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The CFO Program

CFO Perspectives

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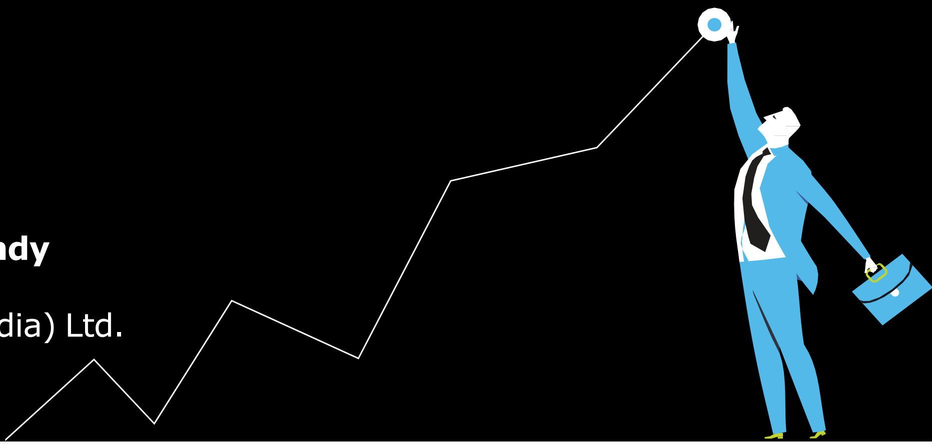
CFO Speaks

Mr. Debasis Nandy
Group CFO
Thomas Cook (India) Ltd.



1. What is your outlook on the economy in the next 1-2 years?

The economic outlook looks positive in the medium term. We believe that GST jitters are diminishing and things are settling down now, and we would see a positive outcome for the economy. This being a transition phase, we also feel that the government will scrutinize less for initial 2-3 cycles of GST returns and it is praiseworthy that they are also open to discussions for resolving the issues.

a. How do you see the overall demand for the travel industry growing?

The demand in the travel industry could be analyzed from two sections, i.e. B2C and B2B. Firstly in B2C, we feel there is a lot of optimism in leisure and travel industry, for both domestic and international tours. For us, domestic has been growing at 30% to 40%, and international tours has also seen a considerable growth. This increase in growth is envisaged with increasing demand from people with rising income and their eagerness to travel around to see the world.

Now-a-days, people budget for their travel aspirations, and it spreads across the age groups. However, at the same time the market is very competitive and people do shop around before finalizing their travel plan. We also see consolidation happening in the industry and smaller players getting marginalized with time.

The easily available online research and social media buzz has also increased awareness about travelling and people explore new destinations, wherein they need our help and hand holding for a better planning. Thus in a nutshell, the outlook remains positive but sometimes is also susceptible to terror attacks and natural calamities. Surprisingly, we did not see an impact due to demonetization and overall the demand has been stronger than last year.

Secondly, B2B had shown a good growth in the past 3 years. However, this year has been a dampener due to political changes and visa restrictions in the US. Most of our B2B sales is from IT and ITeS industries where we have corporate travelers and currently the international travel for the sector has been impacted. In addition, we see a temporary impact due to GST wherein everyone is busy strategizing and sales have been impacted, which I assume will get better in the coming months.

b. What is your view on the demand for inbound tours?

In terms of the inbound tours business, it is more robust and positive compared to the last year. Getting an Indian visa has become easier with the process of e-visa application and this is a good move by the Government. Further, India has also facilitated visa on arrival for many countries, which has also been boosting the growth of inbound tourists from these countries.

However, Government is yet to act on the 5 tourism circuits in India which were announced earlier. I feel, if this project takes off and is implemented, it will give a further boost to inbound tours. Currently, the tours are less organized which hinder the first time inbound tourists to travel beyond Delhi-Agra-Rajasthan or Goa-Kerala circuits; whereas much of the country remains unexplored. A more organized circuit will be helpful to boost the tourism beyond these places.

c. What are the emerging trends you see and how are you coping with challenges of digital disruption and data analytics?

Digital has been a good thing, it has "woken us up" a bit. We have moved from being 'brick and mortar', to match with digital platforms in the last 4 years. Currently, 16% of our bookings are online – for domestic tours, and as much as 60% is sold online. The online trending ones are trips to Asian countries or countries with visa on arrival. However, costlier packages, to US or Europe are mostly initiated through an online query and closed through an offline meeting with the client. An Indian customer is happier with a face to face interaction, than just listening to a voice over the phone; and sometimes these meetings also helps us understand customers and their requirements better.

