Thomas Cook (India) Ltd.
Thomas Cook Building, Dr. D. N. Road,
Fort, Mumbai - 400001
Board: +91-22-6160 3333
CIN: L63040MH1978PLC020717

A FAIRFAX Company

Thomas Cook Travel Smooth thomascook.in

August 17, 2022

The Manager,
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
Scrip Code: 500413

Fax No.: 2272 2037/39/41/61

The Manager,
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051
Scrip Code: THOMASCOOK

Fax No.: 2659 8237/38

Dear Sir/ Madam,

Subject: Transcript of the Analyst and Investor Conference Call on Q1 & FY23 earnings

In furtherance of our intimations dated August 1, 2022, August 5, 2022 and August 10, 2022 giving intimation on the Q1 & FY23 earning Conference Call for the analysts and investors and pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith Transcript of the Investor and Analyst Conference Call held on August 08, 2022.

This is for your information and records.

Thank you.

Yours faithfully
For **Thomas Cook (India) Limited**

AMIT JYOTINDRA PAREKH
Digitally signed by AMIT JYOTINDRA PAREKH
Date: 2022.08.17 14:03:19 +05'30'

Amit J. Parekh
Company Secretary & Compliance Officer

Encl: a/a

Thomas Cook (India) Limited

Q1 FY2023 Earnings Conference Call

Aug 08, 2022

MANAGEMENT TEAM

MR. MADHAVAN MENON - MANAGING DIRECTOR, THOMAS COOK (INDIA) LIMITED
MR. MAHESH IYER – CHIEF EXECUTING OFFICER & EXECUTIVE DIRECTOR - THOMAS COOK (INDIA) LIMITED
MR. VISHAL SURI – MANAGING DIRECTOR – SOTC TRAVEL LIMITED
MR. DEBASIS NANDY - PRESIDENT AND GROUP CHIEF FINANCIAL OFFICER – THOMAS COOK (INDIA) LIMITED
MR. BRIJESH MODI – CHIEF FINANCIAL OFFICER – THOMAS COOK (INDIA) LIMITED
MR. VIKRAM LALVANI – MANAGING DIRECTOR –STERLING HOLIDAY RESORTS LIMITED
MR. KRISHNA KUMAR – CHIEF FINANCIAL OFFICER - STERLING HOLIDAY RESORTS LIMITED
MR. ABRAHAM ALAPATT - MARKETING SERVICES - THOMAS COOK (INDIA) LIMITED
MS. URVASHI BUTANI- INVESTOR RELATIONS - THOMAS COOK (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY 23 Earnings Conference Call of Thomas Cook (India) Limited hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “&” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akul Broachwala from IIFL Securities Limited. Thank you, and over to you, sir.

Akul Broachwala: Thank you, Rutuja. Ladies and gentlemen, good afternoon, and thank you for joining us on the 1Q FY 23 Earnings Conference Call of Thomas Cook (India) Limited. I invite the company's senior management team, who are here to discuss the results and business strategy. We'll begin the call with opening remarks by Mr. Madhavan Menon, Managing Director, followed by the management team. And thereafter, we'll open the call for a Q&A session. I would now like to hand over the call to Mr. Menon, to take the proceedings forward. Thank you, and over to you, sir.

Madhavan Menon: Thank you. Thank you very much. Good afternoon, ladies and gentlemen. Once again, thank you for attending this call. I hope we are in a position to answer all the questions or the queries that you may have.

I just want to kick off by rehashing what has happened over the last several months/weeks. We started our return journey to normalcy sometime in Q3 FY22. It was interrupted unfortunately in January and a part of February again due to Omicron. However, since then, we have seen an uninterrupted recovery and this is the second quarter that we will report profits.

I think the return to profitability, though a bit long, has been contributed by various factors. Obviously, towards the return of business, we saw volumes come across all our businesses. An important contributor has been the productivity improvements like cost rationalization, upgrading of technologies that we implemented over the last 24 months. And when I say this, we are talking about cost savings very well in terms of payroll, between 37% and 45%. We are talking about having upgraded technology across the organization, be it customer facing or internal business processes, we've have gone through a whole lot of change, and I think some of the results of this are obviously evident and contributing to our bottom line, as we talk today.

The primary driver behind all this has been customer centricity, by allowing a customer access to an omnichannel facility, which allows the customer as well as the agent of the organization to look at the same screen. And obviously seamless processes, which allow the customer to choose how they want to interact with us, be it at a corporate or be it at a retail level. And these are important benefits that we are beginning to see. And the bottom line sees a benefit from all these aspects.

In terms of our medium to long term objectives, one is to maintain the cost savings, and this will be achieved through greater use of technology, as well as improvement in productivity. Two- expand our customer base, I think one of the major benefits of this COVID, if I use the word benefit, is the expanded customer base that we are witnessing today. We want to use technology to get a better understanding of our customer, and this has been through enhancements that we put in place both in our businesses as well as in the CRM.

Lastly, trust in the brand of Thomas Cook and SOTC. We see this as very important objective and I've always said this that, we will always focus on interacting with our customers and leveraging the strong brand recall that we have across SOTC and Thomas Cook, both of which have a long history. And, with that, I'll end my comments and hand over to Debasis.

Debasis Nandy: Thank you, Madhavan. Before I start, I just want to mention the people who are attending this call other than Madhavan, of course. Apart from me, there is Mahesh Iyer, CEO of

Thomas Cook (India) Limited, the standalone company; Vishal Suri, MD of SOTC; Mr. Vikram Lalvani, the MD of Sterling; and KS Ramakrishnan, CEO of DEI, who will also be addressing today.

