Initiating Coverage

KJMC

3rd March, 2011

KJMC Institutional Research

Tours and Travels

Cox & Kings Ltd

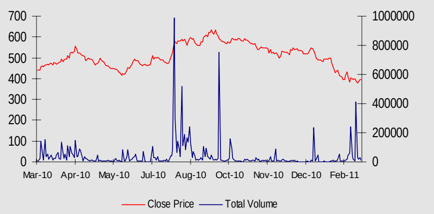
BUY

CMP	Rs. 397
Target Price	Rs. 510

Key Data

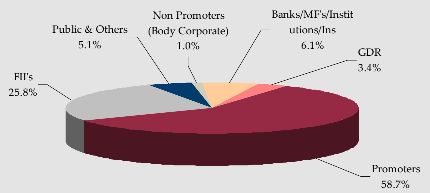
Face value (Rs.)	10
Market cap (Rs mn)	27100.7
Total O/S shares (Rs mn)	68.26
Free Float	39.25%
52 week High/Low	659/365
Avg. Monthly Volume (BSE)	46041
Avg. Monthly volume (NSE)	149754
BSE Code	533144
NSE Code	COX&KINGS
Bloomberg code	COXK IN
Beta	0.90
Date of Incorporation	1950
Last Dividend Declared	10%
Indices	BSE500
FCCB's O/s	N.A.
Warrants O/s	N.A.

One Year Price / Volume Chart



Source: Capitaline

Share Holding Pattern (as on 31st Dec 10)



Source: Company, KJMC Research

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Cox & Kings Ltd. (C&K) is one of the oldest and most reputed travel and tour operators in India, offering a one-stop shop for the travel needs of all segments of travellers. The company with a global presence has 255 touch points in 164 cities across 4 continents. The company's business can be broadly divided into four different segments viz. Leisure, Corporate, Forex and Visa Processing. In the last five years (FY06-10), consolidated net sales and PAT have grown at a CAGR of 45% and 50% respectively. The net sales are expected to grow by 25% in FY11.

At CMP of Rs 397, the scrip trades at a P/E of 18.7x and 15.3x based on FY11E & FY12E consolidated EPS of Rs 21.3 and Rs 25.9 respectively. We initiate coverage with buy recommendation with a target price of Rs 510 (based on DCF valuation) which is 19.7x FY12E earnings. The target price translates into a potential upside of 28.5%.

Key Highlights

Acquisitions to drive growth: C&K is scouting for global acquisitions to drive its growth and strengthen its position as the leading tour operator in the country. For this purpose, C&K has raised Rs. 12 bn through IPO proceeds, GDR and internal accruals. Acquisitions in the past have remained value accretive and we expect it to continue this trend in the future.

Asset light model reduces downturn risk: Unlike some of its peers like TUI, Thomas Cook etc, C&K has an asset light model. It does not own any expensive assets nor does it commit to buy any inventory from its suppliers. It has only service level agreements with its suppliers. Thus, C&K does not bear the risk of holding inventory especially during downturn.

Franchisees to improve distribution network and profitability: It plans to add 150 franchisees in the next 12-18 months. Franchise model will allow to increase its presence in more cities without investing in the infrastructure and other associated costs. Franchisees are expected to contribute 15-18% of total revenues in next 2-3 yrs.

Common Buying Group to give bargaining power: The growing business volumes has given C&K better bargaining power while negotiating with its suppliers for air travel, hotel accommodations, car rentals and ground handling services. This enhanced bargaining power with its vendors will generate significant cost savings which will result in improved operating margins.

Seasonality impact mitigated by geographical diversification: C&K's business is not impacted by seasonality. Q1 and Q2 are off-season for India inbound tourists but it is peak season for India outbound tourists since its summer vacations in India. Q3 and Q4 are peak season for India when most of the foreign tourists are visiting India.

Consolidated Financial Snapshot

(in Rs. Mn)

Particulars	FY10	FY11E	FY12E	FY13E
Net Income from Operations	3,991.5	4,965.4	6,040.1	7,158.2
Y-O-Y Growth	39.1%	24.4%	21.5%	18.4%
EBIDTA	1,864.4	2,269.6	2,836.3	3,450.8
EBIDTA margin (%)	46.7%	45.7%	47.0%	48.2%
PAT	1338.5	1451.0	1771.1	2255.1
PAT Margins (%)	33.5%	29.2%	29.3%	31.5%
Equity Capital (mn)	629.2	682.6	682.6	682.6
EPS (Rs)	21.3	21.3	25.9	33.0
ROE (%)	25.8%	14.1%	13.4%	14.8%
P/E (x)	18.7	18.7	15.3	12.0

Source: Company, KJMC Research

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I hereby certify that the views expressed in this document reflect my personal views. I also certify that no part of my respective compensation was, is, or will be, directly or indirectly, related to the views expressed in this document. I do not own any amount of stock in the company recommended/covered in this report.

General data sources

Company, Capitaline, Public domain, Bloomberg.

Contents

Investment Rationale

Acquisitions to drive growth

C&K is scouting for global acquisitions to drive its growth and strengthen its position as the leading tour operator in the country. For this purpose, C&K has raised Rs. 12.4 bn cash in last 12 months through IPO proceeds, GDR, debt and internal accruals, details of which are given below.

Break up of Cash

Particulars (as on 31th Dec'10)	Amt (in Rs. bn)
Unutilized portion of IPO (Total IPO proceeds Rs. 5.1 bn @ Rs. 330/share)	2.4
GDR (5.3 mn shares @ $12.17/share)	3.0
New debt raised in this fiscal	4.2
Internal accruals	2.9
Total	12.4

Source: Company, KJMC Research

This cash will be utilized to acquire a large travel and tour company and 2-3 companies have been short listed for the same. The target could be from Europe, USA, UK, and China. The company expects to close the deal by June 2011.

Acquisition will look to plug-in gaps in the business vertical as well as geography

C&K is looking for the following characteristics in the Target Company: (i) should be a market leader in its source market, (ii) generating positive cash flows currently as well as historically and (iii) having a ROE similar to that of Cox and Kings.

C&K's historical ROE is 34.3%, 32% and 25.8% in FY08, FY09, and FY10 respectively. Lower ROE in FY10 was due to issue of fresh equity in IPO. Acquisitions in the past have remained value accretive and we expect this trend will be maintained in the future acquisition.

Last 4 Acquisitions (In Rs. Mn)

Particulars	Tempo Holidays Pty Ltd	Tempo Holidays NZ Pty Ltd	East India Travel Company	MyPlanet Australia Pty Ltd
Location	Australia	New Zealand	USA	Australia
Date of Acquisition	Nov-08	Nov-08	Apr-09	Dec-09
Financial Yr ending	31-3-10	31-3-10	31-3-10	1-10-09 to 31-3-10*
Sales	485.17	26.41	192.74	17.50
Operating Profit	150.25	12.52	94.13	-23.39
PAT	122.39	8.84	60.06	-21.51
Net Worth	347.18	8.26	157.78	1.11
OPM%	31%	47%	49%	-
PATM%	25%	33%	31%	-
ROE%	35%	107%	38%	-

*MyPlanet Australia Pty Ltd was acquired in Dec-09; therefore full year results are not available Source: Company, KJMC Research

Management can capitalize on their rich experience in making profitable future acquisitions

As can be seen from above table, the acquired companies (except MyPlanet Australia) have a very healthy ROE and have been making good profits with equally good margins. C&K's management has proved its expertise in making profitable acquisitions. Thus, we believe that C&K would continue this trend and the acquisition will only increase the scale of operations and the number of customers, markets and products.

Asset light model reduces downturn risk

C&K works on asset light model and does not own fixed assets such as hotels, aircrafts, cruises etc. Most of the big players like TUI, Thomas Cook, etc, own large assets. TUI, for instance, has its own aircrafts, hotels, cruises.

Peer Comparison

Particulars	Fixed Asset Turnover		Working Capital Ratio (net of Cash)		ROIC	
	2009	2010	2009	2010	2009	2010
Cox & Kings Ltd	3.40	3.18	1.08	0.97	21.6%	18.2%
Kuoni Group	1.47	1.10	-1.92	-1.40	11.7%	1.3%
Thomas Cook Group plc(London)	0.29	0.33	-0.71	-0.95	6.4%	5.5%
Tui Travel plc	0.19	0.13	-0.35	-0.31	-0.1%	2.3%

Source: Company, KJMC Research

Holding assets during economic downturn may lead to lower operating profit

During economic downturn companies holding assets will get impacted even if 5% of their bookings get cancelled since it will be difficult to resell that inventory later. Thus, the asset light model mitigates the reselling risk during economic downturn.

C&K procures the inventories (hotel rooms, airline seats, etc.) from suppliers. It does not buy any inventory in advance. It has only service level agreements with them. Bookings with suppliers are done at pre defined rates as well as have pre defined date of release. Up to the date of release there is no penalty for cancellation of the bookings. After the date of release, penalties are incurred but it is passed on to the customers in the form of cancellation fee. Thus, C&K does not bear the risk associated with holding inventory.

