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Thomas Cook

November 18, 2022

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Dear Sir/ Madam,

Sub: Transcript of the Earnings Conference call

In furtherance of our intimation dated November 4, 2022 giving intimation on the Q2 & H1 FY23 earnings Conference Call and pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby enclosed the Transcript of the Earnings Conference Call on the performance of the Company for the Quarter and Half year ended September 30, 2022 held on November 14, 2022. The same is also made available on the Company's website and can be accessed through the following link https://www.thomascook.in

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
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Amit J. Parekh
Company Secretary and Compliance Officer

Encl: a/a

Thomas Cook (India) Limited

Q2 FY2023 Earnings Conference Call

November 14, 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. 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
MS. URVASHI BUTANI- INVESTOR RELATIONS - THOMAS COOK (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY23 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 star then zero 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. Thank you. And over to you, sir.

Akul Broachwala: Thank you, Steve. Ladies and gentlemen, good afternoon, and thank you for joining us on the Q2 FY23 Earnings Conference Call of Thomas Cook India Limited. I invite the company's senior management team, who are here to discuss the results and the business strategy way forward. 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 very much. Ladies and gentlemen, I'm Madhavan Menon. I'm the Managing Director of Thomas Cook (India) Limited. Let me just introduce the other members of the management team who are present today. I've got Mahesh Iyer, Executive Director and CEO of Thomas Cook India Limited. I've got Vikram Lalvani, Managing Director of Sterling Holiday Resorts.

Debasis Nandy, Group CFO at the Thomas Cook India Group; Brijesh Modi, CFO of Thomas Cook India Limited; Urvashi Butani, who represents our Investor Relations; and Bhavik Bhimani, who is the Financial Controller of the Group.

Let me give my opening remarks, then we'll work it around the room so that you will get -- we'll make sure that the relevant information is available to you before we get into the Q&A. I must say that we've witnessed a clear recovery in our business. And I can now very comfortably tell you that we expect the calendar year '22 as well as the financial year 22-23 to be profitable at a group level as well as at a standalone level. This is a significant change from when we spoke in March, after the financial year ended, primarily because there has been a strong recovery in our businesses, especially in the B2C businesses.

This recovery has been despite constraints that we have faced like higher airfares, the issuance of visas, inadequate flight options because of not enough aircrafts in the air. Additionally, we have seen that domestic and short-haul travel, basically, into the Indian Ocean territory still represents the primary destination of travel, both in the corporate as well as in the retail area.

An important element that came in during COVID was our cost management. We have continued to sustain this cost management, and we look to sustain it going forward. And I will talk about it in some detail later. But I just want to say one thing that we have taken several steps. It's not that we have just right sized the organization, but we've taken several other steps. And one of the most important steps that we have taken is to go down the digital route through all our businesses.

So if you look at the foreign exchange business, we have gone down the digital route, where a customer can today choose how he or she wants to interact with us, be it through our website, through an app or if they want to come to us through a call center. And ultimately, if they wanted to walk into our branch, they could do it. The foreign exchange business has also built a third channel, which Mahesh will talk about in detail. On the travel front, we have gone down the same route of digitizing all our processes. So, we've moved away from a physical handover of various steps in the buying exercise to a seamless digital experience. So from that point of view, I think the digitization route has helped us sustain our cost management and we hope to be able to continue this as we go forward.

I will now stop here and hand over to Mahesh Iyer, who will make his comments.

Mahesh Iyer: Thank you, Madhavan, and good afternoon, everyone. I'd like to straight jump into some of the highlights of the current quarter performance. And I'd like to begin with what Madhavan left off, which is the sustained recovery. I'm happy to let you know that this sustained recovery has led to a profitable growth, which is a sequential profitable growth for the Group as well as the standalone numbers. Also important to mention here that from a volume point of view, sales volume point of view, without exception, all businesses registered almost double-digit growth.