I'll take you through the financial highlights before I hand over to Mahesh. We returned to profitability at a standalone level after about 8 quarters and as Madhavan said, the recovery started from Q3 of last year, and it has finally moved to a stage that we could report a PBT on a standalone level. Our income from operations at Rs. 2,979 mn for the quarter, represents a 3.8x growth vis-a-vis the last quarter. The PBT is at about Rs. 59 mn, vis-a-vis a loss of Rs. 384 mn in the previous quarter. And this was after considering the mark-to-market losses on account of our holdings in Quess Corp, which is purely non-operating in nature. Hence, if I adjust for that, the effective profit is actually about Rs. 115 mn.

At a consolidated level, we reported Rs. 9762 mn of income from operations, which is a growth of 87% quarter-on-quarter. At a PBT level, our losses after considering the MTM losses narrowed to Rs. 23 mn vis-a-vis Rs. 518 mn in the last quarter. And if I do not consider the non-operating MTM losses, then the actual underlying PBT at a consolidated level is about Rs. 33 mn versus a loss of Rs. 271 mn in the previous quarter.

While our income grew substantially, I think we must also mention, as Madhavan said, that a lot of our success is due to the cost reduction efforts. We have been able to cut down our cost by 33% as compared to the pre-pandemic, and I'm talking about numbers for the same quarter, and all of these cost reductions are likely to stay with us. At the balance sheet level, we had a healthy cash balance of Rs. 8,500 mn as of 30th of June, and Rs. 6,399 mn as on 31st March. And our loan book at overall consolidated level is over Rs. 4,736 mn.

With this, I hand over to Mahesh, and he will take you through the FOREX and the travel business.

Mahesh Iyer: Thank you, Debasis. I'll be quickly giving you a bit of a snap into what has led to this kind of performance. I think it's important to highlight that, all the businesses within the Group, whether it's foreign exchange, corporate travel, B2B or B2C side of the travel, I think without exception, all of them have done well during this quarter. It's also important to highlight here, that we had also guided the market in terms of the recovery, and I'm really happy to report here that we have overshot our own guidance in 3 out of the 4 quadrants of business that we operate.

And to begin with, I'll start off with foreign exchange. On the foreign exchange side, our volumes grew about 40% on a quarter-on-quarter basis, and reflected about 66% recovery to the pre-pandemic level. You will note here, that we had guided to about 63% recovery when we spoke to you all the last time around, but our recovery on this front has been much higher. The key factors driving this recovery, has been the retail business and specific within the retail, education forex and travel related forex has actually started to bounce back. It's also important to highlight, that retail is a high-yield business. Our margins in this business is close to about 2.5%, and we are holding on to the yields in this business very strongly.

The corporate FX side of the FX business is coming back slowly, we've seen about 60% recovery in the current quarter. But the important highlight here is to look at the card volumes. The card volumes actually grew 2x from about $80 million to about $154 million, and that's a very strong comeback. This reflects almost close to 115% recovery to the pre-pandemic level, and we remain very confident of the rest of the year, as far as the foreign exchange business is concerned.

If I guide you through our projections for the next quarter, we expect about 70%-odd recovery for the foreign exchange business in the coming quarters and the current trends that we see reflects the position in that direction.

Moving on to the corporate travel side of the business. Again, a very strong performance coming from corporate travel. Important to highlight here, that there is a restricted flow or supply of airfares or rather airline seats, and that capacity is coming back slowly. We are about 90% on to the domestic side and about 10% to the international. But despite that, our volumes are already crossing the pre-pandemic level. From a volume point of view, in the month of June in specific, our volumes actually touched the pre-pandemic level and from a value point of view, we are already ahead of the pre-pandemic level. Our expectation for the next quarter is about 125% to the pre-pandemic level. And this, as you know, is buoyed by 2 factors: one, the higher volume that we are seeing and also the value, which is currently at a heightened level. Important to also highlight here, that we have guided the market to about 84% recovery, and we actually ended up the quarter at about 87%. So, again, on this count, we've done well. And our expectation on this side of the business is that we continue to see this momentum coming.

It's also important to highlight the point that Madhavan made in terms of technology. This is one business, where we infused a lot of technology into the business. We've actually automated the entire process of issuing a ticket and submission, because it's a cash guzzler and we have bought in a lot of efficiency in that process, to ensure that we stay very lean as far as the order book is concerned.

Coming to the B2B holiday side of the business, which is MICE. Again, we have guided the market to a 38% recovery, and I am happy to report, that we ended up at about 44% recovery to the pre-pandemic level. Important to mention here, that we managed some the large groups that we handled, the Khelo India, the WHO conference, these are large marquee relationships that we have built over the last 12 months or so, and we see this becoming a very dominant share of our overall business. Yield from this business continue to be very strong. And that unlike in the past, where we used to do some amount of digital events, this quarter, we actually did all of it as physical. And that kind of reflects the mood of the nation where people now want to come back, and travel on the physical mode, and we see that recovery going very strongly into the next quarter.

We are guiding the market to about 72% recovery in the next quarter, and we believe our current order book and what we will put into the funnel over the next 2 quarters, should see us ending the year at close to about 80%, 85% recovery for the full year, as far as the MICE business is concerned.

