

INTERNATIONAL TRAVEL HOUSE

INR 173

*Hitting an air pocket*

BUY

International Travel House's (ITHL) Q3FY08 results were below our expectations, primarily on the back of lower-than-anticipated commission rates in the ticketing segment. Net sales were up 6% Y-o-Y at INR 200 mn. EBITDA and net profit were down 10% and 11% Y-o-Y, at INR 55 mn and INR 21 mn, respectively, in the quarter.

We have downgraded our FY08 sales and net profit estimates by 12% and 16.5%, respectively, on the back of lower-than-anticipated commissions from the air ticketing segment. Incorporating lower commission rates from the air ticketing segment in FY09, our sales and PAT estimates have been lowered by 14.4% and 19.2%, respectively. We expect air ticketing commissions in FY09E to be around ~3.3% compared to the earlier estimates of ~3.9% of billing. ITHL expects to stabilize its commissions by focusing more on the leisure travel segment, going ahead. We maintain our 'BUY' recommendation on the stock.

Key highlights

- ◆ Billing for Q3FY08 was at INR 1.5 bn, up 9% Y-o-Y.
- ◆ Revenue growth from the air ticketing division declined 23% Y-o-Y to INR 31.9 mn.
- ◆ Revenues from the car rental division were up 11% Y-o-Y to INR 147 mn. ITHL currently has ~547 owned cars and ~250 leased cars. It plans to add 23 cars to its fleet by the end of Q4FY08E.
- ◆ Revenues from others, including leisure travel and packages, were up 44% at INR 21.3 mn.
- ◆ Air ticketing contributed 15.9% to revenues, whereas car rentals contributed 73.4% and other 10.6% to total revenues.

* **Fall in air ticket commission led to subdued sales growth**

During Q3FY08, commissions from air ticketing shrunk from 3.5% (as on Q3FY07) to ~2.5%. We attribute this fall to: (a) absence of productive bonus from airline players compared to last year; and (b) low cost airlines reaching out directly to clients. We expect some productive bonus to be booked in Q4FY08E. We are thus revising our assumptions for commissions from air ticketing to 3.3% from our initial assumption of 3.9%.

* **EBITDA margins under pressure due to lower sales growth**

EBITDA stood at INR 55 mn, with EBITDA margins declining by 500bps Y-o-Y. Net profit was down 11% Y-o-Y at INR 21 mn. Decline in net profit margins was by 200 bps Y-o-Y on the back of higher other income and lower interest cost.

Financials

Year to March	Q3FY08	Q3FY07	% change	Q2FY08	% change	FY07	FY08E
Revenues (INR mn)	200	189	6.0	188	6.5	739	843
EBITDA (INR mn)	55	61	(10.4)	50	10.0	237	256
Net profit (INR mn)	21	24	(10.8)	21	4.4	100	111
EPS (INR)	2.7	3.0	(10.8)	2.6	4.4	12.5	13.8
P/E						12.7	11.5

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Reuters : ITRV.BO
Bloomberg : ITR IN

Market Data

52-week range (INR) : 261 / 136
Share in issue (mn) : 8.0
M cap (INR bn/USD mn) : 1.3 / 35.0
Avg. Daily Vol. BSE ('000) : 17.2

Share Holding Pattern (%)

Promoters : 61.7
MFs, FIs & Banks : 0.0
FIs : 0.0
Others : 38.3

* **Portal launched; revenues likely to trickle in by FY09E**

As expected, ITHL has launched its portal along with the payment gateway. However, substantial revenues will start flowing FY09E onwards. ITHL is also talking to various travel portals for possible sharing of platform. We await further clarity on this development.

* **Outlook and valuations: Lying low for now; maintain 'BUY'**

We expect ITHL's revenue and profit to grow at CAGR of 18.4% and 16.6%, respectively, during FY07-09E. Given the booming tourism sector, the ITC pedigree, revenues from portal and strong focus on the car rental industry, the prospects of ITHL appear bright going ahead. At CMP of INR 173, the stock is trading at 12.5x FY08E EPS of INR 13.8 and 10x FY09E EPS of INR 17.3. We maintain our 'BUY' recommendation on the stock.

