

## Japan's natural disaster to weigh on earnings

The earthquake and tsunami in Japan last week is likely to impact the outbound tour operations of Cox & Kings in Japan during FY12. Cox & Kings derives ~8% of its earnings from the region, which will be affected substantially, in our view. Owing to limited inbound presence that Cox & Kings has in the Far Eastern regions of the world, we do not expect any other subsidiary of Cox & Kings to be affected significantly. On the back of this, we downgrade our FY12ii and FY13ii earnings estimates by 6% and 3%, respectively, and lower our target price commensurately to Rs484.

**FY12 earnings to be adversely affected as Japanese discretionary spending will take a while to recover:** Japan, while not a key driver of earnings growth for C&K, still contributes to ~8% of consolidated earnings. As Japanese spending on tourism is likely to take a while to recover after the recent tsunami, we expect a significant impact on the outbound tour operations in Japan. A small part of C&K Japan's earnings are also derived from inbound tour operations in select Far Eastern locations. We expect demand for tour packages to these locations to also remain strained, as the tsunami has impacted tourism demand for many Far Eastern destinations.

**'Business as usual' for the rest of the world:** We do not expect any major impact on the outbound tour demand in other regions of the world. Also, C&K's main inbound operations (Europe, India and Dubai) will likely remain unaffected by any slowdown in global tourism, as these regions continue to be viewed as relatively safe from geographical turbulences.

**Acquisition will remain the next key trigger for the stock:** Cox & Kings is sitting on cash of over Rs10bn after having raised equity of Rs3bn and additional debt of Rs3.5bn last year. With the interest cost on the debt weighing on earnings and the substantial cash balance weighing on the RoE of the company, deployment of funds towards a rational acquisition at attractive prices will be a key positive catalyst for the stock from current levels.

## Result update

<b>CMP</b>	<b>Rs387</b>
<b>12-mth TP (Rs)</b>	<b>484 (25%)</b>
<b>Market cap (US\$ m)</b>	<b>586</b>
<b>Bloomberg</b>	<b>COXK IN</b>
<b>Sector</b>	<b>MID-CAPS</b>

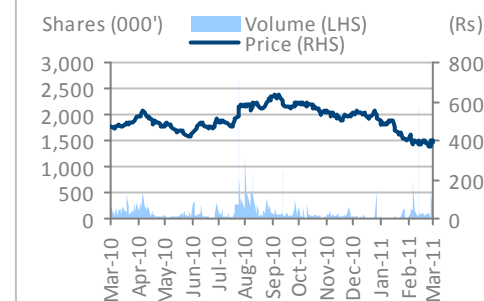
## Shareholding pattern (%)

Promoters	58.7
FII's	25.8
DII's	6.1
ADRs	3.5
52Wk High/Low (Rs)	660/366
Shares o/s (m)	68
Daily volume (US\$ m)	1.0
Dividend yield FY11ii (%)	0.4
Free float (%)	41.3

## Price performance (%)

	1M	3M	1Y
Cox & Kings	-6.5	-28.0	-17.0
<b>Rel. to Sensex</b>	<b>-9.0</b>	<b>-21.1</b>	<b>-22.7</b>
Thomas Cook	-0.1	-17.6	-31.0
Mahindra Holidays	1.3	1.9	-31.2

## Stock performance



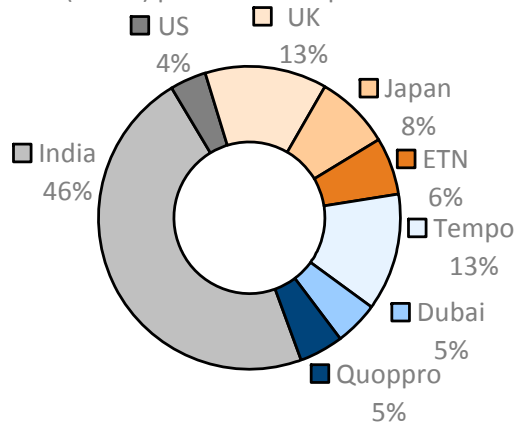
## Financial summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenues (Rs m)	2,869	3,992	5,354	5,905	6,866
EBITDA Margins (%)	42.3	46.7	45.2	45.8	46.0
Pre-Exceptional PAT (Rs m)	628	1,056	1,267	1,408	1,750
Reported PAT (Rs m)	627	1,339	1,267	1,408	1,750
<b>EPS (Rs)</b>	<b>22.5</b>	<b>16.8</b>	<b>18.6</b>	<b>20.6</b>	<b>25.6</b>
Growth (%)	50%	-25%	11%	11%	24%
<b>PER (x)</b>	<b>17.2</b>	<b>23.1</b>	<b>20.8</b>	<b>18.8</b>	<b>15.1</b>
ROE (%)	27.6	13.0	10.2	10.2	11.2
Debt/Equity (x)	1.3	0.2	-0.1	-0.1	-0.2
<b>EV/EBITDA (x)</b>	<b>20.4</b>	<b>13.3</b>	<b>10.2</b>	<b>9.2</b>	<b>7.9</b>
Price/Book (x)	4.8	3.0	2.1	1.9	1.7

Source: Company, IIFL Research. Priced as on 11 March 2011

**Figure 1: C&K's global earnings to be impacted only by its operations in Japan**

Share of EBITDA (FY11ii) prior to the impact of the tsunami on Japan



Source: Company, IIFL Research

### Leisure travel dominates Japan outbound

Japanese outbound tour operations are dominated mainly by the leisure travel segment including: (a) single women; (b) honeymooners; and (c) old couples. C&K caters hardly to any business travel / corporate travel needs, which are relatively less vulnerable to a dip in discretionary spending. We expect all these travel segments of leisure travel to curtail their spending on travel needs in light of the strain on their earnings /savings that a natural disaster of the magnitude witnessed in Japan is likely to have on economic activity.