Coming to the holiday side of the business. As you will realize, the market is a bit slow to come and also, there are external challenges. External challenges in the form of supply side, from an airline point of view, supply from a visa point of view, and these continue to be a challenge, as we speak. While we navigate these challenges, we are taking up opportunities that we see, and those are kind of reflecting well into the business, and it's comeback, as we see.

To just give you some sense on how the domestic and international side of the holidays have played out in the current quarter, on the domestic side, we have seen a 78% recovery, but we are very confident that the recovery to the end of the year will actually surpass close to 100%. Our forecast for the next quarter is about 94% recovery, and we see that coming back very strongly. While there are destination-related challenges and airfare related challenges, but despite that, the pent-up demand continues to be very, very high, and we see that auguring very well for the domestic business.

On the international side, there are 2 parts to it, and we've spoken about it in the past, the short haul and the long haul. While the momentum on the short haul side is very strong, the long haul continues to be really subdued, because there are these challenges that relate to visa, and I'm sure all of you all know about it, whether it's the European or whether it is British, I think all these Visa challenges continue to kind of impact the growth that we see there. But despite that, we kind got across to a projected number. We spoke about a targeted recovery of about 19%. We came close to about 18%. But looking into the next quarter, our recovery seems to be very, very strong. We are looking at about 42%. Our current guidance for the full year is about 65% to 70% recovery, and we see our volumes to be trending in that direction.

It's also important to call out here that, we've done a lot of work in terms of bringing new products to the market, being tactical in terms of the festivities and at the same time, continue to build on the technology. The footprint that Madhavan mentioned, whether it is the distribution or it is the servicing side of it. We continue to invest in technology to make the entire experience for the customer very seamless.

Before I end, I just want to quickly talk about one bit of work that we have done on the foreign exchange side. We've built this entire portfolio around the Study Abroad, whether it is study buddy content that we are creating, about 130-plus videos, and we are now taking an industry-leading position there, as India FOREX specialists, and we believe that that will augur very well for the business in times to come.

On that front, I'll now hand over to Vikram, for his inputs.

Vikram Lalvani: Good afternoon. My name is Vikram Lalvani, and I represent Sterling Holiday Resorts Ltd. as Managing Director and Chief Executive Officer. I'm also joined by Mr. L. Krishnakumar, Chief Financial Officer at Sterling Holidays Limited.

It's a privilege to interact with all of you this afternoon. We are delighted to announce that Sterling continues its profitability streak for the sixth consecutive quarter, while also recording revenues in excess of Rs. 100 crore in a quarter for the first time and an EBIT of Rs. 324 mn. This reflects and reaffirms our renewed growth strategy that involves #1, scaling up of the hotel and leisure guest business at our resorts, thus impacting room revenues. #2, increasing spend in terms of average room rates and food and beverage spend, at the resort. #3, increasing cash generation in the membership business.

The key factors, if I just highlight them, that propelled growth in Q1 of this financial year. To start with, we have had higher volumes at 73% occupancies in our resorts, as compared to 52% quarter-over-quarter. We have had a very healthy growth in our average room rate. They have also surpassed the peak pandemic levels by 35%. We had Rs. 5,100 average room rate in Q1FY20 and has gone up to Rs. 6,900 in Q1 FY '23. Our growth in guest occupancy percentage and rates, we had a 42% in Q1 FY 20 gone up to 60% in Q1 FY 23, in terms of the guest occupancy.

Our improved focus on F&B revenues, reflecting increases over last year, and even over pre-pandemic levels, from Rs 176 mn in Q1 FY20 to Rs 226 mn in Q1 FY 23. This is because of a multipronged strategy to improve our participation, as well as spends at our dining outlets in our resorts. At the same time, improving the experience to increase our bar revenues by offering a wider choice of local food and beverage options to our guests and members.

The cost optimization exercise that had been undertaken since 2020, and the cost line continues to be maintained in Q1 FY 23, resulting in a reduction of fixed costs by around 18% when compared to pre-pandemic levels. Offering our guests and members a wider array of leisure activities to choose from, which includes new products like picnic, and pet friendly resorts, 12 of our resorts are pet friendly now, thus driving improved volume and incremental revenues at each of the resorts.

In the membership business, the focus continues on driving profitable sales and improving our cash generation from the membership business. We did this by constantly improving our on-site sales, which is a zero-based fixed cost sales, and lower variable cost sales channel, thus delivering higher profitability in Q1. With the continuous focus on variable sales model and strategy, our on-site sales have actually grown from 15% in Q1 FY 20 to 44% in Q1 FY 23, the sales channels resulting in an increased average unit realization, with a growth of over 7%, since the pre-pandemic level. Also, we have increased our down payments to 47% as against 33% in the pre-pandemic level, thus resulting in improved cash flows.

In line with our strategy of expansion, we continue to expand Sterling Resorts, using an asset-light model of expansion. To this, we have actually launched 2 new destinations this quarter. One is in Madurai and second is in Kalimpong. Madurai in Tamil Nadu is a pilgrimage cum corporate destination and is one of the fastest-growing destinations in Tamil Nadu. This resort was launched in April 2022. Kalimpong networks well with our resorts already present in Darjeeling and Gangtok, where we have a large presence with over 150 rooms, thus completing the destination circuit in that region. This resort is a heritage resort since 17th century, and has been completely renovated and Sterling launched it in May 2022. We also have a strong lineup of other properties and other locations that we are exploring, and signing them on during the course year.