If I talk about the recovery to pre-pandemic levels, the foreign exchange business currently is about close to 82% to the pre-pandemic level, whereas the travel services is about 83%. When I'm talking about travel services, I'm talking about India travel services – we are about 83%. And overall within the group, it includes overseas travel also, we are close to about 78% to the pre-pandemic levels.

Some of the key highlights on the foreign exchange business to begin with. Revenue from operations for the foreign exchange business improved by 33% as compared to the previous quarter from INR 48 crores to INR 64 crores. And consequently, the EBIT improved by 83% from INR 11 crores to INR 20 crores. This increased or improved performance is the backdrop of recovery across several segments of the foreign exchange business.

Noteworthy, amongst them, first, is the retail segment, where we are currently at about 95% to the pre-pandemic level. This 95% constitutes about 130% recovery on the student segment, which has been the frontrunner for the business for some time now and has registered a 60% quarter-on-quarter growth. When I say quarter growth, it's the June quarter to the September quarter, so very strong comeback by the student segment. What has also aided retail performance is a recovery on the travel side. With more and more people now choosing destinations other than domestic, we have seen a recovery there too, and that has kind of flown through the foreign exchange volumes also.

Important to mention here, the entire foreign exchange business and the point that Madhavan alluded to, - about 9% of our retail transactions are done digitally. These are either straight through or assisted through a call center, but 9% of the overall retail transactions are now done through the digital channel. Now this when you compare to the pre-pandemic level, we're virtually about 1% or 2%. So clearly, the investments that we have made in technology and to get the customer to deal with us through the digital route has actually beared fruit. And when I look at from the comparison to the June quarter, we were about 5%, so we moved to about 9%. So that's almost like a 2x growth that we've seen quarter-on-quarter.

Also important to highlight here, we've taken the stand and I mentioned about it the last time around, the India ka Forex Specialist. I think riding on that wave, we have seen the B2B2C business, which is nothing but the channel business that we do on the foreign exchange side, has also gone the digital adoption route, and we have about 9% of our business on that side also coming through the digital channel.

So overall, if I look at the retail portfolio, which consists of customers walking straight to my counters and customers who are referred by other partners to us, they are about 18% of our total transactions going through the digital route. Other important element on the overall recovery for the foreign exchange business is the strong comeback by the corporate FX segment. The number of active customers has moved up to about 85% of the pre-pandemic numbers, which was last time – last quarter around 56%. So clearly, more and more corporates are now traveling, are now going to conduct their businesses and that's kind of reflecting in our numbers.

Important to mention here, the card volumes on a dollar-to-dollar comparison, we have witnessed a 12% increase in dollar terms versus the June quarter in the September quarter. This is at the backdrop of about 30% increase in the number of fresh cards that were issued. We had about 65,000 cards that were issued in the current quarter and that represents about 30% growth over the previous quarter.

From a market share point of view today, the entire card portfolio that Thomas Cook distributes through its own stores and its managed distribution is about 24%, which was roughly about 16% in the pre-pandemic level. So clearly, we've got market share, we've got volumes, we've got transaction count and we have also got recovery coming our way. So overall, a very, very strong comeback by the foreign exchange business and it's reflected not only in the revenue but also in the profitability growth. I'd just like to conclude by adding that we are the first card issuing company in the country or in the FX space, which have done a tie-up with -- on the KrisFlyer program, which is the Singapore Airlines' frequent flyer program, where people buying tickets on Singapore Airlines can now or buying foreign exchange at Thomas Cook will get miles on the KrisFlyer program. So it's a very unique program and the first non-bank in this space to do so. So clearly, we have some good highlights on the foreign exchange business, and we expect this trajectory of growth to continue.

From an overall perspective, as I mentioned, we are at about 82% recovery to pre-pandemic level in Q2, and our expectation for the next quarter will be around 88% to 90%.