Further, we have consciously stayed away from only hotel and air booking business, as we want us to be seen as leisure travel specialist. We understand where the future is, and thus we are also moving more towards digital interface. Our focus is more on developing the call center and user friendly portal, to improve our digital experience. **"Disruption is good; it has helped us to re-model, re-focus, and innovate."**

Further, our CRM system came in 2 years back and we also have started working on data and analytics; though a little late compared to the industry, but a lot more will be visible to us in next 6 to 12 months. With this, now our marketing spend will also be more customized.

2. What are the key levers of growth that your business has and how, have you, as a CFO, helped business improve margins?

Margins are always under pressure, but as a CFO you need to learn how to make margins and manage growth. Our gross margin has been reasonably stable over the years and we focus on the following key areas:

- Take advantage of volumes using the synergy of acquisitions for combined volume and negotiate the deals better.
- When it comes to Group Inclusive Tour (GIT) versus Fully Inclusive Tour (FIT); our focus is more on FITs as it is the business which will see higher growth.
- We need to constantly improve and ensure that the service we provide is the best. The tour manager is the one, who makes it or breaks it for us in a group tour.
- In customized tours, we try and create value to give best to the customers and wherever possible, also provide them more than their expectations.
- In today's competitive era, one needs to constantly think of new solutions, for e.g., now we have started booking 'land only packages', where customers can arrange and book their intercity travel as per their convenience and we start tours with pick-up from airport or railway station and drop them back accordingly.
- Lastly, it's very important to understand the customer's requirements clearly.

3. With continued focus on expansion, Thomas Cook has grown multi-fold both organically and inorganically through M&A. What are key focus areas for a CFO to make sure all the acquired businesses are integrated successfully?

As a CFO, it is important to build the trust factor with companies being acquired. We allow businesses to function individually on their existing systems unless it is imperative to change them. However, at the same time we are in process of integrating our back-end. Once our back-end is integrated on a similar platform for all businesses, it supports uniform reporting and monthly MIS, making data retrieving and analysis simpler and easier. We are looking more at integrating synergies of people and their efforts, rather than integration of front-end systems or staff.

We insist that each of the acquired businesses develop a longer term strategy which fits in broadly with the overall goals of Thomas Cook as an organization. Once the strategy is determined and agreed upon, the execution is left to the businesses with regular monitoring at an overall level.

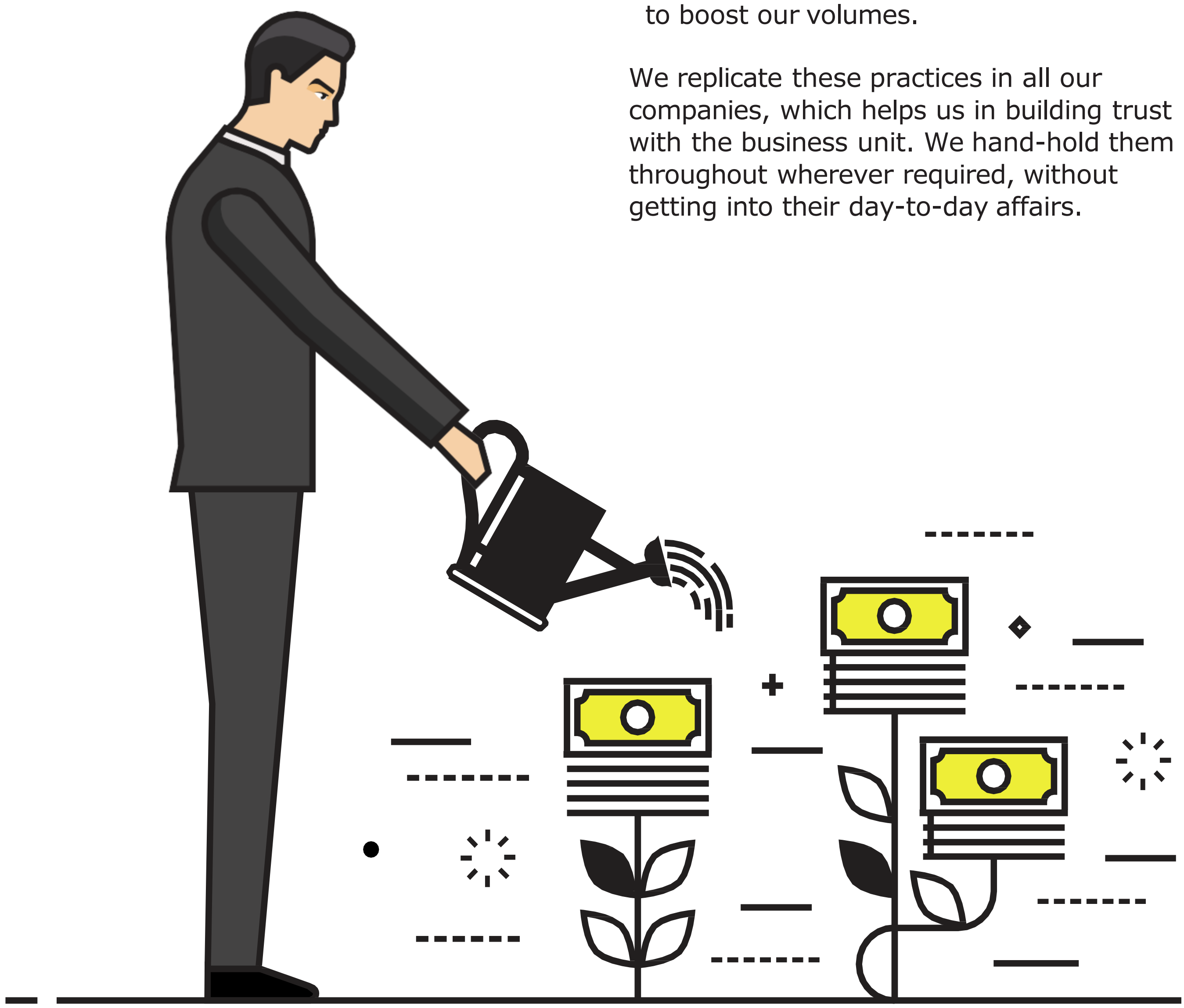
In addition, we have quarterly reviews as part of the board processes in each of these acquired business units.