Our outlook is pretty buoyant for the remaining part of the year. The Q2 and Q3, when we have quite a few holiday seasons, that we can capitalize on and Sterling is very confident of its results for the remaining part of the financial year, too. Thank you.

K. S. Ramakrishnan: Hi. My name is KS Ramakrishnan, and I'm the Managing Director and CEO of Digiphoto Entertainment Imaging. A very good morning to all of you all, and let me start by firstly congratulating all my colleagues on the wonderful performance they've done across the Group. And, I guess, we have just added an extra flavor to the same group by our performance, which has been fairly consistently growing from the time we are back out of pandemic. Because we are spanned in about 18 odd countries across the world, the pandemic hit us the first, as we are operating in China, where it first started and also lasted till today, we are still continuing in China. Having said that, overall, DEI had a substantial not only a recovery, but the growth in the last 3 quarters.

So, Q1 FY 2022 is when we started our recovery. And from there, in Q4 FY22, we had a substantial not only recovery, but growth. Today, overall, we have actually reached beyond the pre-pandemic level in certain countries. Our predominant countries that have helped us to grow our business is UAE and the U.S., and then a few pieces of Asia. While China has still not come out of the pandemic and still struggling in and out, Hong Kong, Macau has still not come out of it.

Our overall revenue has already beaten our pre-pandemic levels. And the most important reason of doing that, is through the pandemic, we worked through a strong ZBB-ZBO process, that really helped us to grow both our top line and add more to our bottom line, and that is being shown on our EBIT levels pre-pandemic to post pandemic. We've added nearly about 30% to 35% growth in our EBIT levels from pre-pandemic itself, which has been one of the biggest, I guess, and the best achieved in our industries, as far as photography goes.

The key highlights that we've grown our geography through the pandemic, we've added 2 new countries, predominantly Korea and also sell model in Congo in Africa. So, now we operate in 19-odd countries as we speak. Looking ahead, we see the next few quarters being better. So, in our line of business, as per the Indian financial calendar year, quarter 2 and quarter 3 are the biggest quarters, they constitute to 60% of the revenue. So, we are very exciting looking forward for 2 strong quarters right now. That's predominantly because the global holidays fall during these quarters, from July to September and then from October to December. In fact, our last October to December quarter, nearly covers about 35% of our annual revenue. So, we are all set for a fairly interesting future.

In addition to all that, we have invested strongly into technology, which is taking from Madhavan's comments and the rest of my colleagues' comments, we have taken this opportunity to revamp and rehash our entire digital platform. So, a strong change that's going to happen to us in the next 2 years, is going to be from being a B2B2C, we are developing a platform that makes us B2C direct, which kind of opens a whole new plethora of opportunities on imaging and photography, that goes beyond the realms of just serving photography in theme parks.

So, the main gains of this will be that we're now not restricted only to those people who come to the park and come back to our counter to buy our pictures, and thereafter go online. But with this new platform and technology, they would have the choice to have the platform on their phones even before they enter the park. And therefore, through the park experience, through the visit experience to all our attractions, they'll be getting the image that's real time downloaded on their phones, and they can play and move it. And above all beyond the experience, once they go back home, they have chances to still buy and continue the buying opportunity, which doesn't happen currently as we speak. So, that is a huge investment the company is doing. We have appointed one of the big 5 firms, Tech Mahindra to do that for us. And all of us are very excited to look at 2024 & 2025 of where will we grow from here. So that's a bit about the geography and about our technology.

From an efficiency perspective, we've gone through the pandemic, a lot of cost saving and cost cutting process have been done, that has brought our EBIT to a better level. Our cost of both labor and cost of materials, which are our 2 main costs, have been very well structured right now, and that's helping us drastically on our come back to profitability.

The last but not the least, also the pandemic helped us to renegotiate their terms with our partners, which we are holding good so far even after the comeback. Above all, I think the biggest opportunity right now that we have, is in expanding our geography. We have a huge focus on this- we're doing in the U.S. for the next 2 years, where our market share is at the lowest. In the rest of the world, we have a market share of about anywhere between 50% to 80% of the countries that we operate in. In the U.S., we are less than 10%. So, U.S. is a big opportunity, and we are looking at focusing on that for the next 2 years. While we do that, we are eagerly awaiting the comeback in China, as we opened 2 of our largest attractions in China, both the Universal and Disney through the pandemic. So, once that comes back, there is again going to be a sizable growth opportunity out there. That's all from my side. Thank you very much.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Sandeep Varghese, an Individual Investor.

Sandeep Varghese: Referring the slide on segment revenues and segment EBIT, right? Right now, if you see with that financial services, we are looking at like a 26% increase, Travel at 149% , Sterling32% and Digiphoto**at** 7%. What are the EBITs, given the cost reductions that you all have successfully completed and hope to maintain in the future? I mean, what are the EBIT percentages we can look forward, going forward?

Debasis Nandy:. So, on the cost reduction, we have said that in the last meeting as well, that we intend to hold on to the cost gains that we have done during the COVID period. You can see from our results that there has been a 33% reduction compared to pre-pandemic. And we expect to hold on to almost all of it. Now in terms of the EBIT ratio, it is difficult for me at this stage to f give a forward-looking number. However, you can see that, if you compare the results of the last quarter versus this quarter, the increase in the top line, the gains in the top line on the revenue has gone straight to the bottom line. So, I think it's a fairly easy thing to say, that any gains that we do in the net revenue, which is sales minus cost of sales, most of that would translate down into the EBIT number. And therefore, it will be a pass-through. So, it is right now, what your focus will be on holding on to the cost levels that we have achieved and increase the top line. Does that answer your question indirectly?