While C&K may not have a strong presence in the Japanese market as a leading branded tour operator, since the company caters as a wholesale tour operator, we expect the dip in the tourism industry across players to impact revenue growth of C&K.

### We downgrade our earnings and target price

We reduce our earnings estimate for FY12 and FY13 by 6% and 3%, respectively, assuming a 40%+ dip in revenues for C&K Japan in FY12 and a modest 2% YoY revenue growth in FY13, since we estimate that Japanese discretionary spending will take a while to recover from such a large impact on its economy.

Commensurate to our earnings cut, we downgrade our target price to Rs484 from Rs515 previously.

### Assumptions

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
India revenue growth	32%	14%	29%	25%	25%
Japan revenue growth	15%	20%	15%	-40%	2%
India branches	50	80	200	250	300

Source: Company data, IIFL Research

## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenue	2,869	3,992	5,354	5,905	6,866
<b>EBITDA</b>	<b>1,213</b>	<b>1,866</b>	<b>2,421</b>	<b>2,706</b>	<b>3,156</b>
EBIT	<b>1,118</b>	<b>1,715</b>	<b>2,241</b>	<b>2,501</b>	<b>2,922</b>
Interest expense	-201	-270	-609	-771	-735
Others items	68	137	256	326	327
<b>Profit before tax</b>	<b>984</b>	<b>1,582</b>	<b>1,889</b>	<b>2,056</b>	<b>2,513</b>
Tax expense	-349	-517	-604	-658	-804
Income from associates	-6	-10	-17	10	41
Extraordinary items	-1	284	0	0	0
<b>Net Profit</b>	<b>627</b>	<b>1,339</b>	<b>1,267</b>	<b>1,408</b>	<b>1,750</b>

### Cash flow summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Profit before tax	984	1,582	1,889	2,056	2,513
Depreciation & Amortization	96	151	180	205	234
Tax paid	-164	-584	-604	-658	-804
Working capital change	-2,017	-833	-1,407	-947	-1,049
Other operating items	143	-87	0	0	0
Operating Cash-flow	-958	229	58	657	894
Capital expenditure	-213	-211	-95	-229	-261
<b>Free cash flow</b>	<b>-1,170</b>	<b>18</b>	<b>-37</b>	<b>428</b>	<b>633</b>
Equity raised	0	5,294	3,040	0	0
Investments	0	-2,135	0	0	0
Debt financing/disposal	2,245	1,502	4,234	-421	-413
Dividends paid	-7	-7	-76	-84	-104
Other items	-218	-921	0	0	0
<b>Net change in Cash &amp; equivalents</b>	<b>851</b>	<b>3,752</b>	<b>7,161</b>	<b>-77</b>	<b>116</b>

Source: Company data, IIFL Research

### Balance sheet summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Cash & cash equivalents	634	3,747	10,908	10,831	10,947
Sundry debtors	2,322	3,021	4,238	4,424	5,017
Trade Inventories	35	83	93	116	145
Other current assets	2,622	2,715	3,497	3,952	4,598
<b>Fixed assets</b>	<b>818</b>	<b>926</b>	<b>841</b>	<b>865</b>	<b>892</b>
Intangible assets	1,110	2,175	2,175	2,175	2,175
Other assets	495	2,639	2,639	2,639	2,639
<b>Total assets</b>	<b>8,036</b>	<b>15,305</b>	<b>24,390</b>	<b>25,002</b>	<b>26,412</b>
Short-term debt	866	1,370	2,777	2,856	2,943
Sundry creditors	2,199	2,113	2,657	2,281	2,354
Long-term debt/Convertibles	2,676	3,673	6,500	6,000	5,500
Minorities/other Equity	22	48	48	48	48
<b>Networth</b>	<b>2,274</b>	<b>8,101</b>	<b>12,409</b>	<b>13,817</b>	<b>15,567</b>
<b>Total liabilities &amp; equity</b>	<b>8,036</b>	<b>15,305</b>	<b>24,390</b>	<b>25,002</b>	<b>26,412</b>

### Ratio analysis

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Sales growth (%)	57.5	39.1	34.1	10.3	16.3
Core EBITDA growth (%)	66.2	53.8	29.8	11.8	16.6
Core EBIT growth (%)	67.7	53.4	30.7	11.6	16.8
Core EBITDA margin (%)	42.3	46.7	45.2	45.8	46.0
Core EBIT margin (%)	39.0	43.0	41.9	42.4	42.6
Net profit margin (%)	21.9	26.4	23.7	23.8	25.5
Tax rate (%)	-35.5	-32.7	-32.0	-32.0	-32.0
Return on Assets (%)	7.8	6.9	5.2	5.6	6.6
Net Debt/Equity (%)	127.9	16.0	-13.1	-14.3	-16.1
Return on Equity (%)	25.4	27.6	13.0	10.2	10.2

Source: Company data, IIFL Research

#### Key to our recommendation structure

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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