"Cox & Kings Limited Earnings Conference Call"

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MODERATORS: MR. PETER KERKAR – DIRECTOR, COX & KINGS LIMITED.
MR. ANIL KHANDELWAL – CFO, COX & KINGS LIMITED.

Moderator: Ladies and gentlemen good evening and welcome to the Q4 FY11 Earnings Conference Call of Cox & Kings Limited. We have with us Mr. Peter Kerkar – Director, Cox & Kings Ltd. and Mr. Anil Khandelwal – CFO, Cox & Kings Ltd. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, you may signal an operator by pressing "*" and then "0" on your touchtone telephone. At this time, I would like to hand the conference over to Mr. Anil Khandelwal. Thank you and over to you sir.

Anil Khandelwal: Thank you. Ladies and gentlemen good evening and welcome to the conference call of Cox & Kings Ltd. for the fourth quarter and the annual results ended March 2011. I will quickly encapsulate the figures for you. In terms of the consolidated position, the consolidated income from operations for FY11 rose by 24% to Rs. 496.74 crores as against Rs. 399.15 crores posted in the last fiscal year. EBITDA for FY11 rose by 23% to Rs. 230.06 crores as against Rs. 186.44 crores posted in the last fiscal year. Consolidated PAT after excluding effect of exceptional gain for the year ended March 2011, grew by 13% to Rs. 120.3 crores as compared to Rs. 106.43 crores in the corresponding period of last fiscal year. Consolidated income from operations for Q4FY11 was at Rs. 158.75 crores as compared to Rs. 136.92 crores posted in the same period of the last fiscal year Q4FY10, which indicates a growth of 16%. EBITDA for Q4FY11 rose by 15% to Rs. 82.56 crores as against Rs. 71.94 crores, posted in the same period of the last fiscal year Q4FY10. Consolidated net profit after tax after excluding exceptional gain for the quarter ended March 2011 was at Rs. 46.67 crores as compared to 42.6 crores in the corresponding period of the last fiscal year Q4FY10, which registers a growth of 10%. The boards of directors have recommended a dividend of 10% subject to approval of the shareholders. With this, we are now happy take questions from you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Brijesh Ved from Enam AMC. Please go ahead

Brijesh Ved: The Q4 segment results, in the overall result, there is a 16% growth in the top line. Just wondering, what's the reason for a relatively slower growth YoY? And if you can just breakup those growths for the full year between the various segments inbound, outbound MICE, etc.?

Peter Kerkar: Hi there, this is Peter Kerkar, I will take the first part of the question. Actually if you see, the last quarter has been, if you segregate the two businesses and I would like to look at the India piece, we have seen an incredibly robust growth and it has been a tremendous growth compared to year-on-year. In fact for quarter four, it has actually been a 40/45 per cent growth. And so that has been, on a standalone basis we were very pleased with that result and it reflects our leadership position in India and the outbound market. And if you remember, when we had had the last conversation, last quarter, Anil and I mentioned that we had increased our advertising, so we saw the benefit in this quarter. Now if you look at our overseas income, we have been affected by two issues, one is that for example, on the UK, which is one of our most robust earners. We have had a Rs. 10 loss on the exchange rate vis-à-vis last year and that has affected the margin. And the second area is primarily because we have had two international incidents which are not related, I want to emphasis, not related to economic reason, but due to political strife in Egypt where 25% of my UK revenues go into Egypt and this has dampened the growth. But more importantly if you look at our EBITDA margin for the quarter that has come down, because I did not get cancellations because we managed to transfer the clients to other destinations, but the per diem cost is much lower in Egypt than say in India or in Australia or Latin America, and so I have to cross sell them on a cheaper holiday, so that was an exceptional item which has dampened our overseas office growth and obviously we have outbound from Australia, USA, as well UK into that region. More so ever, Japan is also an outbound destination for us and that you are aware of the disaster that was there. Fortunately, outbound from Japan has not been impacted in that quarter, the season was almost over at that point. So these are the external factors that have affected our overseas operations and I wish to emphasize that the growth was in double digits as we had discussed last quarter was only these two incidents that actually impacted us. So I will hand over to Anil now, if there are any further clarifications on margin.

Anil Khandelwal: Brijesh, in terms of the revenue contribution, we basically categorize our revenues into outbound, inbound, leisure others which is business travel and foreign exchange. Outbound, obviously contributes to the largest pie of the business, it's part from me being a market leader in India outbound. Majority of our subsidiaries are actually outbound operations from those respective countries. So outbound contributed to 73% of our revenues.

Brijesh Ved: What was it last year vis-à-vis?

Anil Khandelwal: We basically maintained the same revenue contribution of outbound. Last year, it was 75% and this year also, it has been almost 75%, so in terms of the revenue contribution mix, it's not changed as compared to the last fiscal year. In terms of, for example, let's come to the India part, which basically contributes to almost half of the revenues. We had outbound destinations contributing to 63% of our India revenues and then the balance domestic and domestic inbound both contributing to 23%. So the outbound contribution from the India revenues has grown from last year of 60% to this year of 63%.

Brijesh Ved: Anil, another question on the interest cost, I am just wondering in Q4 versus in the last Q3 presentation, you had put the average interest cost that you are paying and the yield on the investment, can you just give that for Q4 as well?

