

## Subscribe

17 November, 2009

## 'SUBSCRIBE\*'

Price band - Rs 316-330

Sensex 17050

## Stock Details

Sector	Travel & Tourism
Issue size (Rs bn)	6.1
No of shares (m)	18.3
Equity Capital (Post IPO)	Rs 629.23 m
Face Value	10
Market Cap	Rs 20.8bn
Issue date	Nov 18-Nov 20

## Major Objectives of issue

Particulars	Rs million
Repayment of loans	1296
Investments in overseas subsidiaries	625
Upgrading existing ops	600
Acquisitions & other initiatives	1500
General purposes & others	balance

## Shareholding Pattern (%)

	Post IPO
Promoters	63.6
Non promoter selling S/H	3.4
Public & others	33.0

Source: Company

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Cox & Kings (C&K) is one of the largest tour & travel operators in the country. The company offers entire gamut of services & serves as "one stop shop" for all travel related needs. C&K has a wide spectrum of product offerings catering to leisure as well as business travelers. By virtue of being an authorized forex dealers it also offers Forex services. Through the recent acquisitions of Quopro the company has now started offering visa services too. C&K's presence at 255 touch points, 164 locations in domestic markets & 19 locations outside the country makes its global player. The company enjoys strong brand equity & is a leader in outbound travel to Europe.

In view of the immense potential that travel & tourism offers we expect a bright future for the company. Tourism industry in India accounted for 6% of GDP in 2008 as compared to 9% average in other parts of the world. Hence there is a huge untapped opportunity. Government's focus on increasing inbound travels & changing lifestyles, increased disposable incomes augur well for the sector. Though the sector is fragmented & there is competition from small players, amongst the organized large players who can offer all the services there are very few players. We believe at the upper band of IPO price of Rs 330 C&K shares are attractively priced in comparison to its peers like Thomas cook which trade at around 37x TTM earnings. The strong fundamentals of the company make it an attractive investment opportunity. We recommend Subscribe in the IPO.

## Investment rationale

## "One stop shop" for all travel related needs

C&K offers entire gamut of services required for travel which include Visa Services, Air ticketing, Hotel Bookings, Rail tours, forex etc.

## Presence in all segments of industry

The company is present in all segments of tourism industry. It provides services in Leisure travel (outbound, inbound & domestic), Corporate travels, Forex & Visa Processing. Our channel checks suggest C&K is a clear leader in outbound travel to Europe region beating its competitors by a wide margin.

## Wide spread geographical reach

C&K is present in 19 countries besides India through branches, subsidiaries, representative offices & preferred sales agents (PSA). This helps company in catering to corporate & leisure requirements of its clients from any part of the world. In domestic markets C&K is present in 164 locations with 255 touch points. The company has 14 branches, 56 franchisees & 185 GSA (general sales agent) & PSA. The company maintains very good relations with its channel partners. The testimony to this is the fact that many of its PSA are with the company since past 8-10 years.

C&K is member of Radius Inc. Radius is a consortium of leading travel agents of the world. This membership helps company in leveraging clientele of other leading agents whenever they are traveling to India.

## Fairly spread across country

	North	South	East	West	Total
Branches & Franchisee	23	10	12	25	70
GSA & PSA	77	46	18	44	185
Total	100	56	30	69	255

## Strong brand equity

C&K as a brand has 250 years old history behind it. The company has evolved over past many years to become one of the most respected names in travel industry. The company has won many awards in recognition of its high standards of services.

### Efficient & well experienced management

C&K is professionally managed by a team of highly experienced & qualified professionals. Tourism industry is highly dependant on efficient human resources as business in this industry is mostly relationship oriented. The vast experience of top management & team makes it a formidable player in the sector.

### Recent initiatives

#### To launch luxury train service “Maharaja Express”

C&K has recently formed a 50-50 JV with IRCTC known as Royale Indian Rail Tours Ltd to operate luxury train services called “Maharaja Express”. This will be on lines of “Orient Express” a highly successful train tourism service of UK. This new service is expected to be launched from Jan 10. Though we are confident that this venture will be highly profitable, as of now we are not building any upside potential because in Jan 10 only the pilot services will start.

