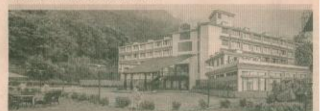
Publication:	Business Standard
Date:	February 2014



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

Turnaround man's Sterling challenge

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

RUCHIKA CHITRAVANSHI
New Delhi, 19 February

Hyderabad-born Prem Watsa, the 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*), is small (1,500 rooms in 16 resorts, compared to market leader Mahindra Holiday & Resorts' 2,500 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 ₹810 crore. On February 8, Thomas Cook announced the three-stage deal: first, Sterling will make a preferential allotment worth ₹187 crore (at ₹90.49 a share); next, the company's large shareholders — Bay Capital, Sidharth Shankar, Dhanalxmi S and Rakesh Jhunjhunwala — will sell their shares for ₹176 crore (₹98 apiece); and finally, there will be an open offer for another 26 per cent which could cost up to ₹230 crore. All told, Thomas Cook India will spend ₹593 crore to buy 65-70 per cent in Sterling. The deal values the company at ₹870 crore. Sterling has fallen 0.96 per cent and Thomas Cook India nearly 10 per cent on the stock market since the deal was announced.

Sterling Managing Director Ramesh Ramanathan says the deal will give Thomas Cook a bigger thrust in the domestic holiday market

Madhavan Menon, the managing director of Thomas Cook India, says the deal is a "sound" long-term financial investment

Deal triggers

What really has driven the acquisition? Has it been done to draw synergies or is it a purely financial investment? Thomas Cook India Managing Director Madhavan Menon says it has not been done from "a synergy perspective" and is a "sound" financial investment made for the long term. "Thomas Cook India is a vehicle through which acquisitions will be made. The company (we acquire) has to meet certain parameters. It should have the potential to grow and we should be comfortable with the management." The two companies, he insists, will not "milk each other". Sure enough, even after the deal is closed, Sterling will continue to operate independently with its own management team. "We will be at an arm's length and focus on our own growth. Fairfax being an investor is always open to

Prem Watsa, chairman and chief executive of Fairfax Financial Holdings

NOSE FOR INVESTMENT OPPORTUNITIES

INDIA-BORN billionaire V Prem Watsa earned the tag of 'turnaround artist' when he saw value in the struggling Research In Motion (RIM), the Canada-based maker of BlackBerry, and became one of its top investors by injecting $1 billion into the company. The IIT-Chennai graduate told a Canadian newspaper that Fairfax abandoned the takeover bid on determining that it would be a mistake to saddle the company with a high-yield debt under a planned leveraged buyout. "We've, over 28 years, whenever we thought something was a good idea, been able to raise the money," the 63-year-old was quoted as saying.

In 2007, Watsa apparently saw the 'storm' coming and moved much of his company's $16-billion portfolio out of the stock market and into treasury bonds and other recession-proof instruments. The comparison with Warren Buffett was inevitable. Watsa 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 Watsa to see how he will make money from BlackBerry, which has of late found favour with neither customers nor bidders. He has, however, maintained that "BlackBerry is here to stay."

It's not as though Watsa hasn't tasted failure. Fairfax had to write off a large chunk of its investments in a Canadian media company, Canwest, in 2009 as the firm filed for bankruptcy. Another venture of Watsa's that didn't do too well was with publisher Torstar and his company had to write off some of its investments.

His entry into the Indian market, when he emerged 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 he's a man full of surprises.

... to whom it sells outbound plans regularly, Thomas Cook can now sell inbound plans with a Sterling membership." Menon too concedes that Thomas Cook is an aggregator of services and "packaged holidays is a component" of it.

The big gainer

For Sterling, Ramanathan said the deal holds several benefits. One, Thomas Cook will be able to drive a lot of non-members to its properties. So, the market will expand for Sterling. He said that once it becomes a Thomas Cook subsidiary, Sterling could even look at putting up bigger properties. Two, it improves the timeshare com-

SEA OF RED INK
Sterling's losses, ₹ crore