Franchisees to improve distribution network

C&K is a global player with presence in 20 countries through subsidiaries, branch offices and representative offices as well as through global network of sales agents. In India, the company has 14 sales offices, 115 franchisees, 143 preferred sales agents. To improve its domestic penetration, it plans to add 200 franchisees to its network in the next 12 months. The franchise will be a one stop shop for all travel related services and will sell C&K products only. C&K provides training, site development, and advertising & marketing support to the franchise. Franchise model has the following advantages:

Adding franchisees instead of opening owned stores is in-line with the asset light approach of the company

- Compared to other growth methods it requires minimal investment in new premises, equipment and people.
- Multiple units can be opened simultaneously, gaining a foothold over competitors and increasing the company's competitive advantage
- As additional locations are opened, C&K's brand visibility and brand recognition will increase.
- Purchasing power will also increase as its bookings will increase, allowing it to negotiate for better rates with suppliers.

Thus, without leveraging its balance sheet C&K can achieve growth in size and spread its reach through the franchise model.

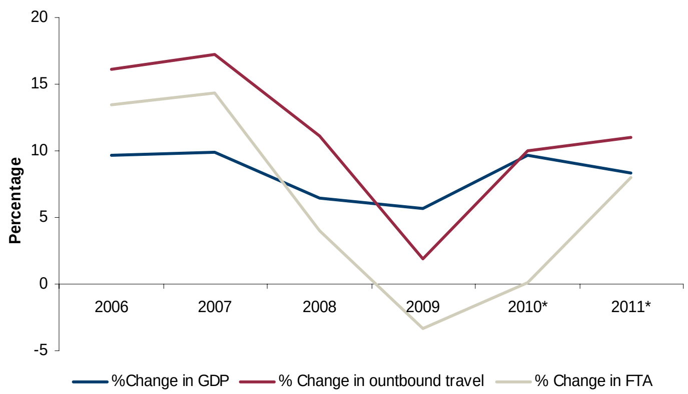
Franchises are expected to contribute 15-18% of total revenues in 2-3 yrs.

Growing Indian economy to boost domestic and outbound tourism

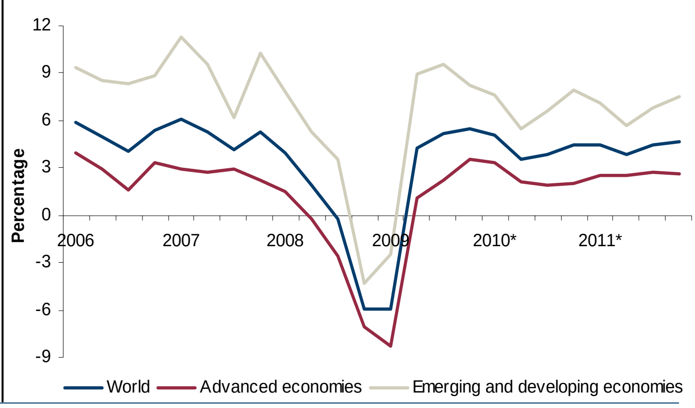
The burgeoning Indian middle class, rising income levels, increased standard of living and availability of low cost transportation to fuel Indian travel and tourism industry

International Monetary Fund in its report on India has projected GDP growth at 8.4% for 2011 which is above the historical trends. India's tourism industry is also expected to witness a strong period of growth. Several reasons are cited for the growth and prosperity of India's travel and tourism industry. The burgeoning Indian middle class, rising income levels, increased standard of living and availability of low cost transportation facilities along with the growth in high spending foreign tourists, and coordinated government campaigns to promote 'Incredible India' are driving domestic tourism growth.

Indian GDP v/s Indian Inbound and Outbound Travel



Global GDP Growth



* Estimates

Source: International Monetary Fund

India's outbound leisure travel is also on an upward trend. The increase in disposable income of the Indian middle-class population and the aspiration to travel to foreign countries for vacation along with easy availability of attractive tour packages has increased outbound leisure travel from India.

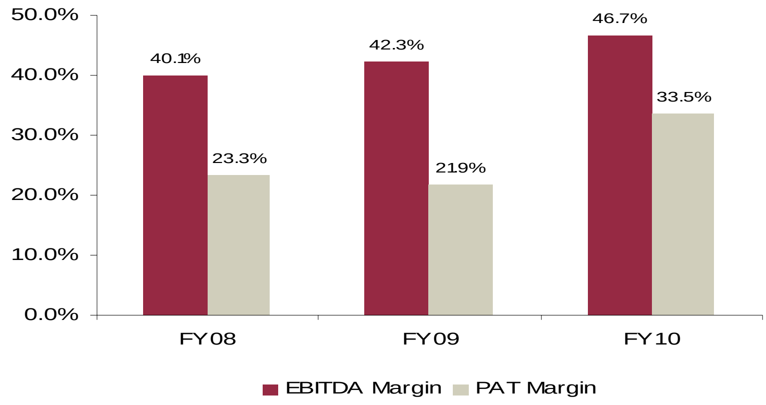
C&K provides a bouquet of international tour packages to meet the needs of price conscious Indian vacationer. The travel and tourism sector in India is expected to grow by 6.7% in 2010 followed by 8.5% annually in the next ten years as per WTTC and ranks fourth in WTTC's list comprising of all the countries in the world. China ranks first in the list with 9% annualised 10-year real growth in travel and tourism sector.

Common Buying Group to give bargaining power

In the past few years the company has grown organically as well as made several acquisitions in various countries thus increasing its geographical presence and customer base. In the last four years the company has acquired seven companies. Instead of each subsidiary buying inventory on standalone basis, products are sourced through a common buying group.

This results in bulk buying of inventory and with the growing business volumes C&K will have better bargaining power while negotiating with its suppliers for air tickets, hotel accommodations, car rentals and ground handling services. This enhanced bargaining power will generate significant cost savings which will result in improved operating margins. It will also give competitive advantage to C&K as it can leverage upon its reduced cost of inventory by pricing its products more competitively.

Improvement in EBITDA Margins



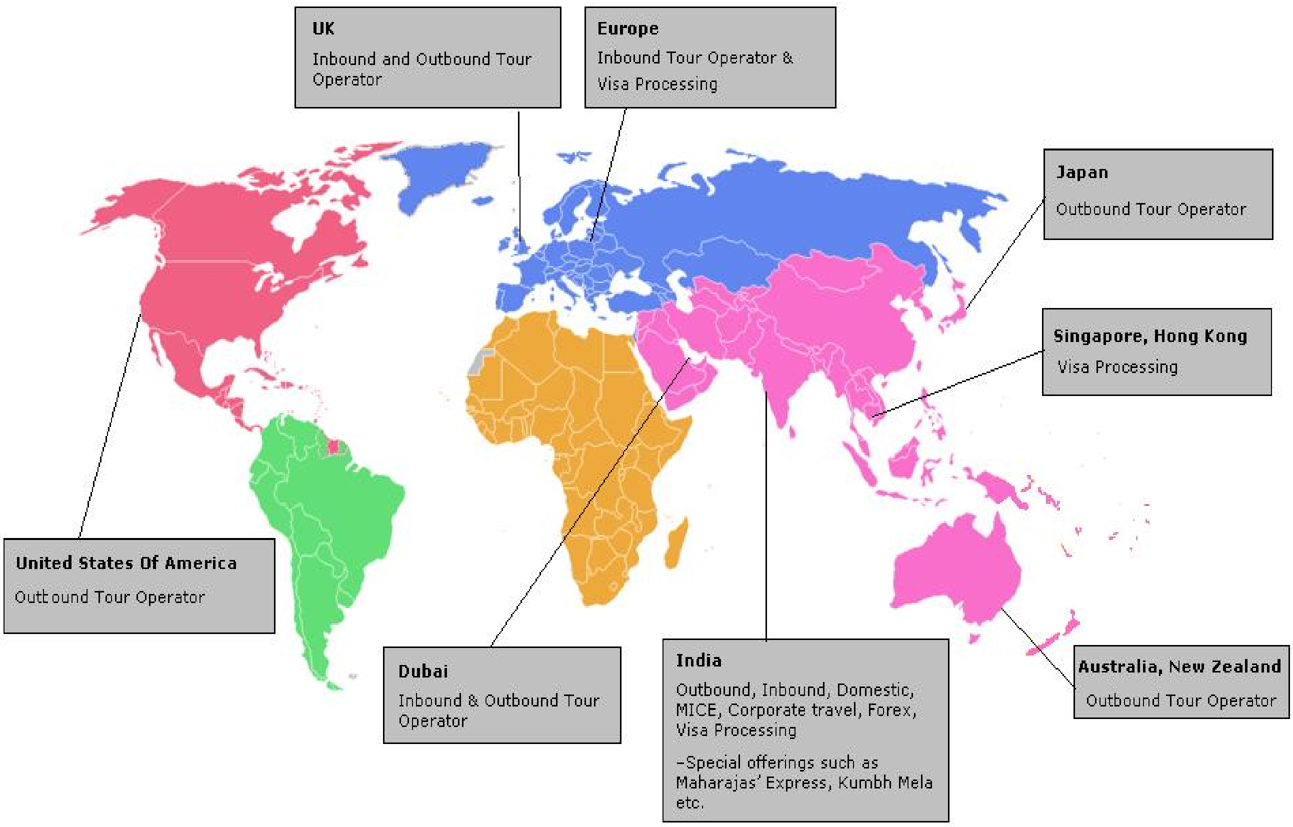
Source: International Monetary Fund

Bulk buying of inventory to generate significant cost savings and improve operating margins

Seasonality impact mitigated by geographical diversification

The Indian tourism sector is highly seasonal. C&K's global diversification has helped its business to alleviate the impact of seasonality. Q1 and Q2 are off-season for India inbound tourists. But during that time the India outbound business is at its peak since its summer vacations in India and C&Ks business is driven by its Indian operations. Q3 and Q4 are peak season in India when most of the foreign tourists visit. During this time major business comes from the overseas subsidiaries. Thus, the business runs throughout the year and the impact of seasonality is mitigated.