Anil Khandelwal Yeah basically in terms of the last Q4 interest cost, whilst the average cost for borrowing was around 5.69%, we had an income of around 3.5% on our cash and bank equivalent which is basically deployed in mutual funds and fixed deposits. So we had a negative carry of around 2.19% on a net average cost debt basis, while on Q3 we had around 2.95%.

Brijesh Ved: Now as far as your interest cost is concerned, now is this kind of more or less will be the scenario in terms of your interest cost will be remaining more or less at 5.69% level?

Anil Khandelwal: Well in terms of interest cost, it may not really significantly change because the mix of debt is both in terms of international debt as well as India debt and we don't really see a change in complexion in the debt profile as of now. So I think you can take that as a branded cost of around 5%-6%.

Brijesh Ved: Okay, great. I will come back to you if I have more questions.

Moderator: Thank you. Our next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: What is the reason for the QoQ decline in the interest cost, specifically?

Anil Khandelwal: Well in terms of Q1 and Q2, the decline obviously in terms of Q2 has been because obviously we got GDR funds in place, so there was a deployment of excess funds. So from 3.36%, basically it went up to 6.47%.

Nillai Shah: That's the income, right.

Anil Khandelwal: That's the interest cost.

Nillai Shah: And can you guide in the tax rate for this quarter higher than 35%, what is the reason of that?

Anil Khandelwal: Well you know most of the operating subsidiaries are operating at a tax environment range of around 29%-30%, but on an annual basis, our effective tax rate for this financial year has been 29.52%, which was last year as 32.81%, primarily this has also been the fact that Dubai is obviously working in a tax free environment and we had a 72% increase in income in Dubai. So on a blended basis, our tax rate has slightly gone down as compared to last annual.

Nillai Shah: So this is just an adjustment in Q4 that happens?

Anil Khandelwal: Yeah this also has been in India, for example, we basically went into for LIC Group gratuity scheme and leave encashment where we funded the entire liability. So you have an advantage in terms of your income tax. So there was a slight reduction in the income tax rate in India also because of these factors.

Nillai Shah: We have actually gone up for the quarter quite substantially.

Anil Khandelwal: We have to basically see it on an annual basis, because there are certain allowances or disallowances worked in terms of both TDSs paid or TDSs received, so on an annual basis, which is actually the correct reflection, you will see this 29.52%.

Nillai Shah: And in terms of the fixed asset buildup over first half numbers in the balance sheet, what's the reason for that?

Anil Khandelwal: The fixed assets buildup primarily has been on certain key factors which the company has done, one is basically we went in for an expansion for our Delhi and Mumbai office. We also have gone in for a complete implementation of the SAP program for all Cox & Kings global as well as Cox & Kings India Companies. So there was an increase in terms of the spend on the SAP implementation program. We have also revamped the travel booking engine this year. So these are the basic four reasons why our capital base has increased.

Nillai Shah: Any guidance for CapEx for next year?

Anil Khandelwal: I think in terms of guidance for CapEx, we basically will not have a substantial capital expenditure next year, but I think in terms of an overall fixed assets investment, it will be in the range of 15-20 crores on an annual basis globally.

Nillai Shah: Could you give me the details on your new venture in Singapore?

Anil Khandelwal: Well in terms of Singapore, we were already doing visa processing activities through our subsidiary called Quoprro, but what we also have done is, because we have a huge incoming traffic into far east we have started destination management services from our Singapore office, which basically means that we will take care of all the incoming passengers not only from India, but from our UK as well from our Australia subsidiary.

Nillai Shah: So it's destination management in Singapore?

Anil Khandelwal: Yes right now we have three subsidiaries which do destination management services which is one, obviously the parent company India, we also do destination management services for UK subsidiary called ETN and the third we do it through our Dubai operations, this will be the fourth one.

Nillai Shah: And any cost in account of this for this quarter?

Anil Khandelwal: In terms of the cost for Singapore, we have not even started a destination management services for this financial year, while we have already incurred the cost in terms of office layout and staff increase. So the revenues will only flow in from next year, however in terms of the staff cost and the infrastructure expenses, we spent on an annual basis of around Rs 3.5 crores last year in Singapore.

Anil Khandelwal: Yeah last year is already there in terms of expenses.

Nillai Shah: And one more question if I may, loans and advances are up for the quarter over the first half, so what's the reason for that?

Anil Khandelwal: The reason for the increase in the loans and advances is primarily because you also have an investment in the commercial paper, reflecting loans and advances; it's not reflected in mutual funds. So basically there is an investment of around Rs 60 crores reflecting over there. As I mentioned to you, we have renovated our Delhi office and Mumbai office, so there is an increase in deposits uptake also over there.

Nillai Shah: Nothing has gone into Ezeego, right?

Anil Khandelwal: Well in terms of the exposure to Ezeego 1 and Tulip, I may just add Tulip because these are the two major related party transactions which you may perhaps be interested in. Last year, we had an exposure to Ezeego 1 of around 78 crores odd. This year, I am happy to tell you that in FY11, we basically had an outstanding position of around 44 crores which was broken into in terms of debtor position of around 34 crores and basically balance was advances. So it's gone down by almost 34 crores by the end of this financial year.

Nillai Shah: And this income has come in where? Where have you accounted this income which has come?

