Sterling
Holiday Differently!

Publication:	LET TRUTH PREVAIL THE TIMES OF INDIA
Date:	February 2014

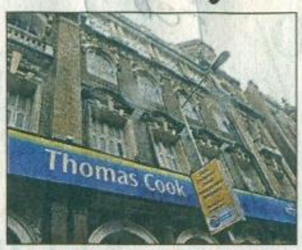
Thomas Cook India buys Sterling Holiday for ₹870cr

TIMES NEWS NETWORK

Mumbai: Billionaire investor Prem Watsa-backed Thomas Cook India is acquiring vacation ownership pioneer Sterling Holiday Resorts India for Rs 870 crore, marking its foray into the hospitality sector. This is Thomas Cook India's second purchase af-ter Ikya Human Solutions in February 2013.

To be completed by the fourth quarter of this year, the Sterling transaction structured through a multi-layered process involving both cash and stock swaps will become a 100% unit of Thomas Cook India.

In the first stage, Thomas Cook India will invest Rs 187 crore through a preferential allotment, giving the tour operator around 23% stake in Sterling Holiday. It will then acquire another 23% from key Sterling shareholders, including Siddharth Mehta's Bay Capital, ace stock brokers Rakesh Jhunjhunwala and Radhakrishna Damani. This triggers the mandatory open offer for another 26% stake as per regulatory norms, for which Thomas Cook India will shell out Rs 230 crore. The open offer price has been fixed at Rs 98, which is little more than Sterling Holiday's Friday closing price of Rs 93.



MULTI-LAYERED TRANSACTION

Further, the two firms will be merged at a swap ratio of 120:100, which means Thomas Cook India will allot 120 shares for every 100 shares of Sterling Holiday held.

For the Canadian Watsa, who bought Thomas Cook India in 2012, the Sterling acquisition is part of his larger vision to build a robust business portfolio in his birth country. Based on equity investments and merger ratios, the aggregate value of the two companies is around Rs 3,000 crore, Thomas Cook India said in a statement.

The deal, brokered by Antique and ICICI Securities, gives Thomas Cook India access to Sterling Holiday's 19 resorts spread across 16 destinations in the country. The company can now offer these resorts to its customers by clubbing them with its tour packages. Besides, the deal will help Sterling Holiday scale up its presence to compete with the numero uno Mahindra Holidays, which has 44 resorts including two properties overseas. Founded by R Subramanian, Sterling Holiday pioneered the time-share vacation concept — members pay upfront for holidays for 25 years — in India.

Publication:	mint
Date:	February 2014

Thomas Cook pays top dollar for Sterling Holiday

MARK TO MARKET

RAVI KRISHNAN & P.R. SANJAI

We welcome your comments at marktomarket@livemint.com

At first glance, **Thomas Cook (India) Ltd**'s cash and stock acquisition of **Sterling Holiday Resorts (India) Ltd** appears to be tilted in favour of the latter's shareholders.

While the open offer price of ₹98 a share being offered is at a mere 5.5% premium to Friday's closing rate, note that Sterling's shares have risen by nearly 58% in the past six months. In comparison, shares of **Mahindra Holidays Resorts India Ltd** have shown flat returns over the same period.

It's not as if Sterling has been spectacularly profitable. The company has reported net losses in seven of the past eight quarters though the level of losses has been coming down. Mahindra, on the other hand, has been showing decent profit growth, at least in the past four quarters.

Even the share-swap ratio is a sweetener by that reckoning, with Sterling stockholders getting 1.2 shares of Thomas Cook for every share they own. At Friday's closing prices, that means each share of Sterling is worth ₹105 (1.2 times ₹87.5 per Thomas Cook share). Of course, this will change when arbitrageurs jump in when markets resume trading on Monday. But for existing shareholders of Sterling, it does look like a win-win deal.