Geographical Business Diversification



Source: Company, KJMC Research

Company Background

Cox & Kings Ltd. (C&K) is one of the oldest and most reputed travel and tour operators in India, offering a one-stop shop for the travel needs of all segments of travelers. The company's business can be divided into four different segments viz. Leisure Travel, Corporate Travel, Forex and Visa Processing. Some of their well known products include 'Duniya Dekho', 'Bharat Deko' and 'FlexiHol'. It has subsidiaries in UK, Australia, New Zealand, Japan, US, UAE and Singapore. It operates from Moscow, Maldives and Tahiti through its branch offices and from Spain, Sweden, Germany, Italy, France, South America and South Africa through its representative offices. The company has a 50:50 JV with Indian Railways Catering & Tourism Corp incorporated as Royale Indian Rail Tours Ltd to manage and operate luxury trains in India under the name 'Maharaja's Express'. The train operates on four routes and makes a total of 30 tours in a year carrying 84 passengers per tour.

Some of the well known products include Duniya Dekho, Bharat Dekho and FlexiHol

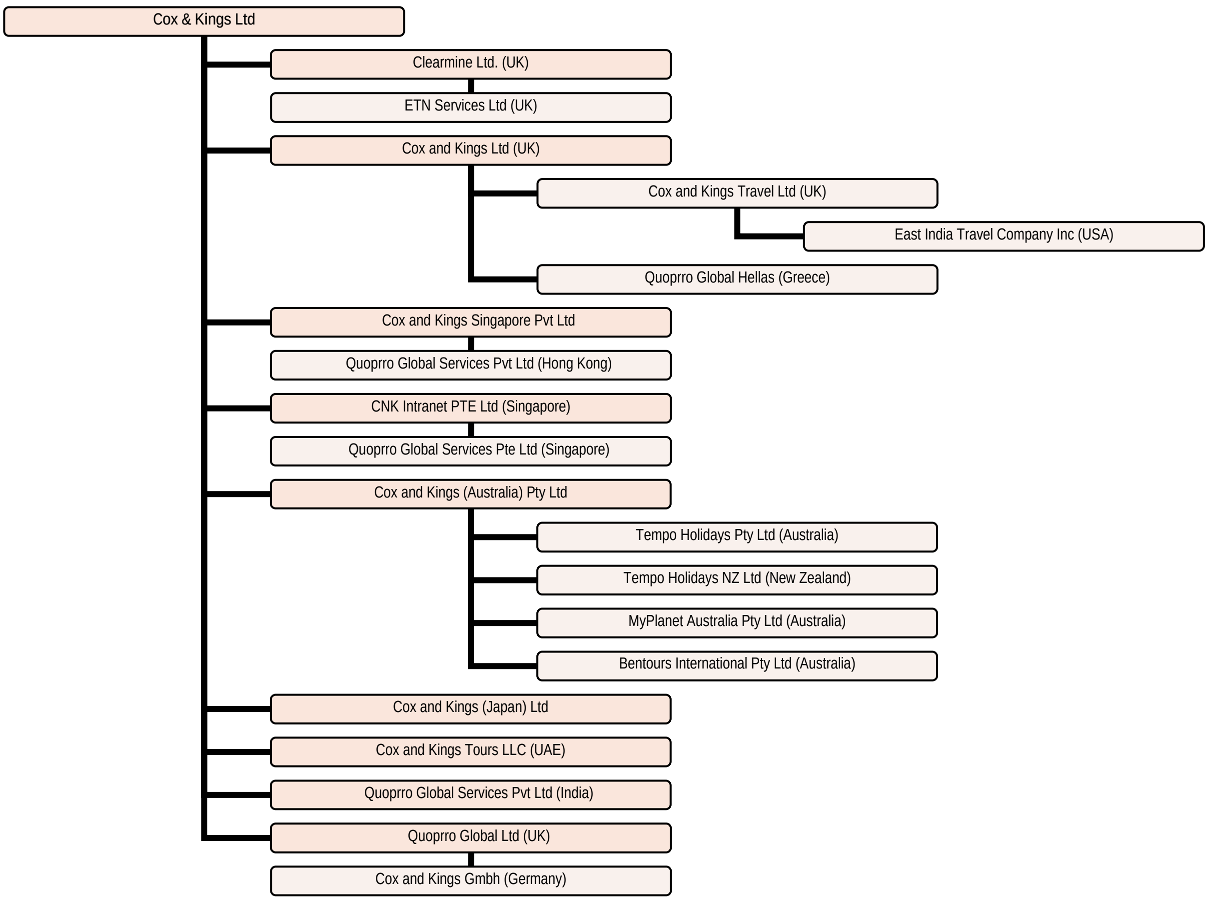
Board of Directors

Name of Director	Designation
Mr. A B M Good	Promoter & Executive Chairman
Mr. Peter Kerkar	Promoter & Executive Director
Ms. Urrshila Kerkar	Promoter & Executive Director
Mr. Pesi Patel	Independent Director
Mr. M Narayanan	Independent Director
Mr. S C Bhargava	Independent Director

Source: Company

Subsidiary companies

List of important subsidiaries is given in the following chart. C&K has 100% stake in all its subsidiaries.



Companies Acquired in last 2 years

Effective Date of Control/ Acquisition	Company Name	Country of Incorporation	Description of Company Acquired	%age Holding
Nov-08	Tempo Holidays Pty Ltd.	Australia	Has significant business in European countries. Will help to consolidate ground handling capabilities with ETN Services Ltd.	100%
Dec-08	Tempo Holidays NZ Ltd	New Zealand	Wholly owned subsidiary of Tempo Holidays Pty Ltd.	100%
Apr-09	East India Travel Company Inc.	USA	Is in the business of selling up market tour and travel packages in the US.	100%
Dec-09	MyPlanet Australia Pty Ltd & Bentours International Pty Ltd	Australia	Bentours has excellent brand name and reputation in the Australian market for FIT and leisure groups to Scandinavia and has well established retail operations	100%

Source: Company, KJMC Research

Business Overview

Cox and Kings' business can be divided into 4 different segments of operation, namely Leisure Travel, Corporate Travel, Visa Processing and Foreign Exchange.

It specializes in leisure travel which contributes 94% of the revenues. Leisure travel can be further classified into inbound travel service, outbound travel service and domestic travel.

Leisure- Inbound

Inbound travel services refer to those services that are provided to incoming foreign tourists. Inbound services include all aspects of ground management services such as local sightseeing, air/rail/ cruise ticketing, airport transfers, hotel bookings etc. Inbound operations cater to customers traveling to India, UK and Dubai. C&K specializes in India inbound services. Revenue from this segment comes in the form of commission generated on the services provided. Inbound travel services contribute 14% of the total revenues.

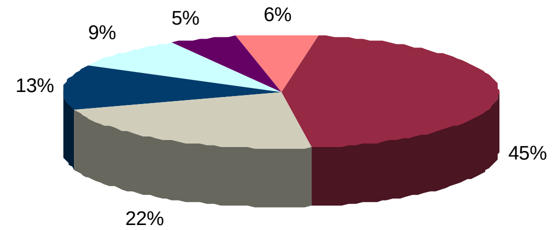
Leisure- Outbound

Under the outbound travel services, C&K offers tour packages to customers traveling outside their home country. Tour packages could be standardized packages for group travelers or customized for flexible individual travelers (FIT). Its Duniya Dekho brand offers readymade packages for group travelers and its FlexiHol brand caters to FIT customers, offering tailor made packages based on individual requirements. Outbound operations involve customers in India, UK, USA, Australia, Japan and Dubai. Income from this segment is the value of the package after deducting all costs related to the package such as airfares, hotel and ground-handling costs. Outbound travel services are the largest contributor to the revenue of the company with 73% of the total revenues coming from it.

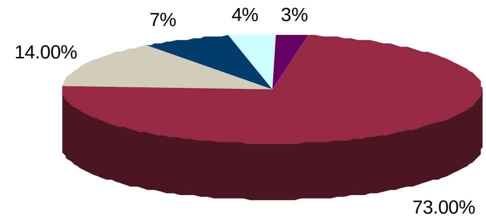
Leisure- Domestic

C&K also provides domestic leisure packages under the brand Bharat Dekho for customers in India seeking leisure travel within the country. Various products sold under this brand include religious pilgrimage tours, education tours, weekend getaways, activity holidays, spa holidays, budget holidays, etc. Domestic business forms 7% of the total revenues of the company.

Revenue Break-up - Region wise



Revenue Break-up - Business wise



Source: Company, KJMC Research

MICE- Meetings, Incentives, Conferences and Exhibitions

MICE forms a part of leisure operations of C&K. It is one of the fastest growing sectors. It caters to corporate clients for their business cum leisure trips. It combines annual business meetings, conferences, events, exhibitions etc. with pleasurable events for delegates and attendants.

