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Thomas Cook to spin off Quess in a year to simplify business structure



Thomas Cook aims to spin off its human resource firm Quess within a year to simplify business structure and secure better valuation for its core travel business.

Thomas Cook acquired Ikya (now known as Quess), a staffing solutions and facilities management company in 2013 and listed it on stock exchange through an IPO in 2016. Thomas Cooks owns 49 per cent in the firm and its stake is valued at Rs 20.40 billion on close of Tuesday's stock price.

Under the spin off process, Thomas Cook's promoter (Fairfax) and its other ordinary shareholders will get shares in Quess proportionate to their holding in the parent company.

Thomas Cook India group chairman Madhavan Menon said the board will discuss the proposal in next two weeks and following its approval the company will initiate the process to secure necessary government and shareholder approvals. "I believe the whole process can take anywhere from six to twelve months," Menon stated.

The rationale of the exercise is to reduce complexities in the organisation given separate line of businesses, different cost structures and methods of revenue recognition.

Axis Capital in its investor note last week said it expects 10-25 per cent upside in Thomas Cook's current stock price in the backdrop of the spin off move. The upside target is based on Axis Capital's estimates on residual business of Thomas Cook and is pegged at 25 per cent if no tax is levied on share distribution. Thomas Cook stock closed at Rs 261.85 on the BSE today and the company is valued at Rs 96.88 billion at today's closing price.

Menon said he cannot predict stock market reaction to the exercise.

"We are not driven by how much our share price will appreciate in a day, month or few years. The objective of the spin off exercise is to allow both Thomas Cook and Quess to grow and reflect on their strengths.

I hope the market will give us a bump in value. However that is left to the market and we will showcase our strength post the spin off," he remarked.

Thomas Cook which is owned by financial services company Fairfax runs travel, foreign exchange, vacation ownership business (through Sterling Holidays) in addition to Quess.

"We are seeing a momentum in our travel business in the summer season. The forward bookings are looking good and we will make up for the downturn of last year," said Vishal Suri, managing director of SOTC, a Thomas Cook group company. The company also expects an improvement in operating margins of its travel business through synergies, cost optimisation and revenue growth due to use of analytics. The margins have been under pressure because of the company's investment in new business areas and digital platform.

Thomas Cook's chief executive officer Mahesh Iyer hopes the GST pains would ease by first quarter of next fiscal and added that the company was working on solutions to reduce its costs post introduction of the tax. "We have also made a representation to the government to reduce certain rates," he added.