What about the existing minority shareholders of Thomas Cook? At ₹98 per share, the enterprise value (EV) of Sterling is ₹690 crore (net debt of ₹20 crore plus market capitalization of ₹670 crore). That leads to an EV to sales multiple of 6.02 for Sterling, taking the total sales for the trailing four quarters from September. In comparison, Mahindra Holidays' EV to sales ratio is 2.76 times.

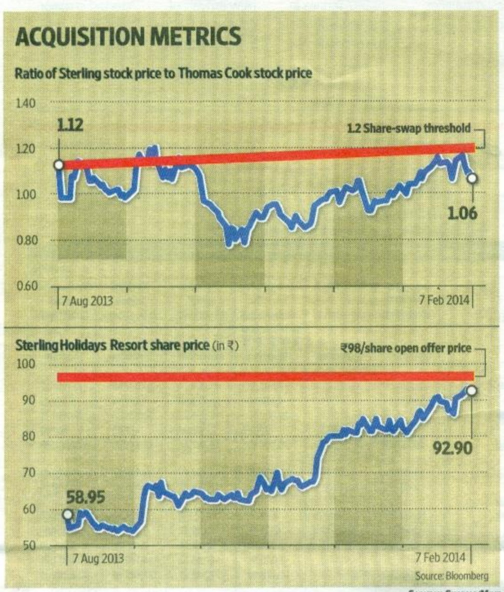
Thankfully, however, Thomas Cook won't be adding much leverage as the acquisition is being financed largely through a ₹500-crore issue of compulsorily convertible preference shares (CCPS) to its promoter, Fairfax Financial, according to an investment banker managing the deal. The remainder will be taken care of by the company's internal accruals.

The cash component of the deal—assuming a fully subscribed open offer and purchase of a minimum 1.15 crore (11.5 million) shares from some existing stockholders such as the promoters and venture funds under a share purchase agreement—is ₹530 crore. This number takes into account the ₹187-crore equity infusion into Sterling, which, according to Sterling's managing director, Ramesh Ramanathan, will be used for the resort's expansion.

The merger will also inevitably lead to a dilution in Thomas Cook's equity base. Assuming that the open offer is fully subscribed, and the CCPS are converted, the equity dilution in the company would be to the tune of 39%. The assumption here is that the CCPS are issued at the current price.

Thus, the merged entity would still have to grow its profit at least 39% to remain earnings per share neutral. Yes, Thomas Cook's previous acquisition of **Ikya Human Capital Solutions Ltd** for ₹256 crore has worked out well, with the acquired company generating better-than-expected free cash flow in the past two quarters. But for it to attain a 39% growth after swallowing Sterling remains an imponderable.

The Sterling deal, on the back of the Ikya acquisition, shows that Thomas Cook is getting rather active on the merger and acquisition front, with investment company Fairfax Financial in the driver's seat. Investors should keep this changing profile of the company in mind while reviewing their investments.



Publication:	**Business Standard**
Date:	February 2014

Sterling Holiday to merge with Thomas Cook

Share swap fixed at 12:10 in deal that values Sterling at ₹870 crore; Bay Capital, Jhunjhunwala to exit

BS REPORTER
Mumbai, 8 February

Canada-based billionaire Prem Watsa-owned Thomas Cook India and Chennai-based resort company Sterling Holiday Resorts have announced a merger in a cash and stock deal that values Sterling at ₹870 crore.

According to an announcement by Thomas Cook Managing Director Madhavan Menon here on Saturday, the company will first make a preferential allotment investment of ₹187 crore at ₹90.49 a share (a 2.7 per cent discount to Sterling's Friday closing price of ₹92.90) in Sterling Holiday, giving it around 23 per cent stake in the company. Thomas Cook will then buy shares worth ₹176 crore from Sterling's existing shareholders — Bay Capital, investors Sidharth Shankar, Dhanalaxmi S and Rakesh Jhunjhunwala — at ₹98 a share. In the third stage, Thomas Cook will make an open offer for buying up to 26 per cent in Sterling Holiday for ₹230 crore.

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

"This is a win-win deal for both of us. Thomas Cook will be able to sell Sterling resorts to its own customers. We will have one more service to offer to our customers," Menon said. Both companies jointly will have a market value of ₹3,000 crore, with 9,000 employees.