Corporate Travel

C&K offers full range of business travel services in India. These services are customized as per the needs of the clients. It contributes 3.5% of the total revenues of the company. The margins are low in this segment but it helps in cross selling leisure products to the business clients.

Foreign Exchange

C&K provides foreign exchange services in India to its leisure as well as corporate travelers and also on standalone basis to any walk in customers. Forex services form 2.5% of its total revenues.

Visa Processing Services

C&K provides visa processing services through Quoprro Global Services Pvt. Ltd., a wholly owned subsidiary. It provides comprehensive processing services to diplomatic missions. Currently, visa processing services contribute less than 0.25% of total revenues.

Joint Venture- Train Tours

C&K has formed a 50:50 joint venture with Indian Railways Catering & Tourism Corp (IRCTC) under the name of Royale Indian Rail Tours Ltd. to manage and operate luxury trains in India. 'The Maharajas' Express' as the train is known, runs on four different routes covering some of the most exotic locations. It carries approx 84 passengers in 23 coaches. Starting from September 2010, The Maharajas' Express' will make 30 tours uptill April 2011.

Revenue Recognition

The company reports revenue in form of commissions and income arising from tours and other services after deducting all related direct expenditures. Thus, on the P&L it reports net commission income.

The revenue from tours is recognized from the date of departure and it is not dependent on whether the booking is certain or not.

Commission on various business verticals

Particulars	Commission
Leisure	22%
Corporate Travel	3%
Forex	1%

Source: Company, KJMC Research

For corporate travel, MICE, inbound destination management services and Forex operations C&K extends credit to the customers, which is an average of 26 days on gross basis.

Credit given in different clients

Particulars	Credit Period (Days)
Inbound Destination Management Service Clients	45
Corporate Clients	30
Forex Clients	10
MICE Clients	22

Source: Company, KJMC Research

GDR

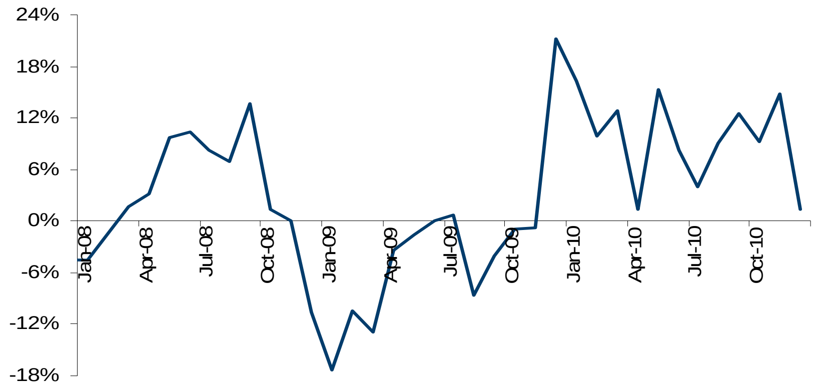
In August 2010, the company issued 5,341,003 Global Depository Receipts (GDRs) at a price of US$ 12.17 each amounting to USD 65mn. This will be used to fund its acquisition plans. The GDRs are listed on the Luxembourg Stock Exchange. The GDR issue constitutes 7.8% of the fully diluted post issue paid up capital of the company.

Industry Outlook

Indian tour and travel industry

As per World Travel and Tourism Council (WTTC) report, growth for the Indian Travel & Tourism sector is expected to be 6.7% in 2010 and thereafter to sustain at 8.5% per annum over the coming 10 years. The contribution of Travel & Tourism to Gross Domestic Product (GDP) is expected to rise from 8.6% at Rs. 5532.5 bn in 2010 to 9.0% at Rs. 18543.8 bn by 2020.

Y-O-Y change in FTA - India



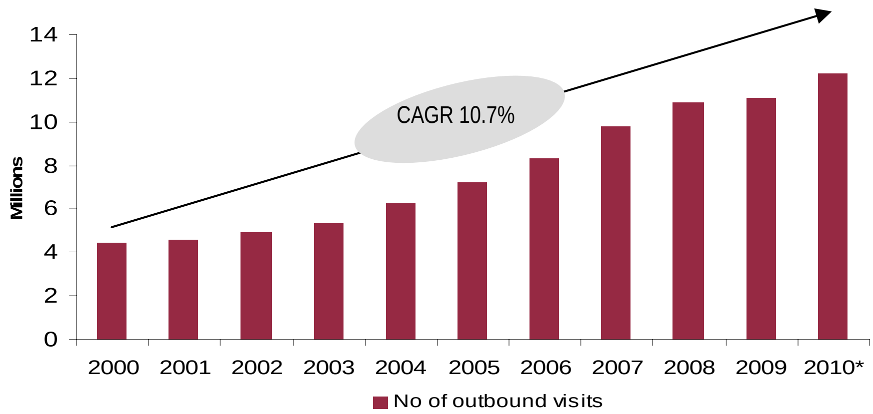
Source: Tourism Dept, Govt of India

Outbound Travel

Outbound travel is expected to be back on track with approx 12 mn Indians traveling abroad in 2010 which is 10% higher than 2009

Indian outbound travel has been growing at a CAGR of 10.7% during year 2000 to 2010. During the year 2009, 11 mn Indians traveled abroad which was higher by only 1.8% from 2008. For 2010, outbound travel is once again expected to grow by more than 10% which can be attributed to improvement in the overall economic scenario of the country, rising income levels leading to higher disposable income, aspiration of going on a foreign vacation along with cheaper international travel, and better tourism product offerings.

Outbound Travel by Indians



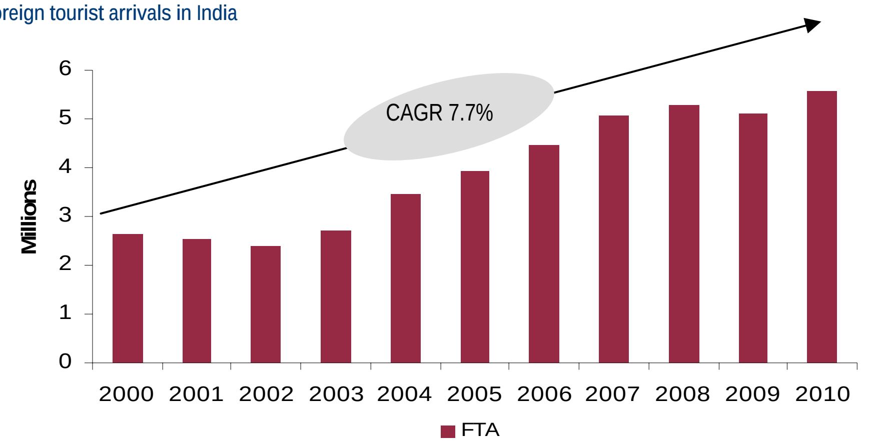
* estimates

Source: Tourism Dept, Govt of India

Inbound Travel

For 2010, the foreign tourist arrivals into India have grown by 9% on a year on year basis. In December 2010, 0.66 mn tourists arrived in India. The total number of tourist arrival for the whole of 2010 was 5.58 mn. Foreign tourist arrivals in India have increased as India continues to be a favored tourist destination for leisure, as well as business travel. The Government of India has introduced various policies to promote the Indian tourism and hospitality industry.

Foreign tourist arrivals in India

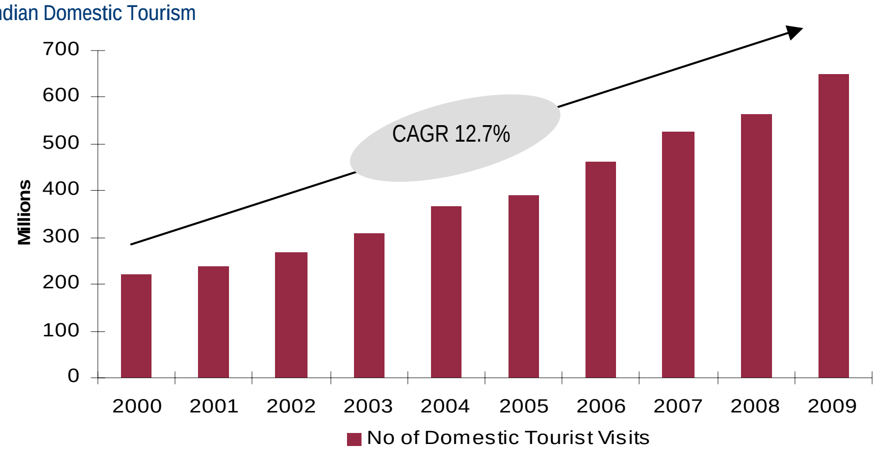


Source: Tourism Dept, Govt. of India

Domestic Travel

Indian domestic tourism has been growing at a CAGR of 12.7% during the period of 2000-2009. Despite the global economic slowdown in 2008, the Indian domestic tourism showed great resilience by growing at 7% and further in 2009 it managed to rope in an even better growth of 15.5%. Rising income and affordability are driving domestic tourism in India.

Indian Domestic Tourism



Source: Tourism Dept, Govt. of India

Key Government Policy Initiatives

The Government of India has taken various policy initiatives to promote tourism in the country.