Sandeep Varghese: It does. I think I can sort of garner from what you just said. My next question is, at least referring the same slide, when do we expect at least travel and related services to be sort of back in the black from an EBIT standpoint?

Mahesh Iyer: So, as I mentioned, we've given some guidance for the next quarter. As I mentioned before, the momentum this quarter was more on the domestic side, the international recovery was slow. And when I say recovery was slow, it was not for the lack of demand, but for the problem on the supply side, which was augured by the supply side constraints from airline, the capacities not being full, and also challenges with regards to visas. But if you look at our forward-looking guidance, we are already saying that we would see a much better quarter coming forward. And that increase in volume should translate that into profitability. The point that Debasis made, we are retaining a large part of the cost efficiency that we have bought into the business, automated many of our processes, which would then mean that, any incremental costs that will go in acquiring the volumes will only be related to discretionary marketing costs, which are the only expenses that we incur. Therefore, it should flow through and our expectation is that, in the coming quarter and the quarter after that, we should see this business getting back into the black, as we would think so.

Debasis Nandy: I'd just like to add one more point to what Mahesh is saying. We also have a large amount of overseas business as of now and the inbound business in India, not all of which has started firing. For example, the inbound business in India, the season starts only in late October and goes on till April. Therefore, it has not yet started operations, they're still in the contracting or the procurement period. So, we'll see that coming back in action in the third quarter of the financial year. Likewise, for the DMS business, the Destination Management Services business, some of these units have started coming back to life, so to say. And for a few of them like the unit in U.S.A. and Kenya, this current quarter, which is Q2 is likely to be a big quarter. Likewise, for Asian trails, which handles Southeast Asia, the business is restarting now, but will really peak in the next quarter. So, we can see results coming in from India, as well as from the overseas units.

Sandeep Varghese: Just 2 very quick questions. First on the P&L, in the other expense section, point #2, there's a reference of about Rs. 100 crore. Could you shed some light on what that amount is?

Debasis Nandy: You are talking about the consolidated?

Sandeep Varghese: Yes, the consolidated one. In point #2 of other expenses, there is an amount of Rs. 100 crore for this quarter? Can you share some idea on what that is?

Debasis Nandy: So, see, all the costs relating to establishment, travel, conveyance, marketing, all of that goes in there. Anything which is not covered by us, non-employee costs or which are the cost of services that is being provided to the customer, which is cost of sales, everything else actually gets clubbed in there.

Sandeep Varghese: And what percentage of the marketing cost might be of that Rs. 100 crore?

Debasis Nandy: Around 6%.

Sandeep Varghese: Last question, and this is more for Mr. Menon. Mr. Menon, I mean it's really positive to see such a huge cash balance of around Rs. 850 crore. What might be the plan for that cash for that year? Like is there a significant amount of investment planned out?

Madhavan Menon: Look, I think we are in a consolidation phase across the Group. And here, I talk on behalf of DEI, Sterling, Thomas Cook and SOTC. I think we will continue to consolidate in the near future and look at opportunities as and when they arise. But my primary focus at this point of time is to consolidate and rebuild the cash flow that we had pre-COVID.

Moderator: The next question is from the line of Nirmal Shah from Seraphic Management. Please go ahead.

Nirmal Shah: I have one question with respect to Travel vertical. Sir, if you can just give us some broader strength, at what sort of revenues we can see the travel vertical as a breakeven? Because if we go by the slide presentation, what you have shown, probably there is almost 2.5x to 3x sort of a revenue growth on a Q-o-Q basis, and we are at a loss level at EBIT. But if I compare from Q1 FY '22 to Q4 FY '22, which is there in your presentation, your revenues just moved up by like less than 2x, but your losses actually were halved. So, how do we look at this as a vertical, how do we look from a break-even perspective, can you give some perspective on that?

Debasis Nandy: See, as Mahesh mentioned and as you know, that the travel vertical is composed of many sub-segments and includes leisure, B2B & B2C, the inbound and the DMS business, as well as the corporate travel business. So, at the overall level, so each of these will have different levels of different range of costs and cost and revenues and gross margin percentages. And therefore, we cannot sort of club and say one common number. Having said that, the reason that you see the loss is still there, while overall sales has moved up from Rs. 270 crore to Rs. 675 crore. Your question is that, why has the losses not gone away completely? It has gone down from Rs. 46 crore to Rs. 17 crore, but it's not gone down further? As we are mentioning, that some of the units are still not really operating or operating at a very minimal level. So, the business in India has bounced back, and the media reports are very clear on that. And the same has happened for some of the other geographies, the same has happened in places like Dubai or Kenya, for example. But there are other places where the business has either not started or starting in a minimal way. Also, there is a whole lot of seasonality involved in all of this. We expect that this element will go away over the next 2 quarters. Mahesh did allude to that while he was speaking earlier, so we expect that to go away. But I don't think it's right to just give a number at a word, rather because the business are very diverse, while we club everything under travel, it is a business very diverse.