#### Visa Services through Quopro Global Services

C&K acquired Quopro Global Services to provide visa processing services. In Sept 08 the company got approval from Indian High Commission at Singapore for outsourcing their visa processing. The company has also got in -principle approval from Indian High Commissions at Athens, Greece & Hong Kong. Globally visa processing is a lucrative business concentrated amongst a few players. Thus there is a huge opportunity to be tapped.

### Financial performance

(Rs million)	Mar-09	Mar-08	Mar-07	Mar-06
Income				
Commission & operating income	2869.00	1821.38	969.51	631.79
Other Income	66.61	61.69	24.68	25.74
Total	2935.61	1883.07	994.19	657.53
Expenditure				
Personnel Expenses	790.58	505.70	209.15	150.84
Other Expenses	864.73	585.58	358.75	278.17
Total expenditure	1655.31	1091.28	567.90	429.01
EBDITA	1280.30	791.79	426.29	228.52
EBITDA %	43.61	42.05	42.88	34.75
Interest & Finance Charges	201.33	59.11	51.67	30.77
Depreciation	95.69	63.74	34.06	18.06
PBT	983.28	668.94	340.56	179.69
Tax	348.87	217.46	130.53	72.12
PAT	634.41	451.48	210.03	107.57
Extra ordinary item				65.72
Minority Interest	-6.31	-25.40	87.30	0.46
Net Profit after minority interest	628.10	426.08	297.33	173.75

C&K has been showing robust growth in the past 4 years. In spite of the steep financial meltdown across the globe last year, the company maintained strong revenue traction.

Over FY06-09 the revenues grew at a CAGR of 66%, while the operating margin remained extremely robust in the range of 40-42%. The company's presence in high value high margin outbound travel segment is the reason for such strong margins. Though, the interest cost have gone up 4 fold in FY09 over FY08, the profit after tax showed a CAGR of around 80% in the period FY06-09.

Usually First & third quarters of fiscal are busy periods for the company because vacations fall during this period. Most of the outbound travel happens in the April to June quarter. For the quarter ended June 30 2009 the company has recorded revenue of Rs 996 m with operating profit of Rs 635.4m. The company reported a profit after tax of Rs 405.8m for the said period. There is a huge jump in quarterly performance mainly due to booking of outbound travel business. This year Q1 was exceptionally good because there was a pent up demand from Jan –Mar quarter also as people were still apprehensive of slowing economy & general atmosphere of glom & doom was prevailing. But since May 09 things have changed significantly & therefore this spurt. Though we do not expect the same growth to follow QoQ basis but given the improving overall macro economic conditions we believe Q3 FY10 will also be good as inbound travel segment is expected to pick up sharply in this period.

### Valuations

On the existing equity of Rs 279.25m the EPS for FY09 works out to be Rs 22.5. However, post the IPO the equity will expand to Rs 629.23 m. We compare C&K with Thomas Cook the only other listed player almost equal in topline.

### Comparative valuations

Valuation Parameter	Thomas Cook	Cox & King
PER on last financial year	37.25	33.00
EV/EBITDA	18.26	18.72
mcap/Sales	4.98	7.24
OPM %	14.22	43.61
RONW %	18.70	27.50

### Assumptions

CMP as on Nov 16, 2009 of Thomas Cook Rs 65

Price of Cox & King at upper band of Rs 330

Expanded equity of Cox & King Rs 629.23m.

Thomas Cook data is TTM Sept 2009

Cox & Kings data is for year ending Mar 09

As is evident from the chart above C&K valuation is inline with Thomas Cook on almost all parameters. However, for Thomas Cook most of the earnings are contributed by Forex segment which is a low margin area. Whereas C&K has strong core business of outbound travel especially Euro region which is a high value high margin segment. The new initiatives of company in rail tourism have potential to add significantly to both top & bottom line going forward. Visa processing is another niche area where company can score over its peers.

### Recommendation

Though at the upper band the stock appears to be fairly priced we still recommend Subscribe due to strong brand equity, high operating margins & potential of earnings from new initiatives.

### Key Concerns

Travel & tourism is highly fragmented large number of small players leading to stiff competition.

Tourism industry is highly sensitive to economic cycles & geo-political environment.

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