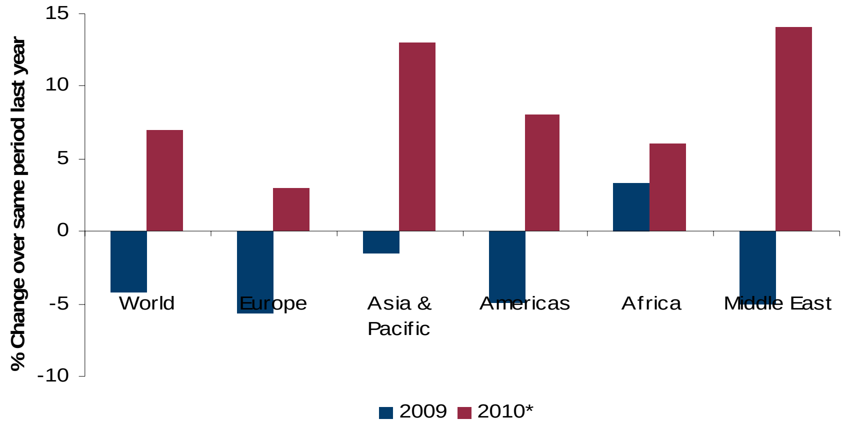
Aggressive marketing through Incredible India campaign has given the much needed boost to Indian T&T industry

- "Incredible India" campaign has generated huge interest about Indian tourism products globally and contributed significantly to the growth of tourism in India.
- Introduction of low cost airlines in India has made air travel more affordable for Indian travelers.
- Introduction of Visa-on-Arrival (VoA) scheme for tourists from five countries viz. Singapore, Finland, New Zealand, Luxembourg and Japan has attracted more foreign tourists from these countries. During the CY2010, a total number of 6549 VoAs were issued under this Scheme.
- "Visit India 2009" initiative launched by Ministry of Tourism, India helped to boost the tourism industry during a year when most of the economies were facing economic slow down and a consequent slow down in tourism.

Global tour and travel industry

The year 2010 has witnessed good growth in the tourism sector worldwide. As per World Travel and Tourism Council (WTTC), global travel & tourism sector is expected to grow by 2% in 2010 compared to its initial forecast of 0.5% early in the year.

International Tourist Arrivals



* Provisional data

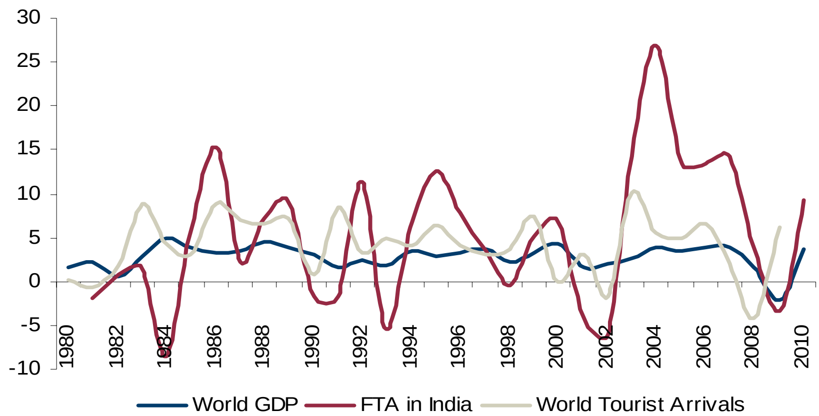
Source: UNWTO

The Travel & Tourism sector contributes US$5,834.5 billion to global GDP, which is 9.3% of the total. This is expected to grow to US$11,270 billion (9.7%) by 2020, as per WTTC.

International tourist arrivals have increased by 6.7% in 2010 as per the provisional numbers released by UNWTO. Leading the way are emerging economies with a robust 8% growth while the developed countries have grown by 5% during the same period. This two speed recovery is expected to continue in the in the next few years.

For 2011, UNWTO expects the international tourist arrivals to be higher than the long term average of 4% to around 5%. Growth in tourist arrivals in emerging economies is expected to continue to outperform their developed counterparts in 2011. Middle East, Asia and the Pacific will be the regions driving International tourism. Developed economies are still faced with economic challenges including weak consumer confidence and high unemployment.

Y-o-Y Growth in World GDP, World Tourist Arrivals and FTA in India



Source: IMF, UNWTO, Tourism Dept-Govt of India

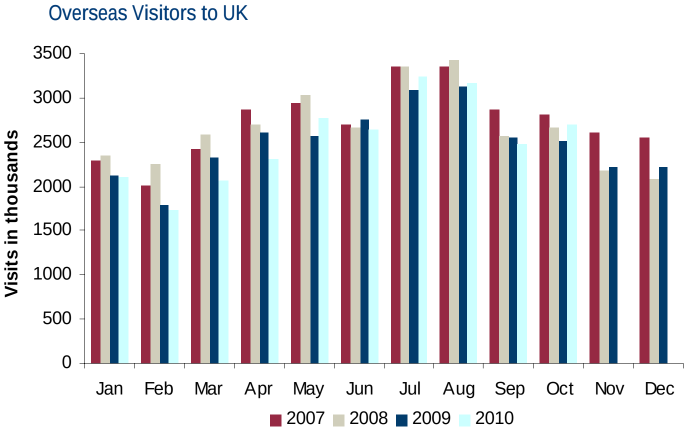
The above graph shows the y-o-y growth in the world GDP, world tourist arrivals and FTA in India. It can be seen that the FTA in India and the World tourist arrival have positive correlation.

United Kingdom

For the first ten months of 2010 (Jan- Oct), the Office of National Statistics, UK has reported a 1% drop in foreign tourist arrivals. The purpose of visit data published indicated 1% increase in leisure travel to UK during Jan-Oct 2010 as compared to last year same period, and for the period of Aug-Oct 2010, data shows 4% increase in leisure travel compared to last year same period. For 2011 an increase by 1% in tourist arrivals has been forecasted. As per WTTC forecasts, UK's travel and tourism sector is expected at USD 231.1 in 2010 and is expected to reach USD 393.3 by 2020.

In April 2010, the Icelandic volcanic ash cloud caused severe disruption to air travel in and out of UK resulting in loss in tourism as well as business travel.

The UK outbound tourism contracted by 6% during the first ten months of 2010, with trips to Europe and North America down by 7% each and trips to other countries were down by 2%. The purpose of visit data indicates outbound leisure trips had fallen by 6% and business trips by 3%. Uncertain outlook for some Eurozone nations like Ireland and Spain which are important source markets for UK remain a concern. Occurrence of natural calamities like the volcanic ash cloud etc can have negative impact on leisure as well as business travel.



Source: Office of National Statistics, UK

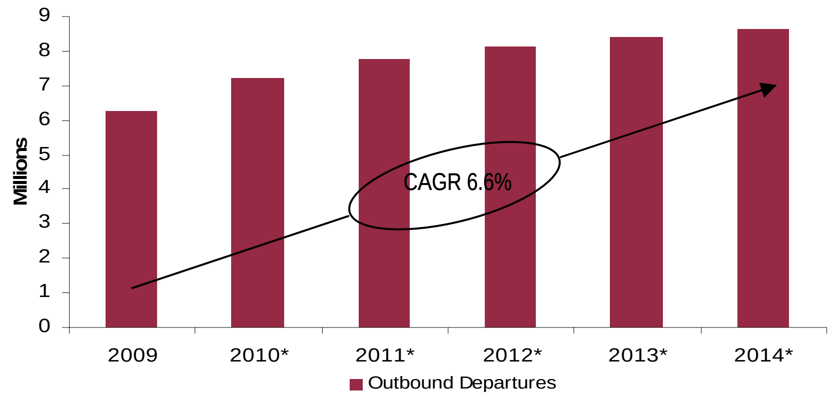
Australia

As per the data released by the Australian government, during the year ended 30 September 2010, 5.38 million international visitors arrived in Australia, an increase of 6% from the same period last year. Of these 70% were leisure travelers. A total 5.96 million Australians traveled overseas during the first six months of 2010 out of which 79% were leisure travelers.

10.2 mn outbound trips are expected to be taken by Australians by 2020 as per tourism forecasting committee.

Tourism Forecasting Committee of Australia forecasts outbound departures to grow by 15% to 7.2 million in 2010 (an upward revision from the previous forecast of 13.4%). For 2011 the committee has forecasted a growth of 7.7% in outbound travel to 7.7 million. During 2009 to 2014 the outbound travel is expected to grow at a compound annual growth rate of 6.6% followed by CAGR of 2.8% from 2014 to 2020. On this basis, 10.2 million outbound trips will be taken by 2020 or around 1.7 million more trips than international arrivals to Australia, says the Committee.

Australia Outbound Tourist Forecast



*Estimates Source: Tourism Forecasting Committee, *Forecast 2010 Issue 2*, Tourism Research Australia

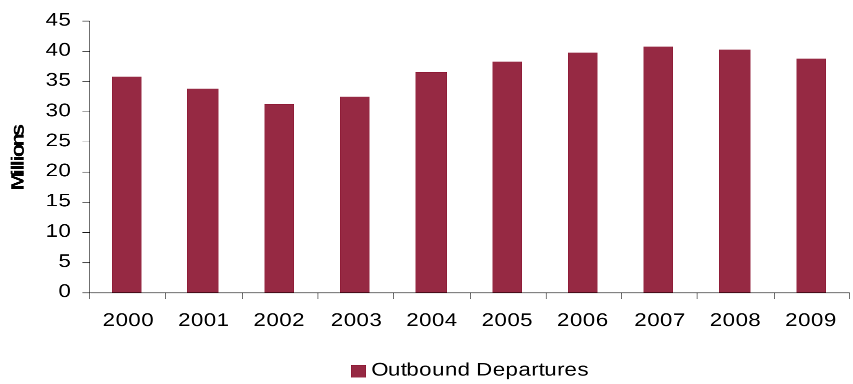
United States of America

The U.S. Department of Commerce expects the foreign tourist arrivals in USA to grow by 51% in next six years i.e. from FY09 to FY15.