Anil Khandelwal: No, this is not an income; this is basically an outstanding position, which has gone down beyond an exposure of Rs 78 crores which has come down to now Rs 44 crores. So basically the loans and advances in terms of exposure to Ezeego 1 is reduced.

Nillai Shah: So Rs 34 crores was debtor, so the remaining Rs 10 crores?

Anil Khandelwal: Yeah the remaining Rs 10 crores is basically business advance which we give it to them as rolling deposit, which was earlier 19.71 crores to be precise, this year it is 10.66 crores.

Nillai Shah: And so that Rs 9 crores or Rs 10 crores have been booked as income somewhere, right?

Anil Khandelwal: No it is basically a deposit, it's not an income. So our exposure to Ezeego 1 has gone down from 78 crores to 44 crores. In terms of Tulip, we basically had an outstanding position of 20.29 crores as on the last financial year. We have a reduction, which is a very marginal reduction of around Rs 75 lakhs and the closing position is around Rs 19.5 crores.

Nillai Shah: Perfect, thank you so much sir.

Moderator: Thank you. Our next question is from the line of Manav Vijay from Edelweiss. Please go ahead.

Manav Vijay: Good evening sir, just a couple of questions sir. Our debtors have again gone up by around 33% on a YoY basis whereas the sales have gone up by around 44% on a consolidated that means more working capital is getting deployed again in debtors, please explain the same.

Anil Khandelwal: Yeah I will first clarify for the benefit of all listeners, is that the first item in the profit and loss account is a gross profit whereas in the balance sheet the debtors is on a gross basis. Now if you see our consolidated income, basically and you rightly said that it has gone up by 30% plus whereas our debtors if you see is basically on a gross basis. Now if you compare it with the income which are four major working capital consumption businesses, corporate travel, foreign exchange MICE and inbound. We still have been able to control debtors position in a very controlled fashion despite a significant uptake in our business. So it's not really grown commensurate as compared to the increase in business, in fact if you now come to the cash flow which once you have the annual report and you go to the cash flow, you will see that for our cash flow from operations has increased from Rs 50 crores to around Rs 90 crores. So there is an efficient working capital deployment which we have done in this fiscal year.

Manav Vijay: So you are saying cash flow from our business has gone up from Rs 51 crores to Rs 90 crores?

Anil Khandelwal: Yeah.

Manav Vijay: My calculations show that it has come down from around 51 to around Rs 16 crores ….

Anil Khandelwal: You also have to see the increase, decrease in current liability and basically when you consider the loans and advances position, you also have to take out investments which are currently reflected in loans and advances.

Manav Vijay: **Rs** 60 crores.

Anil Khandelwal: Yeah basically, it's not an operating activity, it's an investing activity

Manav Vijay: Now the growth that we have in the standalone in our Indian operations was tremendous, I believe we have 34% full year growth. What kind of numbers are we looking in FY12 on such high based amount?

Anil Khandelwal: Well we don't really give any forward looking positions, but just to give you some flavor in terms of what has been happening in April, May and now June is basically that we have seen a very good growth in terms of our outbound business and domestic tourism business. I tend not to really give you exact percentage increase but I think I can tell you that we have been registering very healthy growth in both the segments.

Manav Vijay: Okay. In case of anything, I will come back later. Thank you very much.

Moderator: Thank you. Our next question is from the line of Arun Gopalan from HBJ Capital. Please go ahead.

Arun Gopalan: See if you look at the company strategy, you have been working on more of inorganic growth strategy on an international scale, do you guys have any idea of having some kind of acquisitions in the Indian market?

Peter Kerkar Except for some very small acquisitions, the challenge today is not about getting the market share, the challenge is about controlling demand. And my biggest problem today would be a question of, you are all aware active travelers that you require visas for overseas stays and today we look at the visa supply as a part of our supply chain and we negotiate these visas in the beginning of the year. However we find that we still even today, even with our better efficient processing, we are still having visa rejection rates, so it's not about demand, it's about controlling this demand and actually activating a smoother supply chain on the visa issuances. So today my problem is not trying to generate the business in an Indian context, because I think if you look across the board, let me give you another example like last year, I believe some 300,000 visas were requested on the student visas for example, and only 150,000 were given say to Europe or to England. Now this means that there is a tremendous intrinsic demand, but the supply chain is not able to cope with that. So if you are looking at a long term robust growth, I am sure that we could double our growth rates if the visa issuances were dealt with. Now let us just share what we know, for example, most of foreign missions have committed to increasing their distribution in India, so rather than having the distribution of visas concentrated in metros, they are going to enact this across the country in more centers, but this will still take a 12-month period. So for this season, we don't see us being able to sort of process more travelers within the period than we have already, but for the next year the outlook is looking good.

Arun Gopalan: And speaking about your subsidiaries, I would like to have the revenue, EBITDA, and the PAT numbers for your subsidiaries.

Peter Kerkar No, problem Anil will give that to you, but I just wish to reiterate that the growth was pretty good in all our foreign subsidiaries until we had two instances which dampened the growth which were outside our control in terms of political situation.