4. How are you dealing with regulatory challenges of the multiple businesses and increasing geographies that you operate in? Currently, we have expanded our operations to 18 additional countries and we are still in the discovery and familiarization phase. In order to deal with the regulatory challenges, we engage more with the consultants and local partners to know the fair facts of the geography. As a policy Fairfax believes in empowering local people and that's what helps us to build the trust and operate the business. We empower and involve the local management to tackle the challenges and it is the team work which plays a vital role.

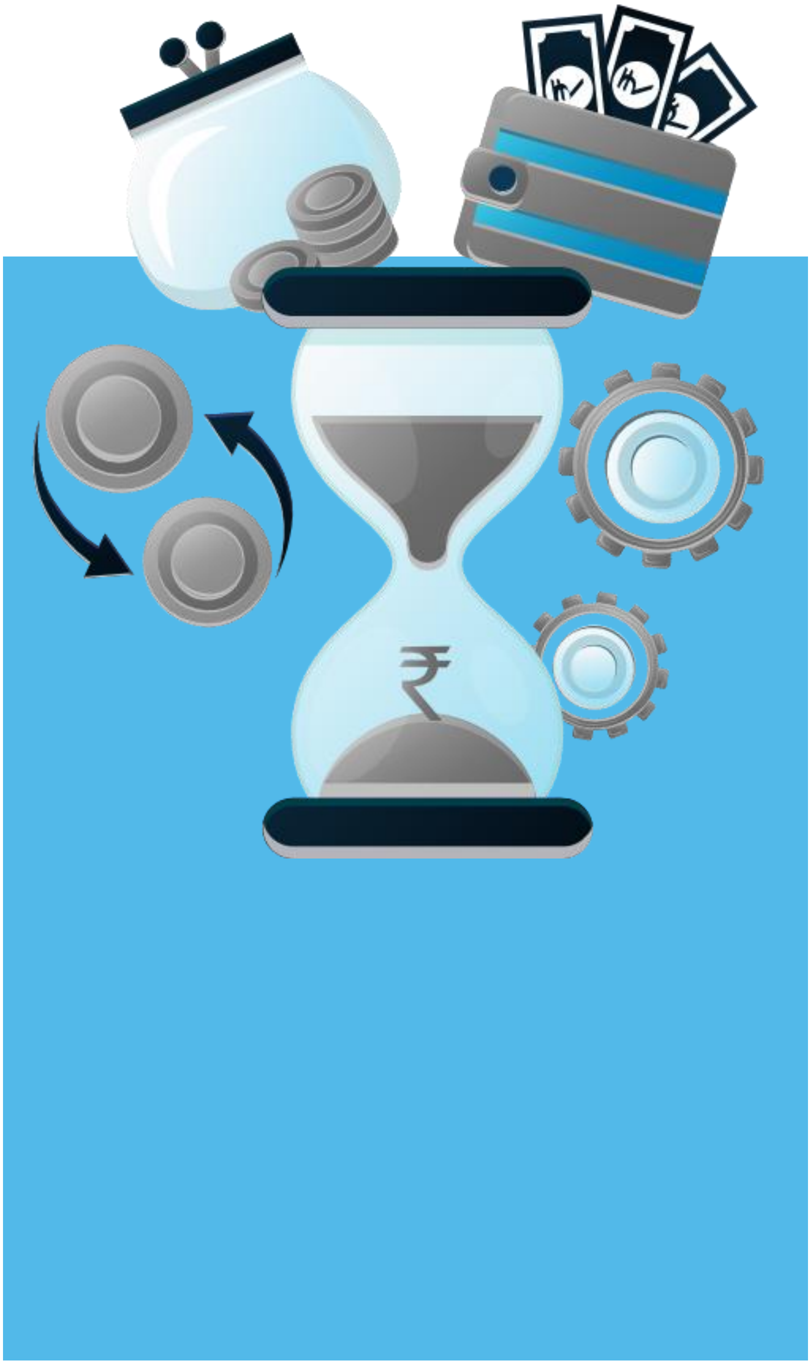
We do not interfere with the day-to-day work of the business in the local geographies and tend to focus on the following 3 key areas:

- **Strategy –** We work jointly for shaping the strategy and 5 year plan for the business. This also remains flexible as per the need and market forces.
- **Budgeting –** We work jointly for the overall budgeting, wherein our focus in not on the profit, rather we focus on the overall KPIs. One of the foremost KPI we look into is the 'cash flow', as we see the benefits of it in long-run and our performance pay is also linked to it.
- **Capital allocation –** We strategize and work together on the CAPEX allocation and any further acquisitions to be done in the market to boost our volumes.

We replicate these practices in all our companies, which helps us in building trust with the business unit. We hand-hold them throughout wherever required, without getting into their day-to-day affairs.



Expert Views

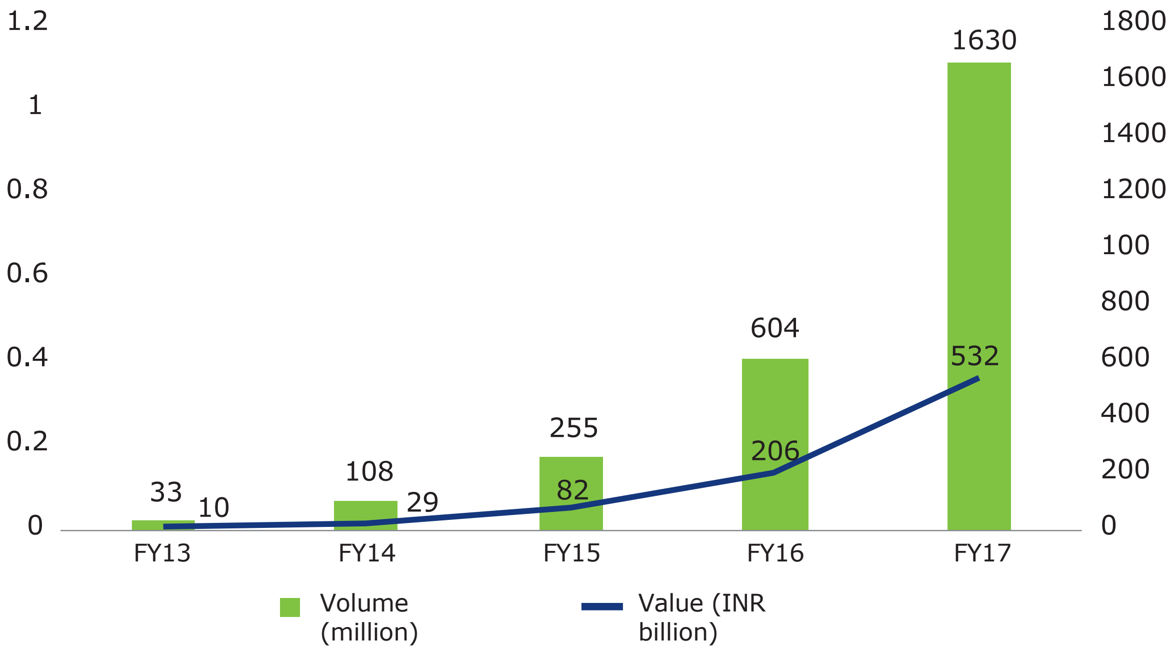


Leading the cashless charge: Evolution of the digital wallet industry in India

The Indian economy is largely driven by cash transactions that account for a significant payment share in the country. The increasing mobile phone subscribers, growth of e-commerce and consumer convenience are positively swaying the evolution of digital payment methods, such as Credit cards, Debit cards, National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), prepaid payment instruments (including mobile wallets), etc. – helping the country to move towards a less cash-dependent nation. Between FY13-17, the volume and value of digital payments transactions have grown at a CAGR of c.19% and c.12%, respectively. Also, the subsequent policy measures taken by the government have provided further impetus to the growth of these methods.

Within the digital payment ecosystem, the mobile wallets have played a crucial role in processing digital transactions, especially after the announcement on demonetization by the Indian government last year.

Mobile wallet transactions FY13-FY17



The initial growth of wallets was largely attributed to the payments for mobile and utility bills. However, with a number merchant collaborations, the wallets are now used for making the payment for shopping, travel and entertainment reservations, taxi services, food orders, etc. Therefore, the increasing acceptability of this platform by merchants is likely to further increase the usage by providing seamless services to process the low-value transactions, as the average ticket size for a mobile wallet transaction in FY 17 was INR 327 vs. INR 2,506 for cards.

The mobile wallet market in India can be divided into four distinct types depending upon factors such as the party that can operate the wallet, limits on transaction amount, and the purpose of wallet. The four types of wallets prevalent in the Indian market are summarized in the table below:

Types of mobile wallets in India

PPI Type	Key features	Examples
Open	• Operated only by banks • Allows cash withdrawals and funds transfers in addition to POS usage • Max amount that can be stores is INR 1,00,000	Vodafone m-pesa