Moving on to the holidays business. Again, a very strong comeback by the holidays business. And here, I would like to break this conversation into two parts. To begin with, first, overall revenue from operations improved from about INR 675 crores to INR 900 crores, again, reflecting a 33% growth. And from an EBIT point of view, which is very, very noteworthy, on a sequential basis, we incurred a loss last quarter and we turned that to a profit of INR 3.4 crores. So from a loss of INR 18 crores to a profit of INR 3.4 crores is a delta of about INR 21.5 crores. And clearly, that shows the resurgence of the entire holiday portfolio and the B2B business on the travel side.

The key highlights here, if I look at the B2B business, corporate travel continues to be at about 120% of the pre-pandemic level. Again, two factors playing there. One, the heightened airfares. So the ATVs are definitely higher. Noteworthy in the current quarter to mention, the ticket count, which is the volume that we generate, actually topped 100% in the current quarter. So clearly, from a recovery point of view, we actually see not only the value but also the volumes coming back. International traffic constitutes about 60% of these volumes and 40% of the value comes from the domestic side.

On the digital adoption side, which is where opex can actually do a straight-through processing for their transaction, about 70% of our customers are on the digital route and clearly augurs well in terms of the productivity and the cost management that we put into this business. On the MICE side, the other B2B business that we run in, a very strong comeback from about 45% in the previous quarter. The current quarter, we are at about 87% to the pre-pandemic levels. It also reflects the mood of the nation. A lot of corporates are now willing to go out and open their purse and spend on building their distribution. The focus has been on building sales to get new markets and clearly, that's reflected into our volumes also. I'm also happy to let you know that during this quarter, we also managed some marquee events for the government enterprise, and all of that has kind of flown through the volumes. Looking through for the next quarter, we actually see a very healthy pipeline and in all probability, this business will be closer to about 85% to 89% recovery.

Moving to the B2C side of the business, which is holidays. And I kind of split that into two parts. I think the domestic side of the recovery was a little slower as compared to what we anticipated while we spoke the last time around. We expected this to be about close to 90% in the current quarter. We actually saw that recovery is tapering down and for the reasons well known, clearly, as more and more destinations open, as you know, in this quarter, we had Sri Lanka, Bhutan, New Zealand, Japan opening. So clearly, the shift was from -- more from our domestic destinations to international stations and within the international destinations, the challenges that Madhavan mentioned, higher airfares, the challenges around visa continue to plague us and people were looking at more short-haul destinations.

So what we did is we tweaked our product portfolio to focus on more short haul, easy visa destinations, which give us the volume that we wanted. So from a recovery point of view, for the current quarter, we were at about 45% recovery to the pre-pandemic level and our expectation for the next quarter is about 65%. So clearly, we are seeing volumes coming back. Noteworthy during this quarter also, we participated with Flipkart on the Billion Dollar sale. We were their holiday partner, and offered our services on that side of it also.

So overall, I think from a travel point of view and the B2C side of it, volumes have come back very strongly. We see the recovery going well into the festive season, and we remain optimistic about a better quarter in the next -- in the December quarter too.

Madhavan Menon: Let me just throw some light on the other subsidiaries, the Destination Management business and DEI, our imaging solutions business. On the destination management front, the Middle East, East Africa, have returned to profitability. South Africa, North America have broken even, are headed back to profitability. India and Asia, that's essentially SITA and Asian Trails, have been slow to recover. And this is primarily driven by the fact that the source markets of their business being Europe and the United States are still not traveling long haul, but restricting their travel to local destinations.

In the case of Allied TPro, which is our business in North America, I'm pleased to announce that we have entered into a special arrangement with Germany's largest tour operator called REWE to manage their incoming business into North America. This will represent a major jump in their revenue, as well as profitability through this special arrangement. And therefore, I think that is good news. We have a similar arrangement between REWE and SITA in India, and we are replicating that.

On DEI, the company returned to profitability last year, as we mentioned. They are now focused on a couple of initiatives, which is from the point of view of diversification, they're looking at geographic expansion rather than being dependent on a couple of geographies. So, we are looking at Saudi Arabia as being a next destination. We're also looking at getting the balloon project, which was actually scheduled to open last year but got delayed due to the pandemic is going to open December 15, and that is a new revenue stream that is completely different from what we have today at DEI and that should add to their profitability.