Anil Khandelwal: In terms of the contribution of all the companies to the overall EBITDA and growth, obviously India contributes the highest. And in 2011, we had Rs 115 crores of EBITDA coming in from India and in terms of our UK subsidiary contributing to around Rs 13 crores of GP and an EBITDA basically of around Rs 5.88 crores. I am basically talking about in respective currency, I will just give it to you in Indian rupees, which will be helpful. India 119 crores odd, we had UK contributing to 47 crores. We had our Japanese subsidiary contributing to around 22.5 crores in terms of EBITDA. We had another subsidiary in UK which is ETN, contributing around 12 crores odd. We had our Australian subsidiary contributing to around 14 crores of EBITDA and then the balance was coming from USA, Dubai, and other small subsidiaries. In terms of the PBT contribution, we basically had 57% contributing from India, 18% of the PBT came from UK, the Japanese operations contributed to around 9%. We had Australia operations contributing to 12% and we have another subsidiary in UK contributing to 6% and the balance coming from US, Dubai, and other subsidiaries.

Moderator: Thank you. Our next question is from the line of Nirmal Shah from Alchemy Shares. Please go ahead.

Nirmal Shah: Good afternoon sir. I just wanted to check have you seen commission margin pressure in Australia?

Anil Khandelwal Basically, we acquired this company in November 2008 and when we had acquired this company, the gross profit margins were less than 10%, I am happy to tell you that post-acquisition and post synergy, we basically are operating at gross profit margin around 16%-17%. We actually do not work on a commission environment in almost all the subsidiaries, we basically work on a cost plus mark up basis. So we are not really dependent on commissions from hotels or airline.

Nirmal Shah: I was pretty much confused in terms of your revenues, the one what you have given in your presentation, the growth which has been given country wise, that's in terms of local currency, right?

Anil Khandelwal: In terms of INR.

Nirmal Shah: Okay so because specifically in case of Australia, I mean if we take the rupee growth, probably it's coming close to 15%, so what would be in the local currency terms then in that case, because the Australia dollar is significantly appreciated? So I just wanted a volume growth what would be there in Australia?

Anil Khandelwal In terms of the respective currency, you are right, obviously the rupee has changed dramatically and in terms of the absolute currency it is around 9.5%.

Nirmal Shah: So in Australian dollars the growth has been 9.5%.

Anil Khandelwal: Yeah.

Nirmal Shah: And can you give same for regions as well?

Anil Khandelwal Well in terms of UK, we had a growth of around 9.7%. US operations grew by 12%. Japanese operations grew by 5%. And we had another subsidiary in UK which grew by 34% which is ETN Services Ltd.

Nirmal Shah: What would be your outlook for Dubai?

Anil Khandelwal Well I definitely will not say that we will continue to grow at 72% year-on-year, but the inbound operations have grown significantly over a period of 2 years now. We basically not only cater to our incoming services from India, UK, and Australia and Japan, we are also operating other tour operators who operate Dubai as a destination. So I think Dubai continues to be exciting for us also because the pricing has been very attractive and I think Dubai has not reached a phase where it is being out-priced itself. So I think in the coming years, we definitely see lot of growth coming in from Dubai, but I may not be able to give you exact percentage growth in terms of what we feel like.

Nirmal Shah Just last question, how long do you see the impact of the tour rates which were mentioned earlier in the call to continue?

Peter Kerkar: May I just take this one, because basically on the Japanese one, we envision that that should be a longer term impact in terms of inbound to Japan, but in terms of our total revenues that's a miniscule effect. As far as the Middle East go about 90% of the total business into the Middle East goes into Egypt and traditionally, this quarter from May to September is not peak season in Egypt, because traditionally temperature raise is I guess 50 degrees and people don't go. So post September when the high season starts and we know that there is a general election schedule around September-October of this year. So we are very hopeful that in the event that that is a good result, then the bounce back in Egypt is the fastest of any country in the world. So if we get that then we get the full year's effect for this financial year in terms of the traffic to Egypt. So we are very hopeful, otherwise obviously there will be an impact on our UK sales and small to a lesser extent are Australia and US sales on their outbound traffic.

Moderator: Thank you. Our next question is from the line of Arnab Mitra from IIFL. Please go ahead.

Arnab Mitra: Yeah good evening, just a couple of questions. First one was on the employee cost, the increase this quarter is very low in the India business as compared to what you did in the first nine months, so any reason for that, why it's not increased that much?

Anil Khandelwal Yeah in terms of increase in personal cost, I am very happy that it didn't increase for the last nine months, but the more important thing is that we already had appointed employees for the prospective franchisees which are basically going to come up in the next two quarters. So basically that's the reason why you wouldn't really see a significant impact because that was already taken care of in the earlier quarters. Also as I mentioned to you, we basically are ramping up our software implementation exercise by way of SAP implementation where the required personnel had already been hired. So in terms of any major hiring expenses we did not really have anything coming up for this particular quarter and that's the reason why you don't see any significant change or any increase in the last quarter of this fiscal.

Arnab Mitra: And going ahead in terms of your overall geographical and store footprint in India, what are the plans for next year and what kind of increases in the staff cost could be there, because of those expansion plans?

Anil Khandelwal: We definitely are reaching a phase of almost 200 franchisees, already started plus signed up. And there are additional hundred plans for the next financial year. So typically what we do is we basically have at least two personnel per franchisee which is a store manager and store accountant. Having said that once the franchisees are obviously increasing in size in terms of operations, we obviously would need slightly higher number of backup staff, but I think in terms of the increase or the overall contribution of personnel expenses, as a percentage of net revenue, you would not really see any dramatic change. I think we would continue to be in the range of around 25%-26%.