Nirmal Shah: So, if I have to just guess for my understanding, out of your total travel vertical, the domestic, then outbound, then you have a DMS. So, if you can just give us a sense, which are the businesses which have broken even within the travel vertical? Like, I've seen your press release, you have mentioned that SOTC has broken even. You have the domestic holiday piece, I don't know what is the sort of profitability you have. But on a standalone results, I can clearly see you've broken even. So, on the DMS side, if you can just give us a sense what sort of cost which is impacting your profitability? Because that is the piece which seems to be having the impact on your overall profitability, right?

Debasis Nandy: The DMS business spans across multiple countries, in South East and Middle East Asia, in Kenya, South Africa, Australia and as well as U.S. So, while as I said, some of the units have started filing, others haven't. So, as of now, across the various units that I talked about, the DMS business for this quarter, at EBIT level loss about Rs. 23 crore. While this was a substantial reduction on the losses they made earlier, they' did not break-even.

It is also pertinent to note that this is not the season for many of these places. For example, Middle East which had actually bounced back, this is the summer season, and therefore, there are very little travel revenues. Not too many people would go into Dubai during the April-June quarter. Likewise for U.S.A, the travel season actually starts from end June, early July. Similarly, the peak season for Kenya is actually July-August. Thus, there is a bit of seasonality and it is not a straight through sort of thing that it will be even amount of sales across the quarters, it will be a little different. So, you'll see that's why I'm trying to say that you'll see a very different set of results probably in the next quarter as far as the DMS is concerned.

Nirmal Shah: And just, sir, last question on the domestic holiday side. In the initial comments, it was mentioned that there is a supply side issue with respect to the airline tickets or even the inventory of hotels, so you expect those issues to get resolved in the coming 2 quarters because of which your recovery indicators are not still over to a pre-pandemic level? Can you just give some comments on that?

Mahesh Iyer: We expect some of the bottlenecks to be addressed over a period in time. If you ask me, it's going to disappear in the next 1 quarter, I would be a little cautious about it. I guess over the next 2 quarters or so, we should see this coming down. Obviously, the supply side challenges will come down. You've seen new airlines come in, Akasa just started off and they will be filing for new routes also, new aircrafts coming in. There's Jet which is likely to come back in the third quarter of the current calendar. Hence, obviously, we're going to see some more supply coming in.

But those constraints are definitely likely to get a little more eased as far on the domestic side, but I think we should be mindful here to say that 2 years, the aviation industry has gone through a lot of losses there. And I think there is this opportunity to skim some amount of revenue, right? So, yes, everyone is having and customers are willing to pay. Thus, I think the supply side is a good problem to have. We have to look for the pearls within this and start picking up what works for us, and that's what we are trying to do.

Nirmal Shah: Sir, so the overall perspective, most of the hotel chains are actually showing occupancy which are sort of a pre-pandemic level occupancies or higher than that. You have also shown some sort of that relationship in Sterling Holidays. But for domestic holidays, then what is the barometer for us to look at? Because on one side, the hotels are showing very good occupancies. But when I look at your vertical, that we can't corroborate with the same thing. So, is there some other indicators where we can actually track that your growth in the domestic holiday would mirror some sort of those macro indicators, because hotels is already showing a very good growth, they are already above pre-pandemic levels, right?

Mahesh Iyer: So, you've got to look at it, because it comes to us as a bundle of service. We put domestic, international, short haul and long haul both to the customer as an offer to choose from. Now you will appreciate that as market opens up and if domestic is going to be pricey, people will choose to shift their preferences from domestic to short-haul/long-haul destinations. I mean today, traveling anywhere domestically is going to cost per person at least Rs. 50,000. Given that kind of persons, people will shift from one to another. What we are seeing is not the amount of customers coming to travel which is going down, but we are seeing also that customers are shifting. If domestic holiday is going to cost him Rs. 50,000, and he can put Rs. 20,000 and go for a Far East holiday or a

Dubai holiday, he would prefer to do that because he has got more value out of that and then you can actually go and brag that with his friends and relatives, so we see that trend coming in.

And as we have guided here also, we expect our next quarter, which is Q2 FY '23, we expect that recovery to be close to about 95% on the domestic side of it. This quarter was a strong one. We had seen about 78% recovery. And we had within the 78%, this is a quarter number, we had within this months where we have seen close to about 100% recovery also. But on a blended basis, we are at about 78% for the quarter. Our expectation for the next quarter is about 94%, 95%, and we expect that to trend in the direction.

Moderator: The next question is from the line of Mithun Aswath from Kivah Advisors.

Mithun Aswath: Just wanted to go in line with a couple of questions earlier, if we go back to your March 2020 numbers, I think at the travel-related segments, you did about Rs. 850 crore, and you broke even at that point. So, I just want to understand, when we reach the Rs. 850 crore type of numbers even now in the subsequent quarters, will that profitability be better or would it be similar? Because this quarter was about Rs. 650 crore, you've seen a negative EBIT of 3%, so that was my first question.

Debasis Nandy: I will not dwell up on the numbers specifically with comparisons. But just to give you an understanding. There are two things that we have done during the two years of the pandemic. One is the improvements in technology and the improvements in our cost structure, particularly in the India business, both of which Mahesh spoke about. And the result of both of that is that our cost levels are likely to remain at the same level as where we are. So, the growth in profitability or the reduction of loss whichever we want to see it, will come purely from the improvement in revenues.

Now Jan-March '20 is a very different season from April-June '22. Travel business, as we'll appreciate has a great deal of seasonality. And when I say seasonality, I also means that it's becomes very country specific. Also various segments of the travel business do not operate at the same level of profitability, some of the segments have higher profitability than others, which is essentially the nature of that business. Therefore, the mix part of the answer, like in the fact that the mix for April-June '22 would be very different from the mix that we had in Jan to March '20. So, the comparisons are not really like-for-like.