I'll now hand over to Vikram Lalvani, the Managing Director of Sterling to give you, share his comments on the outlook for Sterling Holidays.

Vikram Lalvani: Thank you, Mr. Menon. Good afternoon, ladies and gentlemen. My name is Vikram Lalvani, and I represent Sterling Holiday Resorts Limited as its Managing Director and Chief Executive Officer. I'm also joined by Mr. L. Krishna Kumar, who is the Chief Financial Officer at Sterling Holidays Resorts Limited. It's a privilege to interact with all of you this afternoon.

We are delighted to announce that Sterling continues its profitable streak and has had a profitable half year, recording an EBITDA of INR 55 crores for the first half ended 30th September, 2022, and has added INR 15 crores for the second quarter of this financial year. This reflects and reaffirms our renewed growth strategy, which involves two parts. One, scaling of the resort business, the resort spends, average room rates at resorts and improved guest ratios. And number two is improved efficiencies in the membership vertical.

The key factors that propelled the growth in Q2 are, growth in volumes - we've grown our volumes to 53% occupancy as against 46% of the same period last year and maintaining the pace of volumes even in the pre-pandemic level. We've had a healthy average room rate growth, which has even surpassed the pre-pandemic levels by 54%, which was at INR 3,705 in Q2 FY 20 to almost INR 5,718 in Q2 FY23.

Improved food and beverage revenues at the resorts, reflecting a significant increase of 51% over the same period last year, while also recording a growth of 47% in the pre-pandemic levels. We used to generate almost about INR 11 crores in food and beverage in Q2 FY 20. And I'm happy to report that in Q2 FY23, we've almost hit INR 16 crores. And this is because of the fact that we've started focusing a lot on our customer spend at our resorts through experiential dining options, which are available at our resorts.

Growth in the overall non-member occupancies and rates have been phenomenal from 51% in Q2 FY20 to almost 62% in Q2 FY23. The above factors resulted in the resort business actually reporting a growth of 74% in revenues as compared to the same period last year, we've closed INR 53 crores in this quarter versus INR 30 crores of last quarter. Total revenues saw a recovery of 141% in revenues from operations as compared to pre-pandemic levels from INR 55 crores in Q2 FY 20 to INR 78 crores in Q2 FY '23.

Cost optimization that had been undertaken since 2020 has been maintained and the cost line continues to be maintained even this quarter. In the membership business, the focus has been on profitable and efficient sales with continuous growth in our variable model of our membership business. To that effect, our on-site sales have actually crossed the 50% mark this quarter versus what it was at 31% in quarter of last year. Strengthening of sales channels resulting in increased average unit realization with a growth of almost 11% over the same period last year and higher down payments in this business of 46% directly correlating to operating free cash flow improvement of 39% in Q2 FY22.

In line with our strategy of expansion, we continue to expand on an asset-light model, and we are delighted to announce that we are launching two new destinations in November 2022, Pench in Madhya Pradesh and Tiruvannamalai in Tamil Nadu. We have also signed up several other properties which are in discussion, which will be launched also in the near future. Sterling Resorts is the only hospitality company to have launched a unique proprietary platform called Sterling One that enables our channel partners in length and breadth of our country and employees of corporate clients and access to our resorts availability in real time and make reservations with preapproved rates at a click of a button. This has helped the company expand its width and depth of distribution in Tier-2 and Tier-3 towns across these channels, thus not adding on fixed costs to it. We've generated almost INR 8 crores of business using this platform since July of 2022, when we launched it, and as of now, as in October, we had a 90% growth in this channel as against what we started off in July 2022.

