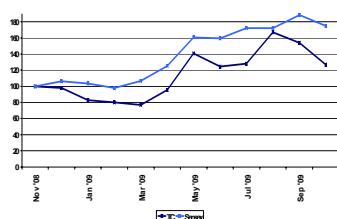
**Target Price: Rs. 110 (Dec '10)**

|                  |         |
|------------------|---------|
| Reuters code     | THOM.BO |
| Bloomberg Code   | TC.IN   |
| BSE              | 500413  |
| Sensex           | 16,786  |
| 52week H/L (Rs)  | 76/30   |
| Monthly H/L (Rs) | 67/51   |
| MktCap (Rs mn)   | 12,856  |
| MktCap (US\$ mn) | 271     |
| EV (Rs mn)       | 12,782  |

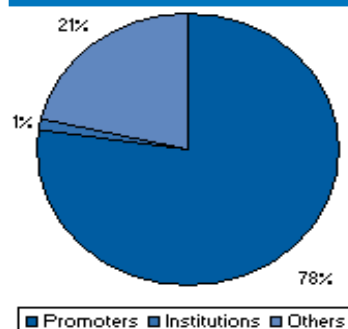
#### Valuation Parameters (CY10)

|               |     |
|---------------|-----|
| EV/EBITDA     | 8.1 |
| MktCap/EBITDA | 8.3 |
| EV/Sales      | 3.0 |
| Mkt Cap/Sales | 3.1 |

#### Price Chart



#### Shareholding Pattern



#### Prime Broking

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#### THOMAS COOK REVISITED

The Travel and Tourism industry is cyclical and sensitive to the overall economic environment. The surprisingly strong recovery especially in emerging economies such as India & China and absence of incremental weakness in developed economies makes a case for a stronger and quicker revival of the travel and tourism industry. Further, the currently underway public issue of Cox and Kings presents an opportune time for us to revisit our estimates for Thomas Cook.

Based on our recent meeting with the Thomas Cook management, we revise upwards our CY10E and CY11E estimates for the company because of the following:

- 1) stronger and quicker rebound in the Outbound (including Domestic) and Inbound segments of the Travel industry and early signs of recovery in the Corporate Travel segment
  - 2) significant improvement in volumes in the company's Foreign Exchange division after a steady CY09
  - 3) improved margins in the company's Foreign Exchange and Travel businesses
- We are bullish on the stock with a STRONG BUY rating and price target of Rs. 110.

#### VALUATION

We expect CY10E and CY11E revenues to grow at 42.0% and 19.6% respectively. We estimate CY10E and CY11E EPS of Rs. 4.1 and Rs. 5.5 respectively. The company is currently trading at a P/E of 14.7x and 11.1x and EV/EBITDA of 8.1x and 6.2x times its CY10E and CY11E numbers respectively. Our price target on the stock is Rs. 110 at a P/E multiple of 20.0x times its CY11E earnings.

| Fiscal Year        | CY08 (A) | CY09 (E) | CY10 (E) | CY11 (E) |
|--------------------|----------|----------|----------|----------|
| Revenues (Rs. mn)  | 3,100    | 2,915    | 4,139    | 4,950    |
| EBITDA (Rs. mn)    | 935      | 813      | 1,542    | 1,901    |
| EBITDA (%)         | 30.2     | 27.9     | 37.2     | 38.4     |
| PAT (Rs. mn)       | 373      | 341      | 873      | 1,154    |
| Net Profit (%)     | 11.5     | 11.6     | 20.9     | 23.2     |
| No. of Shares (mn) | 161      | 211      | 211      | 211      |
| EPS (Rs.)          | 2.3      | 1.6      | 4.1      | 5.5      |
| P/E                | -        | 37.7     | 14.7     | 11.1     |
| EV/EBITDA          | -        | 15.7     | 8.1      | 6.2      |

# ***PRIME BROKING***



*PRIME*

## **KEY RISKS**

The key downside risks are:

- 1) Continued global economic crisis may impact travel related activity
- 2) Concerns about terrorism
- 3) Foreign exchange fluctuations

