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ON THE ROAD TO REVIVAL, Sterling's property at Mumbai is one of the 16 destinations in its portfolio

Turnaround man's Sterling challenge

Prem Wata's intervention could change the fortunes of Sterling Holiday Resorts, the Chennai-based timeshare company

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New Delhi, 19 February

How should you Prem Wata, founder, chairman and chief executive of Toronto-based Fairfax Financial Holdings, is often called the Warren Buffett of Canada for his ability to spot investment opportunities ahead of others and turn around non-performing enterprises. His latest acquisition, Chennai-based Sterling Holiday Resorts, would require all his turnaround skills—the timeshare company has been in pain for several years now (see graph). In 2011, it owned 1,000 rooms in 16 resorts, compared to market leader Malinda Holiday & Resorts' 2,000 rooms across India and overseas, and many of its resorts are in dire need of repairs. Commenting on the business environment, Sterling said in its annual report for 2012-13: "The sale of vacation ownership declined due to the crash in the stock market, recession in real estate and investment markets, and other external factors."

The Sterling acquisition is being done by Thomas Cook India, which was acquired by Fairfax in June 2012 for \$60 crore. On February 6, Thomas Cook announced the three-stage deal. Sterling will make a preferential allotment worth 147 crore (at 100% a share) to the company's large shareholders—Ray Capital, Bhambhani & and Rajesh Bhambhani—will sell their shares for 17% (see 100% price) and finally there will be an offer for another 26 per cent which could end up to 120 crore. Thomas Cook India will spend 193 crore to buy 67.7% per cent in Sterling. The deal values the company at 180 crore, meaning an 18% discount on the stock market since the deal was announced.

Deal triggers
What really has driven the acquisition? "It has been done to save you money or to a purely financial investment," Thomas Cook India Managing Director Madhavan Menon says. "It has not been done from a strategic perspective" and is a "purely financial investment made for the long term."

Thomas Cook India is a vehicle through which acquisitions will be made. The company will acquire businesses most complementary to its core business and the management. "The two companies, he insists, will not walk each other's steps through, even after the deal is done. Sterling will continue to operate independently with its own management. "We will let an owner's length and focus on our own growth. Fairfax being an investor is always open to prospects," Menon says.

If it's a purely financial investment, the shareholders of Thomas Cook will keep close watch on the returns on this investment. The CIPD says that it wants to depend on the negotiations would have funded the company over 50 crore annually (22.5 crore a quarter) if it was put in a fixed deposit that gives 8.5 per cent return. Thomas Cook, of course, is a fairly profitable company. This is Thomas Cook's second acquisition in India. In February 2012, it had bought 74 per cent stake in human resources and facilities management company, Jaya Human Capital Solutions, for 120 crore. However, a financial investment was that "this move that doubled the company's turnover from 130.47 in the nine months ended September 30, 2012 to 260.90 crore in the nine months ended September 30, 2013. The jump is attributed to "human resource services" of 492 crore. This profit contributed to 44% of 140 crore in the period.

Sterling Managing Director Ramesh Ramasubramanian, who came on board in July 2013 from Malindi Holiday & Resorts after the company was purchased by a group of private investors (B. Subramanian, who had founded the company in 1994, could management control and say Capital in 2009. Ramasubramanian and Madhavan Menon owned the company in the second half of 2013, sold it to an investor with business Standard but weeks that there were other gains to the acquisition too. For Thomas Cook it gets a "tiger threat in the domestic holiday market," he added. "For all its customers,

when it will restructured plans regularly, Thomas Cook can now well informed about what a Sterling shareholders' Menon too concedes that Thomas Cook is an aggregator of services and "packaged holidays in a component" of it.

The big picture
For Sterling, Ramasubramanian said the deal holds several benefits. One, Thomas Cook will be able to drive a lot of new members to its properties, as the market will expand for Sterling. He said that deal is because Thomas Cook shareholders Sterling could even look at putting up Nagar properties. Two, it improves the immediate company's brand equity. "When we know how the market and risks to perceive the clients, it puts up our credibility, especially given Sterling's background while we have arrived in the last two-and-a-half years, there is a troubled history," he added. Three, it will help in cutting backward costs. "We can make use of Ray's."

Within the Thomas Cook group itself, there are a lot of benefits, Ramasubramanian said. First, and most important, it will infuse a lot of cash into the company's preferential allotment worth 147 crore.

This money could help strengthening critical areas in the timeshare business, such as investment. Customers want choices. At the moment, Sterling has its destinations in its portfolio. Many need experiential one means why several customers did not renew their membership. "Our ability to expand beyond what we have been thinking," he added, is an advantage to Sterling members, put up on the company's website. Ramasubramanian says "The investments by Fairfax will strengthen our ability to accelerate the pace of adding new holiday destinations and experiences, and allow us to offer more holiday and travel related services."

The alliance, according to Ramasubramanian, will help Sterling "think beyond what we have been thinking." Now, he said, was the time to make the dream of becoming the market leader. The big question is if the Wata magic will work here.

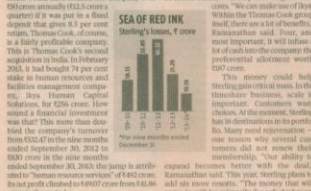
NOSE FOR INVESTMENT OPPORTUNITIES

Prem Wata, chairman and chief executive of Fairfax Financial Holdings

INDIA-100N billionaire Prem Wata earned the tag of "turnaround artist" when he dove into the struggling Research in Motion (RIM), the Canada-based maker of Blackberry, and became one of its top investors by injecting \$4 billion into the company. The IT-Chennai graduate led a Canadian newspaper that Fairfax abandoned the takeover bid on determining that it would be a liability to acquire the company with a high-yield debt under a planned leveraged buyout. "We've, over 18 years, witnessed we thought something was a good idea. We've been able to take the money," the 51-year-old was quoted as saying.

In 2007, Wata apparently saw the "money" control and moved much of his company's \$10-billion portfolio out of the stock market and into treasury bonds and other recession-proof instruments. The companies with Warren Buffett was interested. Wata is an investor who prefers to keep a low profile and gives a lot of power to the boards of directors and CEOs to run the companies. All eyes are now on Wata to see how he will make things happen. Blackberry, after a late Round Four with hedge funds and other investors, has been in a state of financial distress. He is, however, confident that "Blackberry is here to stay."

It's not as though Wata hasn't tested failure. Fairfax had to write off a large chunk of its investments in a Canadian media company, Lawson, in 2005 as the firm filed for bankruptcy. Another venture of Wata's that didn't do too well was with publisher Lerner and his company had to write off some of its investments. His entry into the Indian market, when he entered as the winning buyer of Thomas Cook India in June 2012, through Fairbridge Capital, a fully-owned subsidiary of Fairfax Financial, surprised many. But then here's a man full of surprises.



SEA OF RED INK: Sterling's losses, ₹ crore

For the last five months ended September 30, 2013, the jump is attributed to "human resource services" of 492 crore. This profit contributed to 44% of 140 crore in the period.