

16th November, 2009**Issue Details**

Offer Price Band	Rs. 316-330
Face Value	10
Shares Offered	1,84,96,640
Employee Reserved Portion	2,00,000
Net Issue to the Public	1,82,96,640
Type	Fresh Issue & offer for sale
Promoters	Liz Investments, Mr. Good, Mr. Ajay Ajit Peter Kerkar
Lead Manager	IIFL
Listing (Stock Exchange)	NSE, BSE
Offer Open Date	18 th Nov, 2009
Offer Close Date	20 th Nov, 2009

Website: www.coxandkings.com**Scrip Estimates**

Market Cap (Rs Crores)	1987.6-2075.7
EPS – FY09 (Rs)	10.1
P/E(x) (fully diluted)	31.3-32.7
Market Cap/Sales(x) FY09	6.9-7.2

Share Holding Pattern (%)

	Pre Offer	Post Offer
Promoter & Promoter Group	84.3	63.6
Employees & Others	4.7	3.9
Selling entities	11.0	3.4
Public	4.7	29.1

Financials (Rs Crores)

	FY08	FY09	Q1FY10
Sales	182.1	286.9	99.6
Expenditure	109.1	165.5	52.3
EBIDTA	73.0	121.4	47.3
EBIDTA (%)	40.1	42.3	47.5
PBT	66.9	98.3	53.9
PAT	45.1	63.4	40.8
Equity	27.9	27.9	27.9
EPS (Rs)	16.2	22.7	14.6

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

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Cox and Kings (C&K) with over 250 years of operating history is one of the oldest and most recognized holiday brands and also India's largest tour and travel operator that caters to the overall travel needs. It has presence across India through 255 touch points covering 164 locations. It has global presence with operations in 18 countries besides India through its subsidiaries, branch offices and representative offices.

Objects of the Issue: The Company intends to utilise the proceeds of the issue to provide funding for repayment of loans (Rs 129.6 crores); acquisitions and other strategic initiatives (Rs 150 crores); investment in overseas subsidiaries (Rs 62.5 crores) and investment in corporate office & upgrading its existing operations (Rs 60 crores).

Key Points

- **Strong brand equity:** C&K brand with history of 250 years is amongst the oldest brands in the travel & tourism industry. The company has strong brand equity and is acclaimed for its premium services in tour packages for both the outbound and inbound segments.
- **Diverse product offerings:** It offers complete travel solutions and serves as an integrated provider of all travel and travel related products. The company is in the process of rolling out a pan-India luxury train under the brand 'Maharajas' Express' through a JV with IRCTC. Recently, C&K forayed in visa processing services for diplomatic missions.
- **Bulk buying advantage:** Growing business volumes will give a better bargaining power to make bulk bookings for air travel, hotel accommodations, car rentals and ground handling. This, in turn, would enable it to offer competitive packages to customers and clients, thus attracting traffic in the long run.
- **Attractive financials:** C&K's consolidated net sales and PAT have grown at a compounded annual rate of 72% in the last three years driven by its acquisitions it has made across the globe since 2006. For Q1FY10, it posted robust growth in net sales to Rs 99.6 crores and PAT of Rs 40.8 crores with EBIDTA margin of attractive 47.5% despite a relatively weak environment.

Investment Concerns

- Travel and tourism industry is highly cyclical in nature and sensitive to changes in economic growth.
- The industry is highly fragmented and competitive and thus faces stiff competition.
- The company is exposed to currency fluctuations in various countries it operates in.

Valuations & Advise: At the upper end of the price band of Rs 330, the issue is available at PE of 31.3x and at the lower end of Rs 316, it is available at PE of 32.7x (on fully diluted equity of Rs 62.9 crores). The valuations are in line with its nearest comparable Thomas Cook, which quotes at PE of 35x which limits the upside potential on listing. Cox and Kings has traditionally enjoyed higher EBIDTA margins compared to Thomas Cook due to its main presence in Leisure Travel which enjoys higher margins than forex business (in which Thomas Cook is mainly present) which traditionally has less margin. Considering the optimistic industry scenario and decent valuations, we recommend investors to **SUBSCRIBE** to the issue with a longer term perspective.