Our operating free cash flow in Q2 FY3 registered a growth of 160% as compared to pre-pandemic levels, which was at INR 5 crores in Q2 FY20 to INR 13 crores in Q2 FY23. For the first half of this financial year, our operating free cash flow also registered a significant growth as compared to the same period, even in the, as against pre-pandemic level from INR 7 crores in H1 FY '20 to INR 46 crores in H1 FY '23.

Our outlook for Q3 and Q4, which is October, November, December, as well as January, February, March, looks extremely healthy. We've entered Q3 with the festive periods of October with Dussehra and Diwali and we've had a remarkable October also as we have progressed into November. We have added on almost INR 10 crores of operating free cash flows in the month of October '22. Our average room rate growth is still recording about 36% growth over the previous years and 65% growth over pre-pandemic levels of October 2019. And this also speaks about the strength of the brand of Sterling that we have continued to evolve.

Improved guest ratio of 64% into Q3, and in December, our room revenue business on books has already hit almost INR 11 crores as on date, as on 14th of November. And we have actually recorded an equal amount that we had actually performed in September '22, wherein we closed at about INR 11 crores of room revenues. So hence, we are very buoyant about Q3. Q4 also our focus is to continue to ramp-up and have a phenomenal performance both in Q3, as well as in Q4 to close this financial year with record numbers for Sterling Holiday Resorts. Thank you.

Debasis Nandy: So, I'll just quickly run through the numbers at a consolidated level for the quarter. We ended up with an Income from Operations of INR 1,222 crores, which is a 270% improvement over the same quarter last year, which that time stood at about INR 330 crores. It also represents a 25% improvement on a sequential quarter basis. In terms of EBITDA, at a group level it went to INR 54.7 crores, to be exact, against a loss of INR 61 crores that we made last year, which was also an improvement on the June quarter when we made a profit EBITDA of INR 49.8 crores.

At a PBT level, the group reported profits at a consolidated level after several quarters. Profit was about INR 4.8 crores, against a loss of INR 110 crores in the same quarter in the previous year. On a sequential quarter basis also, we improved our performance from a loss of INR 2.3 crores to the current INR 4.8 crores.

In terms of the segments, all the segments continue to do well. And this is the first quarter after, I think, after six quarters that all the segments actually reported a profit, including the travel services quarter, which goes on to what Madhavan and Mahesh were saying about the travel industry and the results that we expected from them. Very quickly, on the segment revenue, financial services or foreign exchange, improved its performance by 160% on a quarter-on-quarter basis. Travel services showed an improvement of 486% or 4.8x. Leisure Hospitality which is Sterling, improved by about 27% over the last year and DEI double-digits, doubled its revenue. With that, I would like to conclude here and open up the discussion for questions-and-answers.

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

Mithun Aswath: Just a question on your Sterling Holiday business. Despite the growth Y-on-Y, on the segmental EBIT numbers, there is a decline of about 60%, could you just touch upon why that has happened despite improvement in ARRs and the overall business? Similarly, the Digiphoto business as well, on a quarter-on-quarter basis, I have seen a decline in EBIT despite a 20% growth quarter-on-quarter. If you could just touch upon what has happened in these two segments leading to the reduced profitability?

Vikram Lalvani: Sure. This is Vikram here, and I'll also be joined by CFO, L. Krishna Kumar. Rightly said, all our business input levers have actually shown significant growth. The delta in EBIT of Q2 FY22 versus Q2 FY23 is on account of a one-time cancellations that we had taken of all dormant members, we had about 3,500 of them in Q2 of last year that we had undertaken post-pandemic that happened. So, these are customers or members who have not been active with us for the last five years and who do not intend to holiday with us in the future as well. And they have actually not been active and participating in holidays segment with Sterling. So, we have taken a one-time decision to move them off our books. And Mr. Krishna Kumar will explain the exact numbers out here.

Krishna Kumar: So Q2 FY22 includes this cancellation of these customers who have actually not paid the annual subscription fees, which is contractually due to Sterling. As a result, it has come to a conclusion that these customers are not willing to holiday anyway in the near future. And therefore, as per the standards, we need to cancel the contracts and we have to abide by the contract conditions.