Arnab Mitra: And just lastly, the debt on the books, could you help us, what is the mix for international and India debt and the fact that you had lower cost this quarter, what does it explain, because you explained that the rates were lower, but what did you do in terms of ensuring that the rate goes down?

Anil Khandelwal: Basically, interest rates have increased northward both from Indian rupees perspective as well as dollars perspective, which obviously indirectly also benefits in terms of deploying the money efficiently. In terms of the breakdown of the loans, we have almost 50% of the loan in our India books which primarily is because of a bond issuance which we had done last year and we have some packing credit in India. We also continue to carry the Australian and the US acquisition loans which are in the respective countries. So 50% I would say, you can say take it as loan from India and the balance from international shows.

Arnab Mitra And sir, India debt, what is the interest rate on that and is that going to go up or remain same?

Anil Khandelwal No it is basically since the bond issuance rate is already fixed, it will be the same, it is around 10.2% for bond and packing credit is around L+450 which will still continue to remain the same. So I don't see in terms of any change in the interest rate both for a dollar as well as INR group. Of course if the LIBOR changes dramatically, your international loan cost will increase.

Arnab Mitra So basically 12.5 crores kind of interest cost is sustainable unless of course the rates move northwards from hereon?

Anil Khandelwal: Yeah you are talking of quarterly interest.

Moderator: Thank you. Our next question is from the line of Vivek Gujarati from Anand Rathi. Please go ahead.

Vivek Gujarati Earlier you mentioned that you were planning to acquire some company in Europe, but there is no update on that, could you throw some light on that?

Anil Khandelwal: Yeah I think in terms of the last December results, we mentioned that we basically are working on a transaction and anticipate that it will be completed or let's say at least be in a stage of announcement by the end of this particular first quarter. So I think we still remain to those guidelines.

Vivek Gujarati Sir, can you throw some light on like Japan, there is a crisis in Japan, what would be the impact going forward in your overall business?

Anil Khandelwal: You are right in terms of that we have a Japanese exposure in terms of outbound operations from there and which contributes to almost around 5% of our profitability. It's too early for us to predict as to what exactly will be the impact of the Japanese operations in this FY12, because it's a seasonal business and the revenues start picking on from September onwards. I think we need to wait and watch more in terms of seeing how the Japanese outbound business spans out. But we definitely see a decline over there, obviously because whatever is happening over there. So we have not even factored a growth over there in the Japanese operations for FY11-12. But it's too hazy as of now to really predict as to how the market is going to pan out.

Vivek Gujarati So it is 5% or 9% of the total..?

Anil Khandelwal: 9% is the revenue, but 5% is the profitability.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Equirus. Please go ahead.

Nikhil Upadhyay Sir, my first question is like on the Indian side, we grew by 40%, so what would be the division between volume and margin improvement?

Anil Khandelwal: I would say, almost equal growth in terms of the margin expansion as well as volume. It's very difficult, because the passenger mix keeps on changing. So we really just see as a revenue increase and we really don't go by the number of passenger count. If you are asking me in terms of the ticket size whether we have been able to sell the packages in the higher price, I think the prices have remained stagnant for the last three years in terms of all the major packages in terms of "Duniya Dekho" or as in terms of FIT which we sell. In terms of gross profit improvement, we have seen a 75 basis points improvement in this fiscal purely because of the increase in volumes which we have been doing in outbound operations.

Nikhil Upadhyay Secondly, our international subsidiary, since ETN is a destination management company and it caters to whole of Europe, like any inbound growth of traffic into Europe should boost the revenues for ETN as well. But if we see the revenue growth which is coming from ETN that's been lower as compared to UK or Dubai or any other geography.

Anil Khandelwal Let me tell you that it's not the entire revenues of UK of Dubai basically go into Europe. If you see this particular financial year, ETN operations and ETN top line actually has grown by 34%, so it's not declined. Having said that, Europe only constitutes to one destination of the other operating subsidiary, so it's not really just a mirror reflection of whatever is happening in the other subsidiaries will happen in Europe.

Nikhil Upadhyay: Yes sir, but Europe is major chunk of your tourism which happened or it is a major destination tourist place, so any inbound traffic like if we see moving, any growth in the inbound traffic into Europe, ETN services operation should also grow a lot.

Anil Khandelwal: You are right, that's the reason why it's grown by 34%.

Nikhil Upadhyay According to the market share which you have given, we see quarter-on-quarter the growth is around 8%-9% --according to the market share which you have given like the Q3 YTD market share as full year market share, if we segregate them and find the overall revenues for ETN.

Anil Khandelwal: See ETN is only doing Europe. As I told you for example, our UK operations not just caters to Europe, it caters to all parts of the world, for example, Australia, it's only 50% Europe balance is to rest of the world. India, I am not just doing Europe, I am obviously selling Far East, I am selling US also. So to come to the point, ETN will not contribute let's say 25% or 30% of my revenues, because it's only catering to the destination management services of not just C&K, but also some other tour operators only operating in Europe. So that's the reason for you to say that it's a market share of 8% is basically it is a contribution of ETN to my overall revenues is 8%. And the more important point is that, it's not that 100% Cox & Kings India's Tempo Holidays business goes to ETN, it obviously works on a competitive pricing basis, but there will be also some other business which Tempo Holidays now associates to some other tour operator in Europe because it is obviously finding it more cheaper. So it's not necessary that the entire business of Europe will be sold out to ETN.

