

Thomas Cook, Sterling Holiday announce Rs870 crore merger

The share swap ratio for the merger has been fixed at 120 shares of Thomas Cook for every 100 shares of Sterling



The Rs870-crore party-equity, part-cash deal would be structured as a multi-stage process. Photo: AFP

Mumbai: Travel and holiday companies **Thomas Cook (India) Ltd** and **Sterling Holiday Resorts (India) Ltd** will merge in a `870-crore party-equity, part-cash deal structured as a multi-stage process, the two companies said in a notice to the stock exchanges on Saturday.

First, Thomas Cook would inject some `187 crore as a preferential allotment for some 23.24% of Sterling. Then, the former will buy 23.36% stake from the shareholders of Sterling for `176 crore. That would necessitate an open offer under the Securities and Exchange Board of India (Sebi) norms. Thus, Thomas Cook will make an open offer for buying up to 26% in Sterling for `230 crore. Further, Thomas Cook also has the option to buy an additional 7.22% stake for `63 crore.

The share-swap ratio for the merger has been fixed at 120 shares of Thomas Cook for every 100 shares of Sterling.

Sterling's preferential allotment of 23.24% stake to Thomas Cook is priced at `90.4 per share. That is a 2.7% discount to Sterling's Friday closing price of `92.9. The open offer price for Sterling shareholders has been fixed at `98 per share.

Antique Group acted as adviser and ICICI Securities Ltd acted as merchant bankers for the merger.

Ramesh Ramanathan, managing director at Sterling Holidays, said the merger with Thomas Cook will strengthen Sterling's market position as there are multiple natural synergies which both companies will mutually benefit from.

"Thomas Cook customers will have access to our pan-India network of well located, full service, quality resorts which offer great holiday experiences," Ramanathan said.

Madhavan Menon, managing director at Thomas Cook, said the merger with Sterling Holiday reaffirmed his company's commitment to investing in mutually beneficial partnerships that broaden business services platform to increase shareholder value.

Post merger, Sterling Holiday will continue operations under the leadership of Ramanathan with an independent board.

Thomas Cook's Menon said the Sterling Holiday company will cease to exist but not the Sterling brand.

"We have no intention to integrate the Sterling brand into Thomas Cook," he said.

A senior Thomas Cook executive, requesting anonymity, said Bay Capital will have around 2% equity in the merged entity, Thomas Cook.

Based on equity investments and merger ratios, the aggregate value of the two companies is approximately `3,000 crore, Thomas Cook said in a statement.

"Traditional travel businesses like Thomas Cook realize it is challenging to take on the online travel players in the travel intermediation business. So are investing in hard assets in the same travel and hospitality business," said Ram Badrinathan, founder and chief executive of travel consultant GlobalTHEN, run by Island Education Pvt. Ltd.

Ramanathan of Sterling Holiday said his company has 70,000 active members who can fill only 50-60% rooms.

"We broadly have 50:50 ratio wherein 50% are exclusive members in our rooms while remaining is non-members. We have started adding

non-members consciously for last two and half years. Thomas Cook can help in filling the rooms and the money can be used to fund expansion," he said.

The transaction is expected to close by the end of the fiscal, subject to closing conditions and regulatory approvals as required.

Thomas Cook is promoted by **Prem Watsa**-controlled **Fairfax Financial Holdings Ltd** through its wholly-owned subsidiary, Fairbridge Capital. It is one of the largest travel and travel related financial services company that set up its first office in 1881. It has presence in 251 locations in 101 cities across India, Mauritius and Sri Lanka.

In 1986, Sterling Holiday, pioneered the timeshare concept in India but it wasn't able to deliver on early promise. The company felt the wrath of clients for not meeting expectations after promising much with an initial burst of explosive growth soon after its 1986 launch. It began a turnaround process when private equity firm **Bay Capital Partners Ltd** invested \$13.8 million in 2009 and **R. Subramanian**, Sterling's chairman and managing director, ceded management control. The company sold off non-core properties and hired former employee Ramesh Ramanathan as managing director.

In the third quarter of the current financial year, Sterling Holiday reported a net loss at `1.74 crore. "Notably, the company's continued improved performance is reflected in net losses reducing in Q3 FY14 by `5.53 crore, as compared to the previous fiscal same period," the company said on 7 February.

In the last few years, **Sterling Holiday Resorts India Ltd** has posted a series of losses—`18.13 crore in 2010, `32.85 crore in 2011, `41.32 crore in 2012 and `21.29 crore in 2013. Also, it had a total debt of `24.75 crore as of September 2013 .

Multi-stage deal

*Thomas Cook Group will make a preferential allotment investment for approximately Rs187 crore into Sterling.

*Thomas Cook Group will purchase shares from Sterling shareholders for Rs176 crore.

*Thomas Cook Group will make a mandatory open offer for Rs230 crore.

*There will be a merger between the two companies at a defined swap ratio of 120:100