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Thomas Cook (India) Ltd

(Rs 88.5, CY09E EPS Rs 4.2, P/E 21x, Buy)

Thomas Cook Group PLC (TCG) has announced to acquire upto 74.9% in Thomas Cook India Ltd (TCIL) at a price of Rs 107 which is 20% above the current market price. The deal results into the exit of Dubai Investment Group which acquired 54.4% stake in TCIL at Rs 46.2 and 7.36% through open offer at Rs 61.95 per share in January 2006. With this acquisition TCIL would become the part of world's second largest travel company TCG. We believe that the change in promoters would be positive for TCIL as it will get access to TCG's world wide network and would boost its outbound travel business. We currently maintain our financial estimates and maintain BUY recommendation on the scrip. We expect that the recent development would benefit TCIL in terms of operation in the long run. Besides this, TCG has shown its confidence in the business of TCIL by acquiring at Rs 107. We recommend investors to avoid the open offer at an expected price of Rs 107 per share as the scrip has more potential to move up in the long run.

Background of the deal

Thomas Cook Group PLC (TCG) on 7th March 2008 announced the acquisition of up to 74.9% of the issued share capital in Thomas Cook India Limited (TCIL) and 100% of Thomas Cook branded businesses in Egypt, as well as licences for the Thomas Cook brand in 15 Middle East countries. Under the all cash deal, Thomas Cook Group is acquiring all these businesses for a total cash consideration of between Euro 208m and Euro 249m. As a result of this transaction TCG will acquire between 61.8% and 74.9% of TCIL's share capital, the price of which will range from Euro 173mn (Rs.10610 mn) to Euro 214mn (Rs.13120 mn). TCG is paying a cash consideration equivalent to Euro 35m (Rs.2150 mn) to DFG for both the Egyptian business and the return of the brand licenses in the 15 Middle Eastern countries which with Dubai Financial Group.

Impact of the deal on TCIL

- TCIL will get an access to TCG's world wide network and would boost its outbound travel business resulting into synergy in the long run.
- TCIL will not be losing Thomas Cook brand name which it was losing after 2012.
- TCIL will continue with all its business operations as it was doing.
- There will not be any negative impact on the MoU signed by TCIL with JTB Corp.
- Post open offer, rights issue planned by the TCIL is expected to go ahead with out any hurdle.
- TCG has a strong cash of approx USD 1 bn on its balance sheet which can be utilized for funding growth related initiatives of TCIL.
- New promoters buying up to 74.9% stake at Rs 107 per share which is 20% premium to current market price giving a positive sign for the existing shareholders.

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Rationale behind the deal

- Indian travel market is expected to grow at 15% for the next five years.
- With the much stronger balance sheet size, TCG was aiming to expand its presence in the fast growing emerging markets like India and Middle East.
- Due to non-compete clause with TCIL, TCG could not start its operations in the India under the brand name of Thomas Cook till 2012.
- Post acquisition of LKP forex and Travel Corp. TCIL became much larger player in Indian in forex and inbound travel.

About Thomas Cook Group PLC

Thomas Cook AG which sold Thomas Cook (India) Ltd (TCIL) two years back and Thomas Cook Group PLC (TCG) are not the same company. Two years back Thomas Cook AG sold TCIL to Dubai Investment Group. At that time Thomas Cook AG was jointly owned by Lufthansa and KarstadtQuelle and was undergoing through restructuring. As a part of their business restructuring exercise they sold off their businesses in India and Middle East. But after the exit of Lufthansa, KarstadtQuelle along with My Travel decided to form a merged entity in the name of TCG. My Travel was a leading provider of package holidays, with operations in the UK and Ireland, Northern, Europe and North America.

With this TCG became second largest travel company in the world after TUI. TCG has annual turnover of Euro 12 billion (GBP 9 bn) and a cash reserve of about Euro 890 mn. The group has 19 million customers, 30,000 employees, a fleet of 97 aircraft, a network of over 3,000 owned or franchised travel stores and a number of hotels and resort properties. It has operations in four regions: UK & Ireland; Continental Europe (Germany, Austria, Belgium, France, the Netherlands, Poland, Hungary, Slovenia and Slovakia); Northern Europe (Sweden, Norway, Denmark, Finland) and North America (Canada and USA); and German airlines operating under the Condor brand. It is also listed at London Stock Exchange and is part of FTSE100 with a market capitalization of GBP 2.86 bn.

About TCIL

Thomas Cook India Ltd (TCIL) is into the business of forex and travel services business. In 2006, it amalgamated LKP Forex which has large presence in retail forex business with its branches spread across the country. To expand its presence in inbound travel business, TCIL acquired Travel Corporation (India) Ltd. We expect that the recent acquisition would be EPS accretive. Besides this, the company is also taking positive cue from the Indian travel and tourism sector which is expected to grow at 15% in the next 5 years. With this we expect the topline and bottomline of the company to grow at a CAGR of 29.3% and 43.6% respectively during CY06Adj-CY09E.