Nikhil Upadhyay So secondly, over the last three years, if we see we have been growing by around 30%-35%, but parallely like working capital in terms of receivables and it has also been growing quite largely. So what steps are you taking in order to reduce our receivable overall? I do understand that since the revenues which are being reported are on the gross basis, still 30%-35% rise in the receivables is a key price.

Anil Khandelwal: I will tell you the most important thing which we always see and we have been basically focusing is the positive cash flow from operating activities. The moment you have a positive cash flow which is increasing, we obviously mean that you are managing your debtors as well your creditors more efficiently. So as I mentioned to someone in the early conversation that our cash flow from operating activities have almost doubled, which obviously reflects that we have been able to control our receivables as well as we have been able to work with our creditors more efficiently. I think going forward the key objective for the company is to increase the cash flow from operating activities and I think once we focus on that, and as what you can see from the existing cash flow this year also, we basically think that churn out from positive cash will be more stronger year-on-year. So we should not be just bogged down by the absolute numbers in terms of debtors, because as I mentioned to you the debtors are basically a year end phenomena, also as a balance sheet data item. It is not really reflection that this is how the company has been effectively using the working capital for the rest of the year.

Moderator: Thank you. The next question is from the line of Pankaj Chopra from Shanti Asset Management. Please go ahead.

Pankaj Chopra Hello sir, thank you for taking my call and congratulations for a good performance. I am referring to the slide #29 which essentially gives a breakup of revenues. ETN is just 3% and you mentioned 8, I missed that, could you please clarify?

Anil Khandelwal: No, you are right, I basically was talking of, and I just misjudged by it Japan's 6%, you are right ETN definitely contributes to 3%.

Pankaj Chopra If I am right, these various breakups or segments actually are the revenue source from that country, am I correct in that?

Anil Khandelwal: No when you say revenue source, can you just clarify?

Pankaj Chopra You get the clients paying from these countries to whatever, is that the way you segregate the revenue?

Anil Khandelwal: No, basically we segregate the revenue based on the balance sheet of that particular country. So for example, if it is Cox and Kings India, while it takes care of the destination management services of not just Cox & Kings, UK selling India as the destination. It only takes care of the throughput which is happening in those respective balance sheets.

Pankaj Chopra So it would be a level of double counting if I am right.

Anil Khandelwal: No, the most important thing is that my P&L starts at gross profit levels. It doesn't start at a sales level. If it would have started at a sales level, you would be right that there would be an element double counting, but the gross profit ensures that there is not even a single rupee of double counting.

Pankaj Chopra Okay sir, it's not there in this, but I would request you that maybe if we have profitability chart like this it will be extremely helpful from henceforth.

Anil Khandelwal: We will ensure that we update the presentation and by end of next week, we will also have a chart which will also depict the profitability of the respective countries.

Pankaj Chopra The question is more on the competitive scenario, could you give us a sense of, I see the big four segments being India, UK, Japan, and Australia, how is competition shaping up in these four regions.

Peter Kerkar: Basically I would like to start with India, because it's our largest block of revenue. As I stated earlier, today the challenges we face is not from competition, because I think we have gained such strong market leadership that the number 2 and number 3 players in the market are far behind us. However, the challenges we face are actually to sort of handle the demand that is being created in the market and I told you that the biggest challenge for us is the supply chain which are the visas. So if we were to actually manage to capture all the bookings, I think we get around 20%-25% visa rejection rate which dampens our growth to a substantial extent. So really the competitive environment in true competition sense, there is truly enough demand out there to look at more than the current growth rates that we are generating which is, as you have seen over 38% actually 40% last quarter in India, so that is my biggest frustration today in terms of going forward. If you look at the UK and if you went pre the force majeure event in the Middle East, we were seeing high double digit growth and over there what we have done is basically the profile of our business is extremely rarified in terms of the people that we actually cater to extremely up market and we have a lot of joint brochures in terms of out in the market where white label and operate tours for people like the Royal Academy of Arts, for John Lewis Partnership, for example which does Waitrose and John Lewis and Peter Jones, where we actually provide honeymoon packages for their clients. We do wine and food tasting tours with Waitrose. We have an association with the Royal Horticultural Society of UK. We work in association with Kew Gardens. And then numerous such alliances where they print the brochure and distribute it to their mailing base and we actually just have a commission long term agreement with them where we pay commission. So it's a joint association of likeminded up-market associations which we cater to and so our marketing is unique in these environments. In the states, because we are again very upmarket in terms of our client base, here our base was small so to exact growth then and the market is totally not penetrated at that level. So this year, what we did as a global initiative was to launch a Cox & Kings worldwide brochure. For example, in Australia, New Zealand, and States, we were only catering to the individual traveller, but now we used our UK backbone which actually sells into these countries and that was our strategy to use the existing distribution systems of these two companies and actually sell group tours. And our big advantage here is that we can sell on a per person basis into a consolidated base in the UK. And this has allowed us to grow and affect our strategy in each of these markets. So I hope that gives you a broad overview in the time constraints that we have.