Business Overview

Cox and Kings (C&K) with over 250 years of operating history is one of the oldest and most recognized holiday brands and also India's largest tour and travel operator that cater to the overall travel needs. It serves as a 'One Stop Shop' for all travel and travel related products.

It has presence across India through 255 touch points covering 164 locations through a mix of branch sales offices, franchised sales shops, General Sales Agents (GSAs) and Preferred Sales Agents (PSAs). They have 14 branch sales offices located in all the key cities. It has global presence with operations in 18 countries besides India through its subsidiaries, branch offices and representative offices. Subsidiaries are located in UK, Australia, New Zealand, Japan, US, UAE and Singapore. It also has operations spread across Moscow (Russia), Maldives and Tahiti through its branch offices and Spain, Sweden, Germany, Italy, France, Taiwan, South America and South Africa through its representative offices.

They are shareholder member of Radius Inc, which is a consortium of leading travel agents around the world. On the international map, Cox & Kings have its presence also through these 90 Radius members from more than 80 prominent countries across the globe with over 3,600 locations.

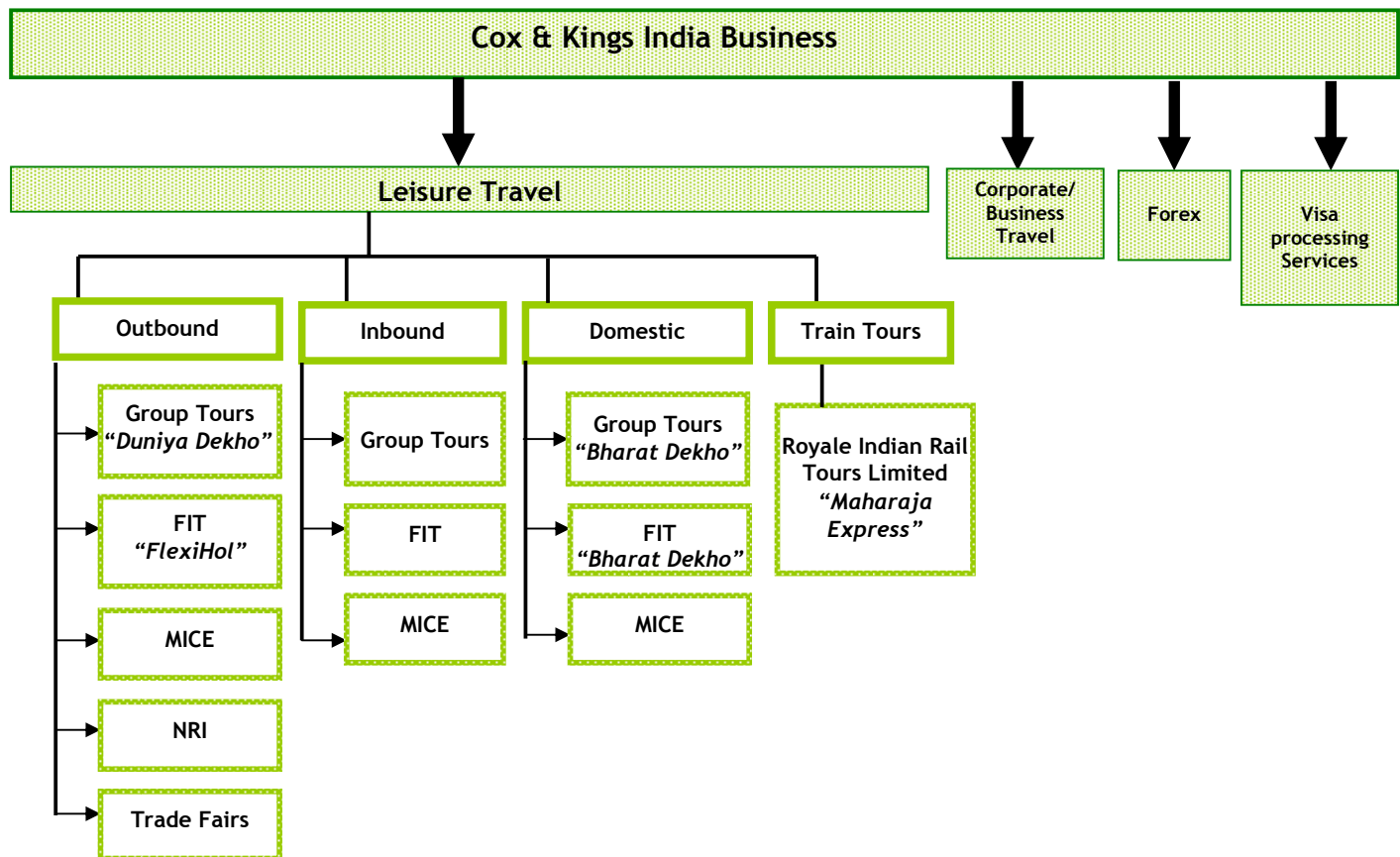
In the recent past, the company made significant acquisition detailed below. The company is continuously evaluating various inorganic opportunities which remains one of the purpose of this issue.