Consequent to that, the 3,500 customers have been knocked off in Q2 FY 22, resulting in a gain of around INR 10.4 crores in that quarter, which has not happened in this quarter. This quarter is more purely from business. While all the parameters are indicating a very good growth in terms of occupancies, ARR, food and beverage spends, the drop, which is the previous quarter is purely a seasonality effect, which will again come back to the normal levels for the October to December period and the January to March period.

Mithun Aswath: Right. But even if you just look at our quarter, even Q-on-Q, I think in the previous quarter, the margin was close to 30% and this quarter is more like less than 10%. So, I'm just trying to understand. I mean, obviously, it's come off because of the seasonality. But despite that, any specific charges or anything happened this quarter?

Krishna Kumar: What's also happened in the current quarter and the current half year is that in the last two years, because of the pandemic, we were not able to do any performance-related payment obligation to employees. And consequent to the good quarter performance of April, May, June, we were actually honored to make some provisions related to the employee benefits in the current quarter. So therefore, you will see a spike in the spends as far as the employee HR cost is concerned. So that's why you'll see the profitability taking a small decline in the current quarter.

Mithun Aswath: How much would that have been, sir?

Krishna Kumar: Around INR 6.8 crores.

Mithun Aswath: And if you could just touch upon the Digiphoto business, the decline in the profitability quarter-on-quarter despite 20% growth on the top line?

Debasis Nandy: And I'll try and answer that question for you. So as you know, a large part of the DEI revenues come from the Middle East. About 40%- 45% of the business happens out from Middle East. And this is the summer season. July, August is the summer season. And therefore, the attendance in the parks are low. So this is a natural thing. It's the same thing happens year-on-year. This is a low season for DEI. And it's the pure seasonality. In addition, we also have a significant business in China and these parks were not operating at full capacity. In fact, they were closed for quite some time in between because of the COVID-related restrictions in China. So primarily, these are the reasons for the low quarter. You will see a rebound impact in the current quarter. It's a seasonality issue and nothing else.

Mithun Aswath: No, sir, I'm not understanding that because quarter-on-quarter, the revenues are up by 20%. So since the revenues also have dropped, there is an issue in the business?

Debasis Nandy: Let me just explain that again. So the way this business performs is that for every, it has more than 200 sites. And for each site, there is a cost, there is a revenue-sharing mechanism. Now the revenue share is a percentage, which can be as lower, depending on the site can be as low as 25% to 30% and can go up as high as 60%, 65%.

It depends on what site it is and how the contracts are fashioned. So it's largely dependent on mix, so during this time, the mix has obtained in a fashion, which has gone against DEI, so to say. So the parks which operated, obviously, the parks which operated to a high revenue share, when I say revenue share, I mean revenue share to the site owner. That has, it's been higher than other, at other times. Therefore, there's a mismatch in the revenue because of that.

Mithun Aswath: Perfect. Sir, then one last question on the balloon project you mentioned. What is that exactly?

Debasis Nandy: So this is, this balloon is being set up in Dubai. This is a balloon, which is a tethered balloon, which basically means it's tied to the ground, so it can only go up and come down. So, this is being set up at the Hotel Atlantis, in the ground of Hotel Atlantis in Dubai. So, this will offer a unique opportunity to look at Dubai and its surroundings from the air in a form of balloon. This is a very successful project elsewhere in the world. In fact, in India also, we have one such in Ahmedabad. We don't have it, somebody else is have it, obviously, in Ahmedabad and it's a success. So, we expect this to be a big success as in Dubai. And depending on how we operate and what sort of success we get, we may think of taking this balloon elsewhere as well, doing similar projects in other countries as well.

Moderator: The next question is from the line of Sandeep Verghese, an Individual Investor.