Moderator: Thank you. The next question is from the line of Manav Vijay from Edelweiss. Please go ahead.

Manav Vijay Just couple of follow-up questions if you could tell us the revenue that was generated by Maharaja Express during the year?

Anil Khandelwal: Yeah Manav, if you have any other question, I will definitely jump on to that?

Manav Vijay Visa processing revenue?

Anil Khandelwal: Visa processing revenue I can tell you right away, which was basically 6.6 crores. And in terms of Maharaja's revenue, I may just come…

Manav Vijay Not an issue, I mean you can come back to it now. This visa processing started during which quarter of the year if you could tell that would be helpful?

Anil Khandelwal: We basically operate in six embassies now and while Singapore has been there for almost the entire year last year, we basically had operations which started during the year in Germany, in Greece. We also had the operations which started in Hong Kong very recently. So I think it basically spit over many quarters. I may not be able to tell you exactly which one contributed for which period of time as of now.

Manav Vijay Okay not an issue.

Anil Khandelwal: In terms of the top line from Maharaja Express, the top line was around 25 crores. Obviously, we still have a loss element which is already reflected in the income from associates.

Manav Vijay So this 25 crores is actually our part of share for 50%?

Anil Khandelwal : No, it's the top line, if you take 50% is our part of share.

Manav Vijay Okay, so ours was roughly 12.5 crores.

Anil Khandelwal : 12.5 crores.

Manav Vijay Secondly, I believe that last year in quarter four, we included couple of subsidiaries for the first time, am I right?

Anil Khandelwal: No, if you are just going by the notes to accounts, basically there were three subsidiaries which have got mentioned over there, one is Cox & Kings Asia Pacific, the other is Promethean and there were two Prometheans actually over there. So basically all these STBs have not contributed to any revenues, they have only been subsidiaries which have been created during the quarter.

Manav Vijay No, sir, what basically I was asking is that last year, quarter four, we had 91 crores of revenue which I believe included a revenue of some of the subsidiaries which were included for the first time. Am I right?

Anil Khandelwal: Yeah.

Manav Vijay Now let's say, so if we would have continued with the tradition of actually including those subsidiaries quarter-after-quarter then how come we again reported 94 crores in this quarter which was, I believe 50% jump quarter-on-quarter, I haven't been able to understand that point.

Anil Khandelwal: There is basically only one subsidiary which has got added in terms of revenues, which is MyPlanet and My Bentours, which is quite smaller as compared to any other subsidiary operations, which anyway gets merged in Australia now. So I don't think so there is any other subsidiary addition in the last quarter.

Manav Vijay Okay, so maybe let me just try and put my question in some other form, now maybe in quarter one FY11 on a consol basis ,we had revenue of around 78-79 crores. Now let's say, if I were to assume, that you will do 20% jump in revenue in quarter one of FY12, so we will have close to 96 crores of revenue in quarter one, so that means quarter-on-quarter something is not coming up.

Anil Khandelwal: No, I am still not being able to get you Manav. Which quarter exactly are you talking about, so I can then explain it to you in detail?

Manav Vijay If I were to say that if you look at only at the subsidiaries part ,quarter four did 94 crores, in quarter three, they did 60 crores. I mean how come this increase is coming big time which was not there in quarter three.

Anil Khandelwal: No, basically, you also have to appreciate that the international subsidiaries peak season only starts from Q3 and Q4, so you can't really have an exact reflection of Q3 numbers going as 20% increase in Q4. Obviously there is a seasonality element which is there is outbound operations internationally.

Manav Vijay: Now just maybe one last one from my side is that I believe that the entire operations that we have outside India are actually leisure operations?

Anil Khandelwal: They are leisure operations both split in inbound and outbound.

Manav Vijay And in leisure operations we don't extend credit, am I right?

Anil Khandelwal: No except in destination management services, we definitely extend credit and in MICE business we extend credit.

Manav Vijay Okay, so is a reason why when we move, I would say from standalone to a consolidated balance sheet, the debtor positions are moving up?

Anil Khandelwal: You are absolutely right.

Manav Vijay So we do we extend credit in MICE and secondly, I just missed out.

Anil Khandelwal: Yes inbound operations which is basically taking care of customers traveling to that particular destination.

Manav Vijay I mean in leisure as well we do extend credit?

Anil Khandelwal: Definitely, we extend credit in leisure also which is in MICE and inbound. You also have travel agency business where you basically deal with reputed travel agency, so for example Thomas Cook, while it's a competitor in India, it's the largest agent for me in UK, so I have a credit relationship with Thomas Cook which basically makes the payment only after a certain period of time. So over there I extend credit to major tour operators who basically act as agents for us.

Moderator: Thank you. Our next question is from the line of Karan Gandhi who is an individual investor. Please go ahead.

Karan Gandhi: Hi gentlemen, congratulations on a good set of numbers. Earlier in the call you said that there was an FX loss of Rs. 10 per pound, I just wanted to understand, I could not get that.

Peter Kerkar I didn't say there was a loss, I just said that year-on-year, if you look at the growth rates, when you translate back into home currently, then there is a deleterious effect of the exchange gain that the rupee has made on your foreign currency, in this case the pound. So that is why I said that your growth rate then gets suppressed when you take it out of the natural currency that's what my meaning was.