Acquisition Date	Company acquired	Area of presence
Mar-06	Clearmine Limited	carries out destination management services for tours to Europe, inbound tours in Europe
Sep-07	Cox & Kings Limited based in UK 41.17% of the share capital of Cox & Kings (Japan)	
Dec-08	Joint Venture with IRCTC	Will operate a luxury train to be called "Maharajas' Express".
FY09	Quoprro Global Services	Forayed into the business of visa processing.
FY09	Tempo Holidays	Will add to its existing buying power resulting in significant savings to the group
FY09	East India Travel Company	Selling up market tour and travel packages in the US.

Source: RHP, W2W Research

Business Model

Its business can be broadly categorized as Leisure Travel, Corporate Travel, Forex and Visa Processing. Within Leisure Travel, the three sub-segments i.e. Outbound Travel, Inbound Travel and Domestic Travel. Its Inbound Travel business represents destination management services that cover all aspects of ground tour arrangements required by tour operators across the world. C&K designs travel packages for both individuals and groups for their domestic and international leisure travel. It provides end to end travel solutions including land, air and cruise bookings, hotel bookings, in-transit arrangements, local sightseeing, visa, passport and medical insurance assistance and such other destination management services. It also provides value added services viz., customising travel plans for its NRI customers, travel arrangements for Trade Fairs, providing private air charter services, etc. It also offers travel related foreign exchange & payment solutions. C&K are in the process of rolling out a pan-India luxury train under the brand 'Maharajas' Express' through a joint venture with IRCTC.



Objects of the issue

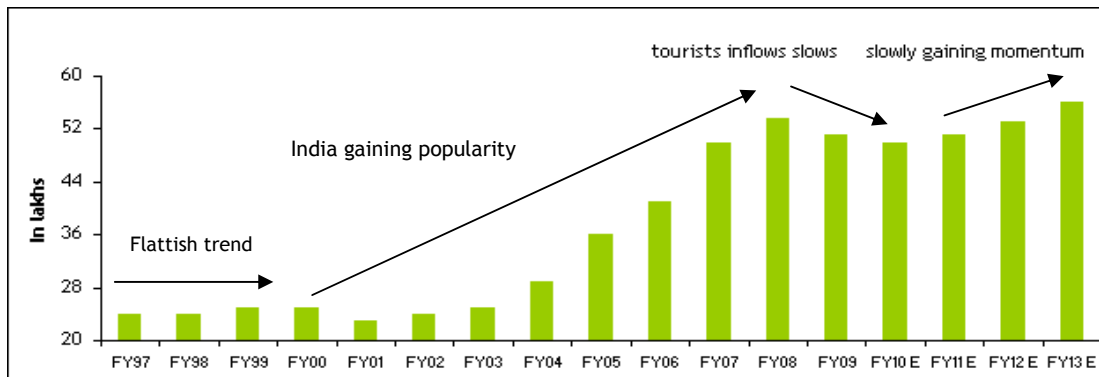
The Company intends to utilise the proceeds of the issue to provide funding for repayment of loans (Rs 129.6 crores); acquisitions and other strategic initiatives (Rs 150 crores); investment in overseas subsidiaries (Rs 62.5 crores) and investment in corporate office & upgrading its existing operations (Rs 60 crores).