## Annexure I: Consolidated Profit & Loss Statement

| Rs mn                                       | CY08 (A)     | CY09 (E)     | CY10 (E)     | CY11 (E)     |
|---|--------------|--------------|--------------|--------------|
| <b>Total Income (incl. Other Income)</b>    | <b>3,259</b> | <b>2,946</b> | <b>4,171</b> | <b>4,982</b> |
| Total Expenses                              | 2,165        | 2,102        | 2,598        | 3,049        |
| <b>PBITDA</b>                               | <b>1,094</b> | <b>844</b>   | <b>1,573</b> | <b>1,933</b> |
| <i>PBITDA Margin (%)</i>                    | <i>33.6%</i> | <i>28.7%</i> | <i>37.7%</i> | <i>38.8%</i> |
| Depreciation                                | 111          | 130          | 150          | 164          |
| <b>PBIT</b>                                 | <b>984</b>   | <b>714</b>   | <b>1,423</b> | <b>1,768</b> |
| <i>PBIT Margin (%)</i>                      | <i>30.2%</i> | <i>24.2%</i> | <i>34.1%</i> | <i>35.5%</i> |
| Interest and Finance charges                | 352          | 198          | 160          | 98           |
| EO  | (32)         | 0            | 0            | 0            |
| <b>PBT</b>                                  | <b>599</b>   | <b>517</b>   | <b>1,264</b> | <b>1,670</b> |
| <i>PBT Margin (%)</i>                       | <i>18.4%</i> | <i>17.5%</i> | <i>30.3%</i> | <i>33.5%</i> |
| Tax   | 226          | 176          | 391          | 516          |
| <b>PAT</b>                                  | <b>373</b>   | <b>341</b>   | <b>873</b>   | <b>1,154</b> |
| Add: Income from investment from associates | 0            | 0            | 0            | 0            |
| Less: Minority Interest                     | 0            | 0            | 0            | 0            |
| Adjusted PAT                                | 373          | 341          | 873          | 1,154        |
| <i>Net Profit Margin</i>                    | <i>11.5%</i> | <i>11.6%</i> | <i>20.9%</i> | <i>23.2%</i> |
| <b>No. of shares</b>                        | <b>161</b>   | <b>211</b>   | <b>211</b>   | <b>211</b>   |
| <b>EPS</b>                                  | <b>2.3</b>   | <b>1.6</b>   | <b>4.1</b>   | <b>5.5</b>   |

Source: Company, Prime Broking; (A) Audited; (E) Estimated

## Annexure II: Consolidated Balance Sheet Statement

| Rs mn                                 | CY08 (A)     | CY09 (E)     | CY10 (E)     | CY11 (E)     |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Share Capital                         | 1,217        | 217          | 217          | 217          |
| Reserves & Surplus                    | 1,023        | 2,861        | 3,601        | 4,621        |
| <b>Networth</b>                       | <b>2,240</b> | <b>3,078</b> | <b>3,818</b> | <b>4,839</b> |
| Loan Funds                            | 2,605        | 1,329        | 1,329        | 129          |
| Deferred Tax Liabilities (net)        | 14           | 14           | 14           | 14           |
| <b>Total Liabilities</b>              | <b>4,859</b> | <b>4,422</b> | <b>5,162</b> | <b>4,983</b> |
| Net Fixed Assets                      | 2,157        | 2,227        | 2,277        | 2,312        |
| Investments                           | 2            | 2            | 2            | 2            |
| Cash and Bank Balances                | 1,819        | 1,404        | 1,678        | 1,188        |
| Debtors                               | 1,525        | 1,434        | 2,036        | 2,435        |
| Loan, Advances & Other Current Assets | 1,069        | 1,005        | 1,428        | 1,707        |
| Current Liabilities                   | 1,712        | 1,649        | 2,259        | 2,663        |
| <b>Net Current Assets</b>             | <b>2,700</b> | <b>2,193</b> | <b>2,883</b> | <b>2,668</b> |
| <b>Total Assets</b>                   | <b>4,859</b> | <b>4,422</b> | <b>5,162</b> | <b>4,983</b> |