"With the cash infusion, Sterling Holiday will be able to ramp up the number of resorts and renovate the existing ones. The investment will also

pendent board as a separate subsidiary in accordance with Watsa's philosophy.

Industry analysts say the deal throws a lifeline to Sterling.

Its competitor, Mahindra Holiday Resorts, is the leader in the resort space with more than double the number of memberships and properties than Sterling. It is also adding members faster than Sterling.

Competition is growing in the field with the entry of new players such as Magic Holidays and Cirtus Check Inn, which are expanding their presence with investments in properties in India and tie-ups with global chains.

Analysts say an increase in vacation ownership will depend upon the prevailing economic climate. "Membership growth has been sluggish and that is because of the current financial climate. A person will invest a few lakh rupees in time-share holidays and vacation ownership if he has surplus cash. You see auto sales falling and the property market not moving. These factors have an impact on the resort business," says an industry insider.

Sterling Holiday went through trying times with high debt till Bay Capital took it over in 2009. Bay Capital Investment's Siddharth Mehta took over as chairman of Sterling Holiday and brought in Ramanathan from Mahindra Holiday Resorts to run the company.

Since then, the company has been making a return of sorts by refurbishing its resorts. It has increased occupancy levels to 52 per cent from a lowest of 16 per cent a few years back. The

Who is Prem Watsa?

Born in Hyderabad, the 63-year old has been the chairman and chief executive officer of Fairfax Financial Holdings since 1985 and was in the news after he bought Research In Motion, the maker of Blackberry phones, through a $4.7-billion deal. An IIT Chennai graduate, Watsa completed his MBA degree from Richard Ivey School of Business in Canada and is known as the Buffett of Canada. After working for a few years, Watsa had set up Fairfax Financial Holdings, which churned out $8 billion in revenue in 2013. An investor who prefers to keep a low profile, he gives a lot of power to boards of directors and CEOs to run companies. All eyes are now on Watsa as to how he will make money from Blackberry, which has not found favour with customers as well as other bidders lately.

Thomas Cook will first make a preferential allotment investment of ₹187 cr at ₹90.49 a share in Sterling

Publication:	hindustantimes
Date:	February 2014

Thomas Cook, Sterling in ₹870cr merger

SYNERGY Sterling to become subsidiary, but will continue operations under an independent board

HT Correspondent
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MUMBAI: Travel and tour operator Thomas Cook (India) and vacation ownership provider Sterling Holidays, on Saturday, announced that the two entities will merge in a deal worth around Rs870 crore.

According to the multi-stage transaction, Thomas Cook, promoted by Prem Watsa-controlled Fairfax Financial Holdings, will make a preferential allotment investment of Rs187 crore into Sterling. It will also purchase shares for Rs176 crore from Sterling's shareholders and hold a mandatory open offer for Rs230 crore, the two companies said. The merger swap ratio has been set at 120 shares of Thomas Cook, for every 100 shares of Sterling.

"The merger will help us speed up expansion of our resort base and renovate the existing ones. It will also help us increase our non-member and conferences business, with the help of customers brought through Thomas Cook," said Ramesh Ramanathan, managing director, Sterling Holidays.

At present, Sterling Holidays operates 19 resorts and has a base of 70,000 members. In comparison, its rival, Mahindra Holidays and Resorts, has a member base of more than 1.50 lakh and a network of more than 40 resorts, both in India and overseas, such as Thailand and Austria. Sterling Holidays had reported a net loss of Rs 1.75 crore in the third quarter.

Although Sterling Holidays will become a 100% subsidiary of Thomas Cook, Ramanathan will continue to manage operations with an independent board, said Madhavan Menon, managing director, Thomas Cook.

"We see many synergies in this deal. But, we will like to maintain an arms-length, as has been the principle of Fairfax," Menon added.