Madhavan Menon: Debasis, can I just add a comment here. I think if you look at Jan-March '20, the primary contributor are the two DMS businesses, which is in Asia and in India, which have not functioned this year. So, that is not functioning at the moment. And right now, what you're witnessing is the outbound, domestic, as well as the corporate travel businesses, which are really contributing to that number.

Debasis Nandy: Very correct Madhavan, absolutely right.

Mithun Aswath: So, just to add to this, you mentioned they are not comparable. So, would you say the businesses which were there in March 2020, which are not there now, when they come back, so overall profitability will improve because those segments are more profitable?

Debasis Nandy: Certainly today, what's happening effectively is that we are paying for the cost of those businesses, but they're not generating any revenue or generating very little revenue. So, once they come back to business, the business picks up, then we start reviving, there will be no additional costs that will be incurred, except maybe some degree marketing costs or some degree of travel, but other than travel for the staff, I mean other than that, there will be no significant cost that will be incurred. So, again, the revenues will translate straight into profitability.

Mithun Aswath: My second question was on the domestic travel. You mentioned that we are still targeting only 94% of pre-COVID levels. However, I think the Sterling business would have crossed pre-COVID levels and much beyond. What is hampering our domestic travel business not reaching the pre-COVID levels and more than that? Because that would not have issues on supply and Visa and all those issues?

Mahesh Iyer: I think I kind of clarified to the previous question also, it's not like anything hampering the, as I keep saying, any challenge that come in the marketplace is an opportunity for you to look for. We are trending in that direction. If you look at the quarter-on-quarter volumes, I think there's 2 ways to look at this business. One is to look at it in terms of volume, that's number of passengers, the other is to look in terms of value.

In terms of value, if I start talking to all of these numbers, they will definitely look much, much, much better. But I think it's also important to compare in terms of volume, because that's the real health of the business. If I just put in terms of value, quarter-on-quarter comparison, we've actually grown

3x in terms of our domestic business. And that's been the trend that we witnessed all through the pandemic, because that's the only market that was opened, there were lesser restrictions, I would say, in terms of travel. And we continue to see that trend going forward also.

But I think it's important to highlight here that from a domestic point of view, our comeback has been very, very strong. It was a portfolio that we were not that dominant player there on the domestic space. We were always looked upon as an international operator. And over the last 2, 3 years, we've spent enough amount of marketing bucks in terms of getting this business on track and we are beginning to see that kind of things playing out. I wouldn't actually make a comparison here to Sterling, but yes, it's a good data point as to look for us to compare to see as to how that occupancy rate is coming back and trending.

And I think Vikram spoke about it. And I think we are seeing that trend and we believe that our businesses are also trending in that direction. So, about 70%, 80% and in cases for the next quarter, we believe that we will see about 90%, 95% recovery, and that will come back as the business goes forward. So, honestly, to be very frank, a single line answers there is that, we don't see any impediment to growth. It's all about how much of that opportunity you want to take and move forward with. And we have been very cautious about it. We're not spending tons of money and trying to lose money in terms of gaining market share.

Mithun Aswath: My last question was on the cash guidance, you mentioned Rs. 850 crore, and your debt is Rs. 470 crore, so would your net cash to be Rs. 400 crore? And I just wanted to understand what would your CapEx plans be for the rest of the year? And do you see net cash levels from that Rs. 450 million move up appreciably as these businesses start generating a lot of cash. By the end of the year, do we see that Rs. 450 million trending up to a much higher level? I just wanted to get a sense of that.

Debasis Nandy: To answer the first question, our CapEx is not likely to be significant. As you know that we are an asset-light business. We like to operate in that fashion. The only CapEx that we'll have is probably for the technology upgrades that are happening across the various units. So, that's the only significant part of the CapEx. As far as the cash balance is concerned, yes, the profits that we generate will translate into cash. Some of that obviouslywill also be deployed into working capital because as a business volumes increase that amount of cash, cash does get deployed there. But other than that, rest of the cash is flowing to that bucket.

Mithun Aswath: Okay. So, the net cash number is around Rs. 370 crore, right?

Debasis Nandy:Yes. If you're taking out the debt

Moderator: Thank you. The next question is from the line of Senthil Manikandan K from ithought PMS.

Senthil Manikandan: Sir, my question is on the consumer sentiment. So, with the inflationary economy across the globe, so how does the consumer sentiment going to impact or what's your outlook on that?

Mahesh Iyer: Senthil, I'll take that question, and I'll get Madhavan to add me if he has to. So, Senthil, I think we kind of indicated in terms of our guidance for the next quarter, I think that's a reflection of how we see the customer sentiment in here. Yes, there are inflationary pressures,but I think we've seen this for over a little over 1.5 quarters now. And I think despite all odds, we've been seeing the momentum being very strong, people want to travel. Case in point, the next weekend is going to be a long weekend. And if you want to be searching for any hotel, you won't find any decent 4-star property in any place, less than about Rs. 10,000 or Rs. 12,000 per night.

If you were to pick up for a return flight to any destination, whether it is Tier 1 or Tier 2, you are not going to a return airfare for less than Rs. 20,000. Now that augurs well in terms of the industry that we operate. While there are inflationary pressures, whether this is a discretionary category and I think people have kind of saved enough over the last 2 years and now want to open their purse and go out on travel.