Industry Overview

According to Euromonitor, Outbound traffic grew ~14% yoy to nearly 8mn in 2007 with Singapore and UAE being the top two destination markets. The potential outbound market size could reach 17mn by 2012 from about 10.7mn in 2008. Domestic tourism in India has increased over the past few years with over 500mn trips taken in 2007, an increase of ~13% yoy. Foreign tourist arrivals also increased 5.6% yoy to 5.4mn in 2008, slower than the 14.3% yoy rise seen in 2007 as global economic slowdown impacted travel. However, measured as a % of GDP, tourism still accounts for just 6% of the economy, much below world average in 2008.

Despite the global economic recession, foreign tourist arrivals (FTA) to India show a continuing growth trend and increased to 5.37 million in 2008 from 4.98 million in 2007. However, the FTA growth rate declined from 21% in FY07 to only 8% in FY08 and turned negative in FY09, the lowest recorded since FY02 when the 9/11 terror strikes occurred. The decline in growth rate reflects the significant impact of the economic recession on the international travel industry. However, according to the India Tourism Statistics 2008 published by the Ministry of Tourism, the future outlook remains positive. The FTA during Q1FY10 declined significantly to 13.8% as compared to that in 2008, but during Q2FY10, the situation improved markedly (a decline of only 1.8%) with the FTA close to that of last year's. Considering that the second quarter was the traditionally weaker period in terms of season, we can attribute this improvement to the growing positive business sentiments in India.

Foreign Tourist Arrivals



Source: Ministry of Tourism

Investment Rationale

- **Strong brand equity**

C&K brand with history of 250 years is amongst the oldest brands in the travel & tourism industry. “Cox & Kings” was ranked No.1 Top Brands in India and ranked 152 amongst Top 1000 Brands in the Asia Pacific region. The company has strong brand equity and is acclaimed for its premium services in tour packages for both the outbound and inbound segments. As this industry is largely dependent on brand awareness and a strong brand recall, strong brand image can lead to increased repeat business and customer goodwill.

- **Diverse product offerings**

It offers complete travel solutions and serves as an integrated provider of all travel and travel related products. It has wide choice of product offerings catering to all the travel needs of an Indian and International traveller. It acts as a ‘One Stop Shop’ for all the travel requirements from visa to ticketing, to holidays, to insurance, to foreign exchange, under one roof. Over the years, the company has developed specific brands viz. “*Duniya Dekho*” for Outbound Travel, “*Bharat Deko*” for Domestic Travel and “*FlexiHol*” for its Flexible Individual Travellers (FIT). Recently, C&K forayed in visa processing services for diplomatic missions. Globally visa processing activities have been concentrated amongst few players and through this foray the company is in position to explore the potential in this business. It is in the process of rolling out a pan-India luxury train under the brand ‘Maharajas’ Express’ through a joint venture with IRCTC. The potential of luxury train-based tourism in India is significant.

- **Global reach and alliances**

C&K has operations in 20 countries including India through several subsidiaries, branch offices and representative offices. The Company also has 56 franchise outlets across India, with a Cox & Kings look and feel to further increase its reach. Further the Company has also formed a number of strategic alliances with partners across the world to expand its global presence.