With economic revival gathering pace in the US, tourism industry is expected to reach its pre recession levels within next 2 years

The tourist outbound departures in last 10 years (2000-2009) have been highly cyclical. The dotcom bubble burst and the 9/11 terrorist attacks has seen a decline in outbound tourists in 2001-02. The following years showed a good recovery with 2006-07 touching all time peaks. But the global economic meltdown post Lehman Brothers collapse had again slowed the outbound departures. But with the economy slowly reviving, we believe the US tourism industry will pick up pace and we expect the US outbound travel to touch the pre recession levels within next 2 years.

USA Outbound Tourist Departures



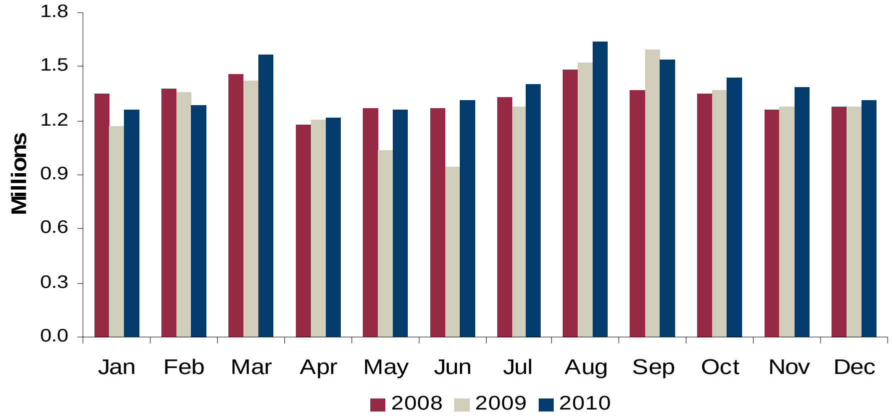
Source: U.S. Department of Commerce

Japan

Japan has shown double digit growth in foreign tourist arrivals for the whole of 2010. Up till October 2010, 7.3 mn tourists arrived in Japan which was higher by 31% from the same period last year as per data released by Japan National Tourist Organization.

During Jan-Dec 2010, Japanese outbound travel increased by 7.7% from 2009 and 4.4% from 2008 at 16.6 mn tourists. Double digit growth has been witnessed during the months of May-Jul of 2010. While for most parts of 2009 the outbound tourist numbers were below those of 2008 due to the global economic slowdown, recovery can be seen from September 2009 when the outbound traffic jumped by 16%. The months that followed also remained above 2008 albeit marginally.

Japan Outbound Tourist Departures



Source: Japan National Tourist Organization

Upcoming Events

ICC Cricket world cup in India is expected to be the biggest event this year, attracting millions from around the world

The most noteworthy global sporting event of 2011 is the ICC Cricket World Cup which will take place in India, Bangladesh and Sri Lanka in February and March. Since C&K specializes in India inbound and has considerable presence in the cricket playing nations of England and Australia, it stands to benefit from tourists of these countries who would come to India to watch the world cup matches.

Another major sporting event to be held in India in later part of 2011 is Formula 1. For the first time India will be hosting Formula 1 racing championship in October. It is one of the most popular global sporting events and attracts thousands of tourists from around the world. As mentioned above, C&K stands to benefit from this as well since it specializes in India inbound business.

The London Olympics will be held in mid 2012 followed by Paralympics at the end of the year. These global sporting events will provide the much needed boost to tourism industry of UK. C&K through its subsidiary ETN Services Ltd which specializes in ground handling services in Europe will gain from these sporting events.

Key Risk & Concerns

Acquisition may not be value accretive

C&K's biggest concern will be to generate expected synergies from its acquisition failing which may lead to erosion of firm value

C&K has raised Rs. 12bn for acquiring a travel company. If the acquired firm is unable to generate expected synergies for C&K then the high debt raised for the acquisition will reduce the profitability of C&K and increase its indebtedness. Also, any difficulty in integrating the operations of the acquired firm with its own will adversely affect the on-going business and operations of C&K.

Slower than expected growth in economy

Travel and tourism industry is sensitive to changes in the economy. Any slowdown in the economic growth of India or any other country in which C&K operates may result in less travel by people which will negatively impact C&K's business.

Highly competitive industry

The travel and tour industry is highly fragmented with many regional, local and unorganized sector players. The organized sector comprises of only 10%. C&K's market share is only 2.5-3% in the organized sector. In such a competitive industry C&K may find it difficult to maintain its existing market share and also to increase its market share.

Foreign exchange rate fluctuation

Since almost 55% of the revenues come from overseas operations, currency fluctuations remain a major concern

Since most of the revenue comes from foreign subsidiaries, C&K faces risk related to fluctuation in foreign exchange rate. Weakening of the dollar vs. the rupee may increase the India outbound tours as foreign tours will become relatively cheaper. But on the other hand, the India inbound tourists will reduce as the Indian currency will get expensive for the foreigners.

Unexpected levy of service tax on hotel room bills

In the union budget of 2011-12, 5% service tax has been levied on hotel accommodation and service tax on airlines has been increased. This cost will be passed on to the customer, thus increasing the total cost of the tour packages. As a result there is a risk associated with the marginal drop in bookings for tour operators.

Unrest in Egypt and other Middle Eastern countries

Egypt and some of the Middle Eastern countries such as Bahrain have been preferred tourist destinations. The recent political unrest in these countries has negatively affected the travel to these destinations. Hence there can be a negative impact on the travel operators catering to these regions.

External factors

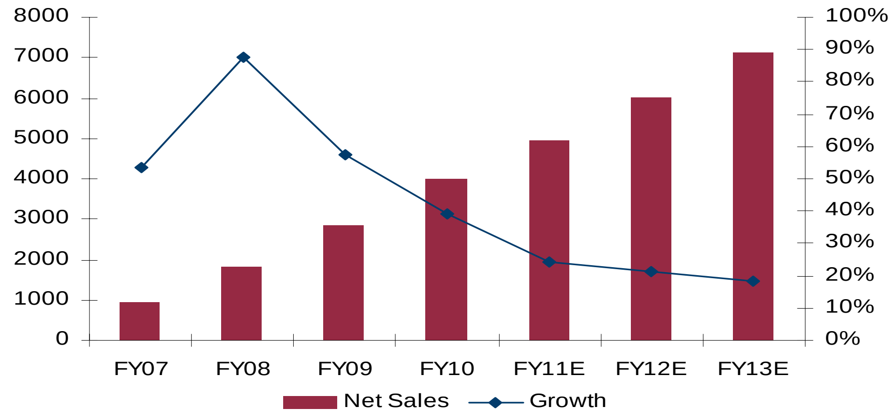
External factors such as terrorist attacks, outbreak of an epidemic, political instability etc could lead to lower than expected growth. Disruptions caused by ash cloud in Iceland in April'10 resulted in exceptional losses for European tours. Occurrence of such natural phenomenon in Iceland or else where in the world can have negative impact on tourism industry.

Financial Analysis

Robust consolidated revenue CAGR of 20% in FY10-13E:

After growing at a CAGR of more than 40% during FY07-10, we expect the consolidated net sales which basically comprises of net commission income to grow at a CAGR of 20% in FY10-13E led by strong economic scenario of India which contributes 44% of the total revenues and improving economic situation in USA, Europe etc. The growth in Indian tourism would be on account of rising income levels leading to higher disposable income, increased standard of living and aspiration of going on a foreign vacation along with cheaper international travel, and better tourism product offerings.

Growth in Net Sales



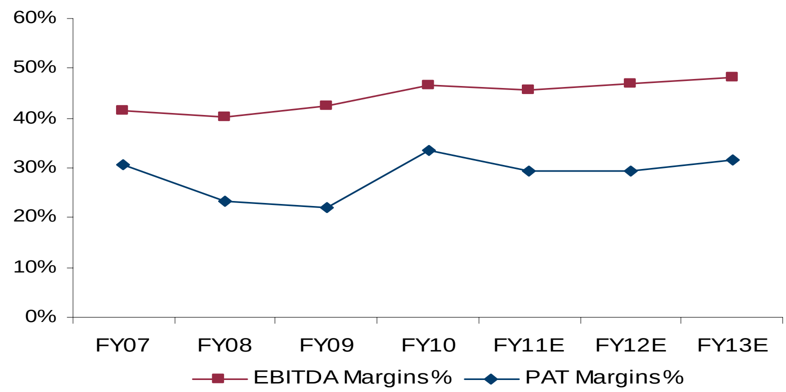
Source: Company, KJMC Research

EBITDA margins to sustain at over 47%:

We expect EBITDA margin will fall from 46.7% in FY10 to 45.7% in FY11E due to high employee costs and advertising expenses. In FY12E and FY13E we expect the margins to improve to 47% and 48.2% respectively. The expansion in the EBITDA margins will be a cumulative effect of 1) lower inventory prices due to bulk buying 2) various cost control measures adopted to control direct (advertisement, employee) cost, 3) volume growth in business due to opening of more franchises.