So, while we remain cautiously optimistic about it, I wouldn't think it will make any dent at least in the next 2 quarters. And I think there is enough reports also in the market to say that the inflationary trend seems to be inching downwards, we need to watch it. RBI has done enough to rein in the pressure on the Rupee. And I think all these measures should help the discretionary category that we operate under.

Madhavan Menon: Mahesh, thanks. Madhavan here again. Let me just comment. I think if you go back several months, input costs in the tourism industry, which are obviously airfares, hotel costs have already gone up. So, in reality, inflation pressures have not registered themselves because our input costs are higher. This did not stop travel, as Mahesh referred, besides all these input costs being higher, people have been travelling. Additionally, if inflation remains stable or is brought down, I think that we will continue to see travel. And this is reflected again in the numbers that Sterling has reported. Higher input cost despite which their occupancy rates are at high levels, the highest levels, Vikram, correct me if I'm wrong. And this is going to continue for some time. So, I don't think inflation in India is at the moment at least a determinant. And my expectation is that this trend will continue. Thank you.

Vikram Lalvani: Absolutely, Mr. Menon. In fact, if I may just add on. At the resorts or at the hotel level, we do face the inflationary pressure in terms of input costs, like input food and beverage costs, other landing costs of raw materials at our resorts. The way we actually counter it is by bringing more efficiencies through menu engineering, which we've actually implemented, so that the impact of inflationary costs actually do not impact the customer. We have to get a lot more efficient through menu engineering, through preventive maintenance of our digisets because our diesel costs are going up. So, those are the measures that we take also to reduce the impact of the inflationary cost during our Q1.

Senthil Manikandan: My second question is with respect to the DMS entities. So, like quarter-over-quarter, I think the demand may fluctuate between one region to the other. But if you can give an outlook for a yearly basis, so any strategic initiative we have taken for the DMS entities or any turnaround happening over the next 1 or 2 years?

Madhavan Menon: Yes, I'm going to take it. The destination management entities, and I will specifically comment on Asian Trails, which is based in Southeast Asia and TCI, SITA, which is based in Delhi. The reality is, look, we can do everything we want, but this is essentially a B2B business. Travelers have to feel comfortable traveling long haul again. And I can tell you what we have witnessed so far is that, it is early stages. Secondly, we are not in season because if you look at the monsoon that is overtaking India, which is witnessed across India right now, Southeast Asia has also got its rainy season on over the next few months.

And by what Debasis said earlier is that, we're seeing forward bookings closer to the last quarter of this calendar year, which is the October, December as well the first quarter of calendar year '23. Hence, my expectation is that the DMS businesses will come back. We are geared and ready in terms of our quotations. There are constant queries. The pace of queries are only increasing day by day across these territories.

Having said that, we witnessed a turnaround in the Middle East. We've witnessed a turnaround in East Africa, South Africa and the United States already because their seasonal activity has started. So, it's a bit of a mixed bag, but it's only better days from here on based on the forward bookings that we are witnessing across all the businesses.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Madhavan Menon: Thank you, everybody, and those are the some very interesting questions that we saw. Very good ones and pointed. I think I'm just going to address a couple of things which I did miss out in my introduction, so I wanted to cover as a part of my closing comments. Sterling has had a sterling performance. I'm sorry, Vikram, I'm using a bit of a pun here. But the reality is Sterling is doing extremely well. And this is something that we visualized when we made the acquisition years ago. And I think through all the restructuring, the business has come into its own and it's there.

SOTC, a second company that's clearly benefiting from the integration benefits with Thomas Cook, the cost savings that have been through movement of office and a variety of other activities to seek the benefits of both technology, as well as a customer-centric focus. A point that came up with the question is the sustainability of costs. I think this was not just a reduction in head count, but it was a reduction of what we believe could be replaced by technology. And therefore, there has been a very specific mapping exercise. So, businesses no longer need to come back and say, I'm short of this headcount and therefore I need to focus on it.

The second point, which I want to mention, is the current sort of shortage that each and every industry in India is facing in terms of skilled labour. We have also seen this attrition, but something that we have done at SOTC, Thomas Cook has been that we have gone in and hired freshers, we are in the process of training them and we will fit them into jobs. The principal focus here has been that, yes, freshers are far more nimble footed in terms of using new technology. Therefore, we thought that, that would be a way to sort of manage and which should help us control our costs. In terms of the destination management businesses, I think we have addressed that question.

The third point is market share. If you look at Sterling, they enhance their market share. They are now talking about doubling the rooms, which Vikram and Sterling have been talking about. If you look at TCIL, SOTC, we're seeing a whole lot of new customers coming. Similarly, if you talk about some of the DMS businesses, we're also seeing a change in their customer segment. So, in reality, I think it's a welcome sign for us that we are actually able to expand our market focus. And hopefully, in some of that, we are seeing increased market share.

Lastly, inflation I think input costs in our industry lend this one. So, we've not seen other than the F&B, which Vikram referred to. Otherwise, we've seen a lot of these costs being in existence for some time. We hope that with the taming of inflation, we will actually see a reduction in input costs. The positive of that is going to be driving increased business in our direction.

So, thus, with that, I will conclude. Again, ladies and gentlemen, thank you very much. Mahesh, Debasis, Vikram, Vishal, Ram, thank you very much for answering the questions. Have a good day and a good week.

Moderator: Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.