Source: Company, Prime Broking; (A) Audited; (E) Estimated

## Annexure III: Consolidated Cash Flow Statement

| Rs mn                                  | CY08 (A)     | CY09 (E)     | CY10 (E)     | CY11 (E)      |
|--|--------------|--------------|--------------|---------------|
| Profit Before Tax                      | 599          | 517          | 1,264        | 1,670         |
| Depreciation                           | 111          | 130          | 150          | 164           |
| Interest                               | 352          | 198          | 160          | 98            |
| Other Items                            | 6            | 0            | 0            | 0             |
| Change in Working Capital              | 129          | -105         | -415         | -275          |
| Income Tax Paid                        | -290         | -176         | -391         | -516          |
| <b>Cash Flow from Operations</b>       | <b>909</b>   | <b>563</b>   | <b>768</b>   | <b>1,142</b>  |
| Change in Net Fixed Assets             | -77          | -200         | -200         | -200          |
| Change in Investments                  | 5            | 0            | 0            | 0             |
| Interest Received                      | 5            | 0            | 0            | 0             |
| <b>Cash Flow from Investing</b>        | <b>-66</b>   | <b>-200</b>  | <b>-200</b>  | <b>-200</b>   |
| Change in Share Capital                | 18           | 799          | 0            | 0             |
| Debt Raised                            | -253         | -1,275       | 0            | -1,200        |
| Interest Paid                          | -364         | -198         | -160         | -98           |
| Dividend Paid                          | -149         | -104         | -133         | -133          |
| <b>Cash Flow from Financing</b>        | <b>-747</b>  | <b>-778</b>  | <b>-293</b>  | <b>-1,432</b> |
| <b>Change in Cash</b>                  | <b>95</b>    | <b>-415</b>  | <b>275</b>   | <b>-490</b>   |
| Opening Cash & Bank Balance            | 1,724        | 1,819        | 1,404        | 1,678         |
| <b>Closing Cash &amp; Bank Balance</b> | <b>1,819</b> | <b>1,404</b> | <b>1,678</b> | <b>1,188</b>  |

Source: Company, Prime Broking; (A) Audited; (E) Estimated

## Annexure IV: Key Financial Ratios

|                         | CY08 (A) | CY09 (E) | CY10 (E) | CY11 (E) |
|-------------------------|----------|----------|----------|----------|
| Net Sales Growth        | 8.7%     | -6.0%    | 42.0%    | 19.6%    |
| EBITDA Growth           | 7.7%     | -13.1%   | 89.7%    | 23.3%    |
| EBIT Margin             | 26.6%    | 23.4%    | 33.6%    | 35.1%    |
| Net Profit Margin       | 11.5%    | 11.6%    | 20.9%    | 23.2%    |
| Debt to Equity Ratio    | 1.2      | 0.5      | 0.4      | 0.3      |
| Interest Coverage Ratio | 2.3      | 3.5      | 8.7      | 17.7     |
| Return on Asset         | 7.7%     | 7.7%     | 16.9%    | 23.2%    |
| Return on CE            | 26.2%    | 24.6%    | 47.9%    | 74.9%    |

Source: Company, Prime Broking; (A) Audited; (E) Estimated

## EQUITY SALES / DEALING

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|               |                              |                           |
|---------------|------------------------------|---------------------------|
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## STOCK OWNERSHIP / CONFLICT DISCLOSURE

|   |           |
|---|-----------|
| <b>Prime / Prime Subsidiaries</b>                       | <b>No</b> |
| <b>Key Prime Management &amp;/or Other Employees</b>    | <b>No</b> |
| <b>Any Other Corporate Finance Conflict of Interest</b> | <b>No</b> |

## ANALYSTS' RATINGS DEFINITIONS

|                   |   |
|-------------------|---|
| <b>STRONG BUY</b> | Expect $\geq$ 25% CAGR return               |
| <b>BUY</b>        | Expect a CAGR return $\geq$ 15% and $<$ 25% |
| <b>HOLD</b>       | Expect $<$ 15% CAGR return                  |
| <b>SELL</b>       | Expect $\leq$ 5% CAGR return                |

## CONTACT NUMBERS

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