Karan Gandhi: Second is on the employee cost, if you look on a quarter-on-quarter basis, on the standalone number, your employee cost has come down from 14.2 crores to 12.3 crores and on the consolidated, it's come down from 35.3 crores to 33.7 crores. So I just wanted to get some color on that because we have been constantly, either you are holding number of agents constant or you have been adding agents, so how come there is a decline in the employee cost?

Anil Khandelwal In terms of the quarter, are you talking of the last year of quarter or basically you are talking about third quarter to fourth quarter?

Karan Gandhi: Q3 FY11 and Q4 FY11.

Anil Khandelwal: Can you just repeat the question if you don't mind please?

Karan Gandhi: What I am trying to look at is that on a quarter-to-quarter basis, that is Q3 versus Q4 FY11, your employee cost has actually come down slightly for which I can't figure out the reason, because either you have been holding this constant or you have been adding agent ,plus I believe in the year ending you will have your bonus, salary, increments everything, which would be hitting the P&L.

Anil Khandelwal: No, see basically there are certain items, let's say for example leave encashments which either gets cancelled because it is unutilized then bonus we don't give it in the last quarter, we obviously have a bonus payout which is happening at the earlier quarters. So we don't give bonus at the end of the last quarter. And then there are obviously, because of the leave encashments getting lapsed out, there are certain adjustments in the personal expenses overall. So these are the broad reasons why you might have see a slight decline in quarter four as compared to the earlier quarters.

Moderator: Our next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Mr. Kerkar a follow-up question, basically in the international business, all the international travel agents typically run a very high fixed asset model, whereas in India we have been running a very asset light model. Do you foresee this changing in the future?

Anil Khandelwal: Nillai, I will basically take the opportunity in terms of answering this question. I don't think so we foresee any change in our business model at least for the next two to three years, you know the reason why I say next to two to three years is obviously because once we assume let's say a volume and size, there may be a reason for us to have some vertical integration happening but at least with the current business model, with the asset light model I don't think so we are going to change the asset light business model for the next two three years.

Nillai Shah: What is the need for that vertical integration?

Anil Khandelwal: The need for vertical integration only arises when you have very significant uptick in terms of capacities, you already have committed scheduled services which you have to run, so those are the reasons why major tour operators world wide who basically moves very large number of passengers have vertical integration.

Nillai Shah: Have any of them actually been successful after they have gone forward with those very large vertical extensions?

Peter Kerkar: Well the two largest companies in the world which are Tui group and Thomas Cook have been successful, I mean they still make money and they still carry large inventories, but then you are talking about very heavy investment in aircraft and hotels. And in fact, I think that the Tui has a larger sort of airline base than does American Airways. So it is a completely different model and I think by and large while in India we are continuing to be countercyclical to the rest of the market then I don't see us going into such sort of heavily invested model, while we can exploit other people's resources and asset bases than to take the principal risk on ourselves.

Nillai Shah: To remain countercyclical you have to have basically close to 50% of your business coming in from the India orgs.

Peter Kerkar: Not close to 50% because in some cases Australia is also countercyclical and some cases, Japan is also countercyclical, because for example, the Japanese travel into the Maldives in the summer season when nobody else in the world does, whereas British and Americans will only go in the winter season. So it's not just counter cyclicality from India but from which destination you are operating in.

Nillai Shah: Sure thank you so much.

Moderator: Thank you. The next question is from the line of Mahvash Ariyanfar from Dolat Capital. Please go ahead.

Mahvash Ariyanfar: Hello sir, are there any significant inter subsidiary transactions to account for and if any, how do you reconcile these numbers?

Anil Khandelwal: Well as I mentioned to you, in terms of our representation of the account, the first item is the gross profit and we don't really work in commission environment so in case if there are any inter-subsidy transaction which are, because for example Cox & Kings India takes care of the destination management services of passengers coming in from our UK subsidiary, from our Australia subsidiary and Japanese subsidiary, basically because of the representation from gross profit level the entire double counting get nullified, so there is no double counting in any P&L figure which you see on a consolidated basis.

Mahvash Ariyanfar: How do you track, is it the number of trip customers or something, how do you track the volume?

Anil Khandelwal: Well we basically track it based on the throughput which is the top-line which is the money coming into the bank, because it's a very big misnomer if we start tracking it by customer, for example, you as an individual customer may take only one-day itinerary, whereas other passenger may take let's say 15-day itinerary, so the ticket size may also vary. So it's a great misnomer if we start track it by number of customers. The best way for us and which we have been successful is to track it on the basis of throughput which comes into our bank.

Mahvash Ariyanfar: And what is the average ticket size?

Anil Khandelwal: The average ticket size basically, my earlier answer was that, for example if you were taking, let's say a Rail Europe, which is only costing me Rs. 5000 and someone else takes a luxury package which costs Rs. 5 lakh and if I just divide it by 2, the average ticket size will be very skewed. So we really don't go by the average ticket size concept.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for closing comments.

Peter Kerkar: I would just like to thank all concerns for joining us this evening and of course both Anil and I are open to emails or any queries that you all require clarifications on or need more time with us, please get in touch with us. Thank you very much.

Moderator: On behalf of Cox & Kings, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.