- **Bulk buying advantage**

Growing business volumes will give a better bargaining power to make bulk bookings for air travel, hotel accommodations, car rentals and ground handling. This, in turn, would enable it to offer competitive packages to customers and clients, thus attracting traffic in the long run.

Key Concerns

- Travel and tourism industry is highly cyclical in nature and sensitive to changes in economic growth.
- The industry is highly fragmented and competitive and thus faces stiff competition from other players and also from the un-organized sector
- The company is exposed to currency fluctuations in various countries it operates in.

Financials

(YE March 31) Rs crores	FY07	FY08	FY09	Q1FY10
Consolidated				
Net Sales	97.0	182.1	286.9	99.6
Total Expenditure	56.8	109.1	165.5	52.3
EBIDTA	40.2	73.0	121.4	47.3
EBIT	36.8	66.6	111.8	44.3
PBT	34.1	66.9	98.3	53.9
PAT	21.0	45.1	63.4	40.8
Equity Paid Up	5.4	27.9	27.9	27.9
EPS (Rs)	38.6	16.2	22.7	14.6
EBIDTA (%)	41.4	40.1	42.3	47.5
PBT (%)	35.1	36.7	34.3	54.1
PAT (%)	21.7	24.8	22.1	40.9
Capital Employed	140.2	298.6	584.3	711.3
Gross Block	28.8	85.2	117.3	130.0
Networth	82.9	165.9	228.0	277.0
Book Value	152.3	59.4	81.6	99.2
Dividend (%)	7.0	2.0	2.0	-
Payout (%)	3.1	1.4	0.7	-
Debt: Equity (x)	0.7	0.8	1.2	1.6
ROCE (%)	56.0	33.2	26.8	9.3
RONW (%)	25.4	36.3	32.2	16.1

C&K's consolidated net sales and PAT have grown at a compounded annual rate of 72% in the last three years driven by its acquisitions it has made across the globe since 2006. For Q1FY10, it posted robust growth in net sales to Rs 99.6 crores and PAT of Rs 40.8 crores with EBIDTA margin of attractive 47.5% despite a relatively weak environment. However, in order to fund its growing operations, the company has resorted to higher borrowings, which resulted in an increase in the interest cost. The company plans to repay about Rs 130 crores of its total debt of Rs 432 crores (as of June 2009) which are due for repayment to banks and financial institutions which will result in lowering of the interest costs going ahead.

Outlook and Valuations

At the upper end of the price band of Rs 330, the issue is available at PE of 31.3x and at the lower end of Rs 316, it is available at PE of 32.6x (on fully diluted equity of Rs 62.9 crores). The valuations are in line with its nearest comparable Thomas Cook which quotes at PE of 35x and P/BV of 11x which limits the upside potential on listing. Cox and Kings has traditionally enjoyed higher EBIDTA margins compared to Thomas Cook due to its main presence in Leisure Travel which enjoys higher margins than forex business (in which Thomas Cook is mainly present) which traditionally has less margin. Also, Cox and Kings fares better than Thomas Cook taking in terms of return ratios- ROCE and RONW. Considering the optimistic industry scenario and decent valuations, we recommend investors to SUBSCRIBE to the issue with a longer term perspective.

Peer Comparison (FY09)

Particulars (Rs crores)	Cox and Kings*	Thomas Cook
	YE March 31	YE Dec 31
Net Sales	286.9	334.1
EBITDA	121.4	90.4
EBITDA margin (%)	42.3	27.0
PAT	63.4	37.3
PAT (%)	22.1	11.2
Equity Capital	62.9	21.1
Book Value (Rs)	41.8	5.8
EPS (Rs)	10.1	1.8
ROCE (%)	25.8	19.9
RONW (%)	29.6	34.3
Debt: Equity (x)	1.1	1.3
CMP (Rs)	316-330	63.0
P/E (x)	31.3-32.7	35.0
P/BV (x)	7.6-7.9	10.9
Marketcap/sales	6.9-7.2	4.0
EV/EBIDTA	18.8-19.5	15.6

* based on expanded equity capital of Rs 62.9

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