Due to high interest expenses, PAT margin will fall from 33.5% in FY10 to 29.2% in FY11E, remain at same levels in FY12E and would increase only in FY13E to 31.5%. We expect a moderate EPS CAGR of 12.8% in FY10-13E.

Improvement in Margins



Source: Company, KJMC Research

Debtor days are high as it is calculated on low net commission income

C&K provides credit to its corporate, MICE, inbound travel and Forex operations. Credit period ranges between 10-45 days on gross income basis. There is no scope of reducing the credit period as the travel and tourism sector is highly fragmented and competitive. Thus, if C&K tries to give less days of credit to its corporate clients, the competitors will provide it. This will result in loss of business for C&K. Also, credit is given on gross income but we calculate debtor days on reported income on P&L which is net commission income after deducting all direct travel related costs. Therefore, the debtor days are very high. Considering the highly competitive nature of the sector, we expect debtor days to improve only marginally in the future.

Debtor Days

(in Rs. Mn)

Particulars	FY08	FY09	FY10	FY11E	FY12E	FY13E
Debtor Days	255.7	261.3	244.3	233.3	222.4	224.7

Source: Company, KJMC Research

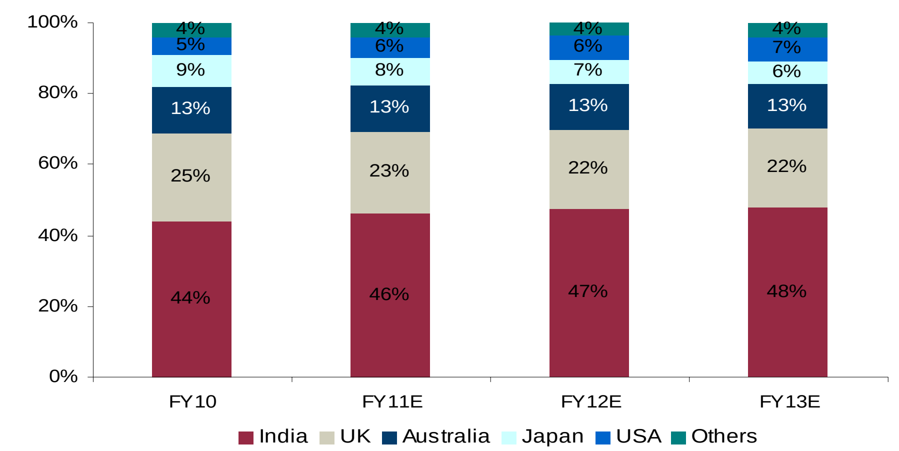
Debt & Interest expense remain a concern

C&K has raised Rs. 4175 mn to fund its acquisition plans increasing its total debt to Rs. 8622 mn. Its average cost of debt stands at 7.7%. As a result the interest cost for C&K will go up by almost 90% in FY11E. This will impact the PAT margins. If acquisition does not generate the expected synergies for C&K then there is great threat that it will destroy value of the company.

Revenue Mix to improve

Owing to better than expected economic revival in India along with rising income levels and higher disposable income, the Indian travel and tourism industry is expected to grow at a much faster pace. We expect the contribution of Indian operations towards the consolidated revenues of C&K is likely to increase from 44% in FY10 to 48% in FY13E. Revenue contribution from UK is likely to shrink from 25% in FY10 to 22% in FY13E primarily due to slower economic revival in Eurozone. Revenue contribution from Australia is expected to remain constant 13% and from USA it is expected to increase by 2 percentage points during FY10-FY13E. Japan's contribution will likely reduce by 3 percentage points from 9% in FY10 to 6% in FY13E

Revenue Mix



Source: Company, KJMC Research

Quarterly Analysis

Q3 and 9M FY11 Result Update- Consolidated

(in Rs. Mn)

Particulars	Quarter ended December 30			Nine Months ended December 30		
	2010	2009	Growth (%)	2010	2009	Growth (%)
Net Income from Operations	1,083.1	788.9	37.3%	3,386.9	2,622.4	29.2%
Total Expenditure	697.5	486.0	43.5%	1,922.1	1,477.7	30.1%
EBITDA	385.6	302.9	27.3%	1,464.7	1,144.7	28.0%
EBITDA Margin (%)	35.6%	38.4%	-280 bps	43.2%	43.6%	-40 bps
Other Income	81.6	56.3	45.0%	188.0	103.8	81.1%
Depreciation	48.0	35.7	34.5%	133.9	100.4	33.3%
Profit before Interest and Exceptional items	419.1	323.4	29.6%	1,518.8	1,148.0	32.3%
Interest	166.6	47.4	251.6%	416.1	182.3	128.2%
Profit after Interest but before exceptional items	252.6	276.1	34.5%	1,102.7	965.7	34.5%
Exceptional Items- Exchange Gain/ (Loss)	86.9	0.0	34.5%	102.1	224.0	34.5%
Profit Before Tax	339.5	276.1	23.0%	1,204.9	1,189.7	1.3%
Provision for Taxes	106.1	80.8	31.3%	362.2	293.8	23.3%
Profit After Tax	233.3	195.3	19.5%	842.7	895.9	-5.9%
Share in the Profit/(Loss) of Associates	-3.1	-2.5	27.5%	-8.8	-7.3	19.5%
Adj. PAT	230.2	192.8	19.4%	833.9	888.6	-6.1%
PAT Margin (%)	21.3%	24.4%	-310bps	24.6%	33.9%	-940 bps
Equity Capital	682.6	474.7	43.8%	682.6	474.7	43.8%
EPS (Rs.)	3.4	2.8	19.4%	12.2	13.0	-6.1%

Source: Company, KJMC Research

Q3 and 9M FY11 Performance Analysis:

Q3FY11 registered the growth of 37.3% in net income from operations at Rs.1083.1 on y-o-y basis. Franchises have contributed 6% of the total net income from operations. EBITDA margins have fallen by 280 bps, which can be attributed to higher advertising and marketing costs and increment in staff cost. EBITDA grew by 27.3% at Rs. 385.6 mn. PAT increased by 19.4% at Rs. 230.2 mn, but PAT margins fell by 310 bps due to 251.6% increase in interest costs compared to last year same quarter.

The nine months results have shown 29.2% growth in top line at Rs. 3386.9 mn on y-o-y basis. EBITDA margins have declined marginally by 40 bps and even though EBITDA has grown by 29% y-o-y. PAT for the 9M FY11 fell by 6.1% at Rs.833.9 mn as compared to Rs. 888.6 mn in the same period last year mainly due to higher interest expense. Other income rose by 81.1% at Rs. 188 mn compared to Rs. 103.8 mn in 9M FY10. The EPS for 9M FY11 stood at Rs 12.2 as compared to Rs 13 in the corresponding period of last year. The decrease in EPS is due to fresh issue of equity shares during IPO in December 2009 and GDR in August 2010.

Outlook & Valuation

We believe Cox and Kings is well positioned to capitalized on the growth in tourism with its unique tour offerings, experienced ground handling capabilities, growing franchises, established customer relationship and strategic tie-ups with corporates.

Acquisitions in the past have been value accretive for C&K and helped the company to increase its presence around the world. Acquisitions in Australia and USA allowed the company to enter in these lucrative markets where it did not have any presence. We believe the new acquisition that the company is planning will be on the similar lines.

At CMP of Rs 397, the stock is available at P/E of 18.7x and 15.3x of its FY11E and FY12E earnings of Rs 21.3 and Rs 25.9 respectively. We have valued the stock using DCF valuation method and arrived at a target price of Rs 510 which is 24x and 19.7x its FY11E and FY12E earnings respectively. We initiate the coverage on the stock with **"BUY"** recommendation with potential upside of 28.5% over CMP.