Semi-Open	• Operated only by banks • Allows usage with merchants who have a contract with the bank • Max amount that can be stores is INR 1,00,000	Axis Bank gift card
Closed	• Operated only by banks, NBFCs and other entities • Does not allow cash withdrawal; certain amount is locked with the merchant • Max amount that can be stores is INR 10,000	Flipkart Wallet, Metro Card
Semi-Closed	• Operated by Banks, NBFCs and other entities • Does not allow cash withdrawal; allows usage at selected merchants; some allow direct transfer to another wallet for usage • Max amount that can be stores is INR 10,000 (without KYC) and INR 50,000 (with KYC)	PayTM, Oxigen, MobiKwik

The industry is highly fragmented and competitive, as the players use attractive discounting schemes to pull the attention of users to their platforms.

Major players in the mobile wallet space in India

Company	Wallet Name	Revenue / Year of reporting	User Base / Reporting date
PayTM Mobile Solutions	PayTM	INR 830 Crore / FY16	200 Million / February, 2017
One MobiKwik Systems	MobiKwik	NA	55 Million / May, 2017
Oxigen Services	Oxigen Wallet	NA	25 Million / October, 2016
Accelyst Solutions	FreeCharge	INR 36 Crore / FY16	30 Million / October, 2016
PayU Payments	PayU Money	INR 190 Crore / FY16	NA
Citrus Payment Solutions	Citrus Pay	INR 38 Crore / FY15	30 Million / September, 2016

The user base of these providers have expanded significantly, and likely to continue at the same trajectory. However, these businesses are quite heavily backed by the funding by various investment companies, which could force them to move towards profit realization going forward. The investors are aiming to minimize the costs and the impact could lead to the consolidation in the industry in future.

While the usage of mobile wallets is expected to expand with transaction volumes projected to grow at a CAGR of c.94% between FY17-FY21 to reach 32 billion, the industry is also expected to face a number of challenges. The concerns regarding data privacy and security are quite prevalent and would require providers to keep investing to ensure steadiness, as it’s extremely crucial for them to safeguard their users against any potential cyber threats. To counter digital payment methods, such as credit cards, debit cards, internet banking, etc. – which are already very strong in the market – the mobile wallets have to be innovative and exclusive in their approach to not only be strong against the existing payment methods, but also the new mediums like Unified Payments Interface (UPI). The future success factors are expected to be dependent on the level of innovation, which could compel the players to expand or diversify the portfolio of services to be more competitive in the market.

For more information and to download the complete report , click here.

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The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For more information feedback or suggestions, please write to us at: incfo@deloitte.com