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Financial Estimates

Particulars Rs mn	14MCY06A	CY07E	CY08E	CY09E
Total Revenue	2347.2	2968	3708.4	4357.3
EBITDA	554.1	844.2	1130.9	1398.3
EBITDA margin %	23.6%	28.4%	30.5%	32.1%
Net Profit	359.5	432.2	718.6	912.7
EPS (Rs) (FV Re 1)	2.0	2.3	3.3	4.2
EV/EBITDA (x)	24.4	16.7	15.3	12.1
P/E (x) CMP Rs 88.5	43.5	37.8	27.1	21.0

Source: Emkay PCG Research

We expect that the recent development would be value driver for the company in the long run. Currently we maintain our previous financial estimates and would revise the same once the company declares its CY07 financials (expected in the third week of March 2008). On the basis of CY09E EPS of Rs 4.2, the scrip is currently trading at a P/E of 21x and EV/EBITDA of 12.5x. We maintain our BUY rating and would revise the target price soon.

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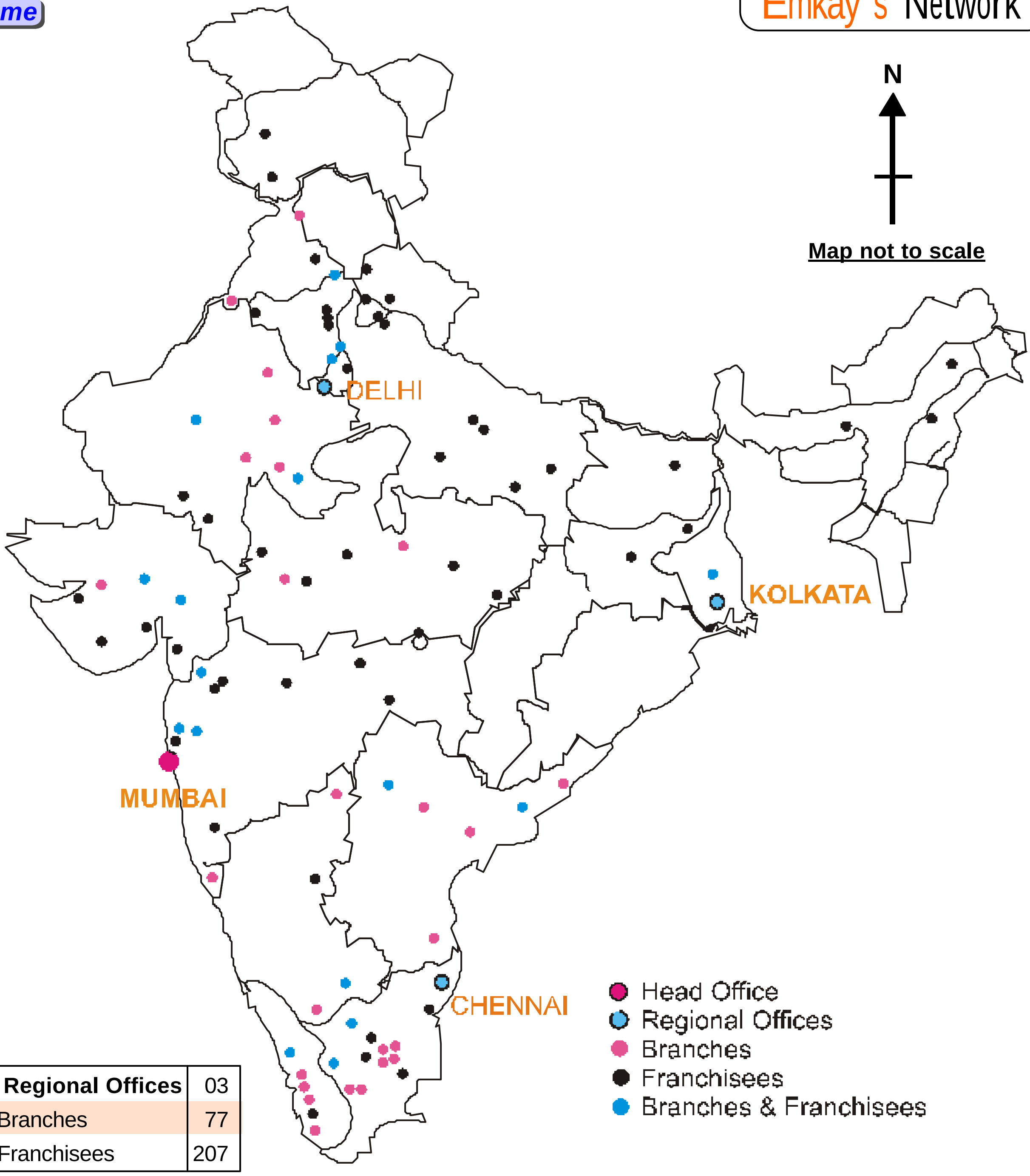

Total Regional Offices	03
Total Branches	77
Total Franchisees	207

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