In 2012, Fairfax acquired 77% stake in Thomas Cook India, for around Rs810 crore. Last year, Thomas Cook acquired 76% stake in Ikya, a staffing solutions firm. In 2009, Bay Capital Investment picked up 35% stake in Sterling Holidays. Now, Bay Capital will be left with around 2% stake in the merged entity.

STERLING HOLIDAYS IN POOR SHAPE

19 resorts; 70,000 members

₹1.75cr: Net loss in third quarter

In comparison, rival Mahindra Holidays and Resorts, has a member base of more than 1.50 lakh and a network of more than 40 resorts, both in India and overseas

Merger will help: Although Sterling Holidays will become a 100% subsidiary of Thomas Cook, it will manage operations with independent board.

> THE MERGER WILL HELP US SPEED UP EXPANSION OF OUR RESORT BASE AND RENOVATE THE EXISTING ONES
>
> RAMESH RAMANATHAN, managing director, Sterling Holidays

Publication:	THE HINDU South India's No.1 English daily
Date:	February 2014

Thomas Cook, Sterling Holiday ink Rs. 870 crore merger deal

Special Correspondent

MUMBAI: Prem Watsa-controlled Thomas Cook (India) Ltd. (TCIL) and Chennai-headquartered vacation ownership company Sterling Holiday Resorts (India) Ltd. have announced a Rs 870-crore merger deal.

Post-merger, Sterling will be a 100 per cent subsidiary of TCIL. It will continue, however, to retain its name, and be run independently by its Managing Director, Ramesh Ramanathan, and his team.

The deal has been structured in a manner that Sterling will get Rs. 187 crore by way of preferential allotment of 23 per cent stake to TCIL. Since this will trigger an open offer, Rs. 230 crore has been earmarked by TCIL for this purpose.

TCIL will also buy out most of the existing shareholders of Sterling collectively holding 23 per cent stake for Rs. 176 crore. Then, there will be a merger between the two companies at a defined swap ratio of 120 shares of TCIL for every 100 shares of Sterling.

Madhavan Menon (right), Managing Director, Thomas Cook (India), with Ramesh Ramanathan, Managing Director, Sterling Holiday Resorts, at a press conference in Mumbai on Saturday.
– PHOTO: VIVEK BINDRE

The transaction is expected to close by the fourth quarter of 2014, and the open offer price will be announced later. Post-merger, Sterling will be de-listed from the stock exchanges but Mr. Ramanathan will continue to hold his stake in the merged entity.

"We are extremely happy to partner with Sterling, which has tremendous opportunity given the current environment. Ramesh Ramanathan and his team will continue to run this business. The synergistic opportunities that this new partnership offers are enormous," Madhavan Menon, Managing Director, Thomas Cook (India) Ltd., said.

"We have no intention of integrating Sterling into TCIL. This is the Fairfax method of working. We will operate at arms length and we will share opportunities," Mr. Menon said.

"The merger with Thomas Cook will strengthen our market position as there are multiple natural synergies which both companies will mutually benefit from. This deal will put Sterling back where it belonged. Thomas Cook customers will have access to our pan-India network of well located, full-service, quality resorts which offer great holiday experiences," Mr. Ramanathan said.

"Sterling stands to benefit from TCIL's iconic brand reputation and its large base of domestic and inbound travellers," he added.

Publication:	THE FINANCIAL EXPRESS READ TO LEAD
Date:	February 2014

Thomas Cook, Sterling Holiday announce ₹870-cr merger

Mumbai, Feb 8: Travel firm Thomas Cook India (TCIL) on Saturday announced a merger with Sterling Holiday Resorts India in a ₹870-crore part-equity, part-cash deal to be executed in multiple stages. TCIL will first inject ₹187 crore for a preferential allotment of a 23% stake in Sterling. After that, it will buy stake from shareholders of the Chennai-based resort owner for ₹176 crore. This will trigger an open offer under Sebi norms and TCIL will seek to buy up to 26% in Sterling for ₹230 crore. The equity swap ratio for the merger has been fixed at 120 shares of TCIL for every 100 shares of Sterling.