Sandeep Verghese: I have two questions. Both of them are margin related. First, with regards to travel segment. So the EBIT margins that we are reporting currently are around 0.5%. If I take FY20 as a measure and that too just Q1 to Q3, those EBIT margins are, say, about anywhere between 2.5% to 3%. Now given the cost savings and the move to digital avenues for customers to -- whether they are corporate or retail or whatever it is. If you are at a 0.5% margin now, when do we see us kind of getting back to erstwhile 2.5% to 3% margins?

Mahesh Iyer: Sure. So thanks for the question, Sandeep. So clearly, as you see, the recovery of the business has just started for the last two quarters. We've been reporting our profitable quarters for the last two quarters sequentially. And I think we've been, as a management, reiterating the fact that we are holding on to our yields on the business. In fact, over the last four quarters, our yields across all lines of business, be it foreign exchange, be it holidays, whether domestic, international, or B2B travel, our yields have been holding steady. So clearly, the investments that we've made in technology, the productivity gains that we have made will actually lead to the increase in EBIT margin gradually. It's a process, right. Because what we have done, there is a larger cost base that's sitting in and the revenue is only coming back. So as this trend continues, when the recovery is close to 100%, we are currently at about 70%-75% recovery. When the revenue comes to 100%, you'll actually see that the EBIT margin will be higher than what we used to do pre-pandemic. So clearly, it's a function of recovery in the business to the pre-pandemic levels and that's what revenue margins or the EBIT margins will get to the 2.5% or higher in the next few quarters.

Sandeep Verghese: So if you are kind of getting to a higher number, what is that number that you all are targeting?

Mahesh Iyer: Our internal assessment is that we'll be close to about 2.75% to 3%, and that's what we're working at.

Sandeep Verghese: Okay. So that's like a very small margin increase over what pre-pandemic was, right?

Mahesh Iyer: So if you have to look at from the recovery point of view, right, the business has to recover at 100%, and the mix of business you're also changing because you are now today what you're doing is you're doing a lot of short haul, which is more the low-value product. Over there, the price is very optical. So, you've got to be competitive in the marketplace also. So while you are garnering market share, we are putting technology into place. We are improving productivity. We also need to be cognizant of the market share. Otherwise, we'll offset the others in the market.

Sandeep Verghese: So, I get that. I think what I'm trying to hear I'll refine my question a bit. I think what I'm trying to say is that at its best, what do you think the marginal effect to be?

Mahesh Iyer: Well, I can't make a forward-looking statement at this point in time. I'll be a little guarded on that. But we definitely see the margins improving year-on-year. That's what I would say.

Sandeep Verghese: Okay. Coming to Sterling. So, I heard the gentleman speak about the performance and I also heard what the previous question was. For your business, we don't actually have any guidance for Q3. Is there something that you can offer up at this stage?

Vikram Lalvani: In fact yes. Q2 is the leanest quarter of this financial year. Q3, I had actually also given an indication as to how we closed October very strong with almost an OCF of INR 10 crores. And our forward-looking positions even like, say, for the month of December, we have attained a room revenue in December as on date, which is even equivalent to September of 2022, which is almost about INR 11 crores booked so far.

So, our outlook for Q3 is very buoyant because of the fact that, one, we've had two festive periods in October and we're also having another festive period coming end of December. November and the first 20 days of December is clearly a focus on conferences and weddings. And so our outlook for Q3 is extremely positive. Even Q4 is, because the forward booking positions for weddings and certain businesses are there for Q4. Our Q4 pipeline is also looking extremely strong, which is why we should be able to close this financial year actually with historic numbers in Sterling Holidays.

Sandeep Verghese: Okay. And do you think that you will go back to the margins that you had previously in the previous quarter in the future?

Vikram Lalvani:Actually, yes, in future because it's a lot of this is revenue linked. So typically, we look at it in EBITDA margin of about 33% to 35% and a PBT margin of about 17% to 20%.

Sandeep Verghese: Okay. So that's expected. Correct?

Vikram Lalvani: Yes.