DCF Model

(in Rs. Mn)

Y/E 31st Mar	FY2010	FY2011E	FY2012E	FY2013E
EBIT	1,714	2,091	2,626	3,213
EBIT (1-Tax Rate)	1,199	1,463	1,837	2,248
Depreciation	151	179	207	230
Capital Expenditure	(250)	(250)	(250)	(200)
(Inc)/Dec in Non-Cash Working Capital	(833)	(1,437)	(1,161)	(1,220)
FCF To Firm	267	(45)	634	1,059

Source: Company, KJMC Research

DCF Valuation

(in Rs. Mn)

Assumed Terminal Year (N)	FY2020E
Cash Flow at N+1	4,933
Growth Rate (FY14-FY20)	15.0%
Growth Rate (Post FY20)	5.0%
Discounted Terminal Value (a)	23,417
Present Value of Firm till Terminal Year (b)	9,902
Total Discounted Value of Firm (a)+(b)	33,319
Total Debt	8,640
Total Cash	10,151
Present Value of Equity	34,830
No. of Equity Shares (mn)	68.3
Price Target one year forward (Rs)	510

WACC Calculation

(in Rs. Mn)

Risk Free rate	8.1%
Market Risk Premium	6.0%
Adjusted Beta	0.9
Cost of Equity	13.5%
Cost of Debt	7.7%
Tax Rate	30.0%
Cost of Debt (Tax adjusted)	5.4%
WACC	11.9%

Source: KJMC Research

Peer Comparison

International Peers

Particulars	EBITDA Margin%		PAT Margin%		P/E		EV/EBITDA		P/BV		RoE%	
	CY10E	CY11E	CY10E	CY11E	CY10E	CY11E	CY10E	CY11E	CY10E	CY11E	CY10E	CY11E
Kuoni Group	4.1%	4.4%	2.1%	2.4%	15.2	12.8	5.6	4.9	2.2	2.0	8.5	13.1
Thomas Cook (London)*	6.3%	6.5%	2.3%	2.5%	7.9	7.1	4.4	4.1	1.0	0.9	12.5	13.2
Tui Travel PLC*	5.1%	5.3%	1.9%	2.1%	11.5	10.3	6.3	5.9	1.4	1.4	13.1	14.4

*year ending sept.   Source: Bloomberg, KJMC Research

Domestic Peers

Particulars	EBITDA Margin%		PAT Margin%		P/E		EV/EBITDA		P/BV		RoE%	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Cox & Kings Ltd	47.7%	48.7%	30.5%	31.7%	22.4	17.7	13.7	10.8	2.7	2.4	14.8%	14.4%
Thomas Cook (India)*	25.2%		8.7%		24.9		14.9				12.8%	
Indian Hotels Co. Ltd.	21.7%	26.1%	4.8%	9.0%	48.3	21.8	17.7	12.0	2.6	2.3	5.2%	11.4%
EIH	28.6%	32.7%	8.4%	12.5%	42.9	22.9	26.5	12.3	3.2	3.0	5.7%	10.9%

*No consensus available, therefore TTM nos. shown   Source: Bloomberg, KJMC Research, Capitaline

Financial Summary

Income Statement - Consolidated

(in Rs. Mn)

Particulars	FY10	FY11E	FY12E	FY13E
Commission & other operating income	3,992	4,965	6,032	7,141
Y-O-Y Growth %	39.1%	24.4%	21.5%	18.4%
Expenses	2,127	2,696	3,200	3,698
Y-O-Y Growth %	28%	27%	19%	16%
Advertisement Cost	357	419	494	567
Employee Cost	994	1,336	1,593	1,850
S G & A	620	759	907	1,056
EBITDA	1,864	2,270	2,833	3,442
Y-O-Y Growth %	53.7%	21.7%	24.8%	21.5%
EBITDA Margin%	46.7%	45.7%	47.0%	48.2%
Other Income	421	509	540	586
Depreciation	151	179	207	230
Interest Costs	270	527	638	585
PBT	1,865	2,073	2,527	3,214
Tax	517	622	759	965
PAT	1,348	1,451	1,769	2,249
Income from Associates	10	0	0	0
Adj. PAT	1,338	1,451	1,769	2,249
Y-O-Y Growth %	113.3%	8.4%	21.9%	27.2%
PAT Margin%	33.5%	29.2%	29.3%	31.5%

Balance Sheet - Consolidated

(in Rs. Mn)

Particulars	FY10	FY11E	FY12E	FY13E
Equity Share Capital	629	683	683	683
Reserves	7,472	11,734	13,423	15,593
Networth	8,101	12,417	14,106	16,275
Loan Funds	5,043	8,640	7,943	7,245
Deferred Tax Liabilities	14	14	14	14
Total Liabilities	13,158	21,070	22,062	23,534
Gross Block	1,337	1,587	1,837	2,037
Less: Acc. Depreciation	615	794	1,001	1,231
Net Block	722	793	836	806
Goodwill on Consolidation	2,175	2,175	2,175	2,175
Capital Work In Progress	204	204	204	204
Investments	2,584	2,584	2,584	2,584
Current Assets	9,565	16,889	18,122	19,905
Inventories	83	96	114	131
Debtors	3,021	3,323	4,037	4,779
Cash & Bank	3,747	10,151	9,939	10,221
Loans & Advances	2,715	3,320	4,033	4,774
Current Liabilities & Prov.	2,113	1,596	1,880	2,162
Net Current Assets	7,452	15,293	16,242	17,744
Total Assets	13,158	21,070	22,062	23,534

Cash Flow Statement- Consolidated

(in Rs. Mn)

Particulars	FY10	FY11E	FY12E	FY13E
Pre-Tax Profit	1,865	2,073	2,527	3,214
Depreciation & Non Cash	151	179	207	230
Interest & others	-87	527	638	585
Chg in W Cap	-833	-1,437	-1,161	-1,220
Tax Paid	-584	-622	-759	-965
Operating Cash Flow	512	720	1,453	1,844
Capital expenditure	-312	-250	-250	-200
Free Cash Flow	201	470	1,203	1,644
Investments	-3,088	0	0	0
Equity Capital	5,294	3,040	0	0
Loans	1,502	3,597	-698	-698
Dividend	-7	-80	-80	-80
Interest	-296	-527	-638	-585
Net Change in Cash	3,025	6,404	-212	282
Opening Cash Position	618	3,747	10,151	9,939
Closing Cash Position	3,738	10,151	9,939	10,221

Key Ratios - Consolidated

Particulars	FY10	FY11E	FY12E	FY13E
Profitability %				
EBITDAM	46.7%	45.7%	47.0%	48.2%
PAT M	33.5%	29.2%	29.3%	31.5%
ROCE	18.1%	12.2%	12.2%	14.1%
ROE	25.8%	14.1%	13.3%	14.8%
Per Share Data (Rs/share)				
EPS	21.3	21.3	25.9	32.9
CEPS	23.7	23.9	28.9	36.3
BVPS	128.7	181.9	206.6	238.4
DVPS	1.0	1.0	1.0	1.0
Valuations (X)				
PER	18.7	18.7	15.3	12.0
CPER	16.8	16.6	13.7	10.9
P/BV	3.1	2.2	1.9	1.7
EV/Sales	6.6	5.1	4.2	3.4
EV/EBITDA	14.1	11.3	8.8	7.0
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Turnover (X Days)				
Debtor TO	244	244	244	244
Inventory TO	10	12	12	12
Gearing Ratio (X)				
Net Debt/Equity	0.2	-0.1	-0.1	-0.2
Total Debt/Equity	0.6	0.7	0.6	0.4

Source: Company, KJMC Research

Mr. Girish Jain	Executive Director	jaingirish@kjmc.com	2288 5201 (B)
Mr. Suresh Parmar	A.V.P. - Institutional Equities	suresh.parmar@kjmc.com	4094 5551 (D)
Mr. Vipul Sharma	A.V.P. - Institutional Sales	vipul.sharma@kjmc.com	4094 5556 (D)

Recommendation Parameters

Expected returns in absolute terms over a one-year period

Buy	-	appreciate more than 20% over a 12- month period
Accumulate	-	appreciate 10% to 20% over a 12- month period
Hold / Neutral	-	appreciate up to 10% over a 12- month period
Reduce	-	depreciate up to 10% over a 12- month period
Sell	-	depreciate more than 10% over a 12- month period

KJMC Research Basket

Products	Contains	Frequency
(A) Fundamental Reports		
Company Reports	Initiating Coverage on Company based on Fundamental Research	Time to Time
Company Updates	Quarterly / Event Update on companies covered	Time to Time
Visit Note / Analyst Meet Note / Concall Update	Reports containing management meet, analyst meet & concall update on companies	Time to Time
IPO Note	Reports based on IPO Analyst Meet and Company Fundamentals	Time to Time
Event Report	Reports based on special events such Budget, Monetary policy etc.	Time to Time
Morning Market Compass	Morning Market Compass containing information on Indian & Global Markets, Indices and key company events.	Mon-Fri
(B) Alternative Research		
Dividend Yield Stocks	Reports based on analysis of Dividend Yield.	Time to Time
Alternative Research Note	Investments based on Open Offer, Buy-Back, FPO Arbitrage, IPO/FPO leverage investments.	Time to Time
What's in & What's out	List of companies, Purchase / Sold in particular month by different AMC's.	Monthly
(C) Mutual Funds & IPO's Research		
Daily Performance Report for Liquid & Liquid Plus Funds	Report containing daily, weekly, monthly, half yearly & yearly performance of only Liquid & Liquid Plus plans along with ranking of each fund for Corporates & Institutions.	Mon-Fri
Daily Performance Report for all Debt & Equity Funds	Report containing daily, weekly, monthly, half yearly & yearly performance along with ranking of each fund.	Mon-Fri
Product Notes	Brief Details about different products like Mutual fund, Fixed Deposits, Bonds, IPOs, Insurance & Home Loans.	Time to time

Data Sources: Capitaline, Companies, Bloomberg, Various Websites & publication available on Public domain.

KJMC Capital Market Services Ltd.

Member

The National Stock Exchange (EQ, WDM)	:	SEBI Regn. No. INB 230719932
The National Stock Exchange (Derivatives)	:	SEBI Regn. No. INF 230719932
The Stock Exchange, Mumbai	:	SEBI Regn. No. INB 010719939
MCX-SX Currency	:	INE260719932
MCX-Commodity*	:	MCX/TM/CORP/1772
Mutual Fund's AMFI No.	:	ARN - 2386

* Under KJMC Commodities Market India Ltd

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KJMC Research is also available on Bloomberg (KJMC <Go>)