The transaction is expected to be completed by December 2014 after obtaining mandatory clearances.

"The synergistic opportunities this new partnership offers are enormous because they create multiple avenues to grow our respective businesses and to create valuable business opportunities together," TCIL managing director Madhavan Menon said.

Sterling Holiday is valued at ₹870 crore, Menon said. After the merger, the Chennai firm will continue operations under the leadership of Sterling Holiday managing director Ramesh Ramanathan with an independent board.

Sterling will cease to exist as a company but will continue as a brand. *PTI*

Continued on Page 11

Thomas Cook...

"We have no intention to integrate the Sterling brand into Thomas Cook," Menon added. Ramanathan said the merger will boost Sterling's market position as there are multiple natural synergies that will benefit both companies. "Thomas Cook customers will have access to our pan-India network of well-located, full-service, quality resorts, which offer great holiday experiences," he added.

A senior Thomas Cook executive said Bay Capital, an investor in Sterling, will have around 2% equity in the merged entity. Based on the equity investments and merger ratios, the aggregate value of the two companies is estimated at about ₹3,000 crore, they said in a statement.

Publication:	THE HINDU BusinessLine
Date:	February 2014

Will merger pack a punch for Sterling?

Thomas Cook's ₹870-crore deal is seen giving the resorts firm a multi-pronged boost

NEWS ANALYSIS

NS VAGEESH
Mumbai, February 9

Two players – Sterling Holiday Resorts and Mahindra Holiday Resorts – have dominated the vacation ownership business in India for the past three decades.

Sterling, which pioneered the concept in the country, went through a lot of pain due to a combination of factors – going in far too many properties at the same time, debt accumulation, overselling and inadequate handling of dissatisfied customers – all of which have earned the industry a bad name.

Talk to any average 'time share' customer and you are quite likely to hear a number of complaints – either the accommodation sought is never available when needed, maintenance charges are revised often, or the costs are so high it probably makes hotels look cheaper.

As Sterling began declining, its rival kept gaining market share steadily and today has twice the number of resorts and customers.

Sterling had begun turning things around after bringing back Ramesh Ramanathan, its first president, from its rival.

Capital infusion over the past five years by a number of investors such as private equity firm Bay Capital and Rakesh Jhunjunwala has helped the company settle many creditors and begin investing in renovating its deteriorating properties.

At this point, there is only a debt of about ₹44 crore in the books, which too will be settled soon, leaving the company debt free after a very long time.

The company's first priority is to push up occupancy levels that have hovered at 50-65 per cent during the past few quarters. And of course, de-risk the seasonal nature of the holiday business.

An Indian summer for Sterling

- Can tap Thomas Cook's inbound and domestic clientele for its resorts
- Obtains more financial muscle to acquire bigger, better property
- Likely collaboration in back-end and online space

This is where the merger with Thomas Cook may come useful. The latter's inbound clientele as well as domestic customers will now have access to these resorts. Sterling will now be able to use the fund infusion and Thomas Cook's muscle to look for bigger properties in some locations.

Officials said they were still to discuss many other opportunities, including the online space, the trend towards shorter holidays as well as collaboration at the back-end.

The deal values Sterling Holiday at about ₹870 crore, which will be completed through a multi-stage process.

Thomas Cook will invest approximately ₹187 crore in Sterling through a preferential allotment. It will also purchase shares from Sterling shareholders for ₹176 crore. It will then make a mandatory open offer for ₹230 crore.

The merger will be at a defined swap ratio of 120:100. ICICI Securities was the merchant banker for the deal, while Antique Group was the advisor.

At arm's length

Top officials of both companies made it clear there is no intention of integrating Sterling into Thomas Cook and that they will operate at arm's length. Sterling will continue to run with its own board and with Ramanathan and team continuing.

Ramanathan is of course happy that he is in the process of 'completing an incomplete job' and helping Sterling recover lost ground.

Sterling Holiday has a network of 19 resorts in 16 holiday destinations that together have over 1,500 rooms. The company had turned in operating profits in the last quarter.