Sandeep Verghese: Okay. Final question. There was a news article a little while back about the potential IPO forced. Is that on the cards in the near future?

Vikram Lalvani: No, that's not on the cards. And I had also mentioned it very clearly that it's not in the cards. So, our stand is very clear on that.

Madhavan Menon: Yes. Vikram, if I can just add, Mr. Verghese, we are long-term investors as Fairfax is. Our intent is to nurture a business and allow it to grow to its fullest potential. Sterling obviously represents an asset from a Thomas Cook and a Fairfax point of view of being an asset that has been nurtured. And we will expand our business significantly because we see a lot of opportunities in the hospitality space, especially the niche segment that's Sterling fits into. So, there are no intentions of taking them public at this time.

Sandeep Verghese: Point taken, sir.

Moderator: The next question is from the line of Akul Broachwala from IIFL.

Akul Broachwala: Now basically, I wanted an understanding on typically on a pre-COVID standpoint, we used to have 4Q as a quarter where most of these expenses used to be front ended, basically, to prepare ourselves for the heavy season that typically we witnessed during first half of any financial year. So are we kind of going to see the similar kind of trends this year as well? Or do you expect that the cost savings might probably help us in terms of lower cost exiting 4Q?

And the second part to it is, like how are you seeing forward bookings shaping up? I know it's we are still far away from the season for FY '24, typically the second quarter of the calendar year next year. But do we get a sense or are we confident enough at this point that probably we are going forward with a strong forward booking for the upcoming season of summer?

Mahesh Iyer: Akul, I'll take both those questions. Point number one, traditionally, we kind of invest monies into marketing. So that's always a function of sales. And as we've been saying, it's roughly about 2-2.2% of the gross sale on the holiday side. That's our investment in marketing. That's the discretionary costs that you will see coming in and sitting into any quarter, whether it's the December quarter or the March quarter.

As you will appreciate, the last two years, we haven't had a season, a summer per se and we are now very close on the anvil of launching some of our products for the Europe and the US holidays. So obviously, when those launches happen, there will be some discretionary costs that will go into marketing, but that would be linked to a percentage of sales. And that's how we baked in. Other than that, we don't expect any large cost uptick that may come either in the December or the March quarter to come.

Secondly, from a forward-looking point of view, I've already guided saying that we expect the December quarter to be close to about 65% recovery to the pre-pandemic level. And obviously, March is a little far away as you righty said. We don't have visibility there because as the product goes in, it's also a function of how the visa challenges ease of availability and supply chain challenges that we currently see. So obviously, we are looking at what opportunities are there and clearly going to the market with differentiated product offerings, which the customer can then pick and choose and then travel. So clearly, a little early in the day to kind of give a forward looking for March quarter, but definitely December is set on the anvil and I kind of gave a heads up on that.

Akul Broachwala: Mahesh, that was pretty useful. And another question probably Debasis can answer. In our results, we've disclosed that Horizon Travel has entered into a JV with New Travel World. So this is pertaining to what business exactly?

Madhavan Menon: This as I mentioned then, AlliedTPro, our destination management company in North America has entered into a special arrangement with a company called REWE. This is actually Horizon is the actual name of AlliedTPro. AlliedTPro is a trade name, has entered. So, this is what I referred to earlier.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Madhavan Menon for closing comments. Over to you, sir.

Madhavan Menon: Ladies and gentlemen, I thank you very much for participating in this conference and hearing us out and for the questions that were asked. I just want to reiterate two comments that I made earlier. We are back in terms of profitability. And this is a sustainable profitability on the back of business recovering despite all the constraints, our cost management, as well as digitization. Something I also want to mention is the fact that we are generating free cash again, which is an important measurement in our world. And this only reflects the fact that we are able to manage our numbers far more efficiently than we did during the pandemic, which was obviously out of our control. I would also like to believe that the destination management businesses are coming back. So, there is no doubt in our mind of any upheavals going forward because people will start traveling longer distances than they have so far. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.