Financials snapshot								(INR mn)
Year to March	Q3FY08	Q3FY07	% change	Q2FY08	% change	FY07	FY08E	FY09E
Net revenues	200	189	6.0	188	6.5	739	843	1,036
Expenditure								
Staff costs	54	43	25.0	55	(2.6)	172	202	246
Car Fuel,Oil and Lubricants	16	18	(8.5)	16	1.3	110	122	150
Other expenditure	50	44	13.9	44	14.4	134	164	189
Services charges	26	23	10.3	24	8.9	86	98	119
Total expenditure	145	128	13.9	138	5.2	502	587	704
EBITDA	55	61	(10.4)	50	10.0	237	256	332
Interest	2	3	(21.4)	2	(8.3)	11	11	11
Depreciation	22	21	5.7	22	2.8	81	87	119
Other Income	5	3	45.5	7	(32.4)	18	21	21
Profit before tax	35	41	(13.4)	33	6.9	163	179	223
Tax	14	17	(17.2)	13	11.1	62	68	85
Profit after tax	21	24	(10.8)	21	4.4	102	111	138
Net profit	21	24	(10.8)	21	4.4	100	111	138
Equity capital	80	80	0.0	80	0.0	80	80	80
No. of shares (mn)	8.0	8.0	0.0	8.0	0.0	8.0	8.0	8.0
EPS (INR)	2.7	3.0	(10.8)	2.6	4.4	12.5	13.8	17.3
P/E (x)						12.7	11.5	9.2
as % of net revenues								
Staff costs	26.7	22.6		29.2		23.3	24.0	23.8
Car Fuel,Oil and Lubricants	8.0	9.3		8.5		14.9	14.5	14.5
Other expenditure	24.9	23.2		23.2		18.1	19.5	18.3
Services charges	12.9	12.4		12.6		11.6	11.6	11.5
EBITDA	27.5	32.5		26.6		32.1	30.4	32.0
Net profit	10.7	12.7		10.9		13.6	13.1	13.3
Tax rate	39.5	41.3		38.1		37.8	38.0	38.0

Company Description

Established in 1981, ITHL is part of the diversified business conglomerate ITC group. ITHL offers a wide range of travel services like car rental, air tickets, domestic and international tourism, holiday packages, business travel, conferences and event management, and foreign exchange. It is amongst the top five players (largest player Hertz has a fleet 2000 cars) in the domestic car rental industry, with 25 years of existence. It has a presence of 10 International Air Transport Association (IATA) travel offices, 12 car rental offices, and 17 hotel travel counters across various hotels. ITHL caters to 185 corporate clients including Sun Microsystems, Bharati Airtel, Siemens, Citi Bank, NDTV apart from ITC Group.

Investment Theme

ITHL is a proxy to India's booming travel and tourism sector that is expected to grow at 8% p.a till 2016. Only ~15% of billing is from the ITC group. About 67% of its revenues are from the car –rental segment that earns higher commission of ~68% (as on FY07) and is expected to grow steadily at CAGR of 21% over FY07-FY09E. ITHL is amongst the top five players and has fleet of ~547 owned and ~250 leased cars. During FY08E, fleet strength is expected to go upto ~ 600 owned cars. As anticipated, the portal is launched. Given the booming tourism sector, the ITC pedigree, launch of portal, and strong focus on the car rental industry, the prospects of ITHL appears bright going ahead.

Key Risks

Natural calamities may lead to slowdown in tourist's arrival.

Slowdown in the Indian economy.

Financial Statement

Income statement					(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E
Income from services rendered	469	606	739	843	1,036
Net sales	469	606	739	843	1,036
Employee cost	106	144	172	202	246
Cars related expenses	74	93	110	122	150
Marketing expenses	50	51	60	76	91
Service charges	53	69	86	98	119
Other expenses	50	57	64	76	83
Miscellaneous expenses	23	12	10	13	16
Total operating expenses	357	426	502	587	704
EBITDA	112	180	237	256	332
Other income	11	14	18	21	21
Profit before tax	74	117	163	179	223
Provision for tax	27	47	62	68	85
Net profit	47	70	102	111	138
Net profit after prior period adj.	47	70	100	111	138
Cash profit	87	138	182	198	257
Earnings per share (INR)	5.8	8.8	12.7	13.8	17.3
Shares outstanding (mn)	8.0	8.0	8.0	8.0	8.0
Dividend (INR/share)	2.0	2.5	3.0	3.0	3.0

Common size metrics as % on revenues

Year to March	FY05	FY06	FY07	FY08E	FY09E
Operating expenses	76.0	70.2	67.9	69.6	68.0
Depreciation	8.6	11.2	10.9	10.4	11.4
EBITDA margins	24.0	29.8	32.1	30.4	32.0
Net profit margins	10.0	11.6	13.7	13.1	13.3

Growth metrics (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Revenues	23.0	29.2	21.9	14.0	22.9
EBITDA	55.3	60.6	31.4	8.1	29.4
Net profit	62.1	49.9	45.0	9.0	24.8
Cash profit	38.7	58.5	31.8	8.8	29.6
EPS	62.1	49.9	45.0	9.0	24.8

Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E
Cash flow from operations	87	138	181	198	257
Cash for working capital	(50)	(9)	(79)	(10)	(41)
Net operating cash flow- A	37	129	102	188	216
Net purchase of fixed assets	(112)	(81)	(100)	(250)	(150)
Net purchase of investments	(52)	(1)	54	0	0
Net cash flow from investing- B	(163)	(82)	(46)	(250)	(150)
Proceeds/repayments from borrowings	70	(8)	4	70	(75)
Dividend payments	(18)	(23)	(28)	(28)	(28)
Net cash flow from financing- C	52	(31)	(24)	42	(103)
Net cash flow (A+B+C)	(75)	16	32	(20)	(37)

Balance sheet					(INR mn)
As on 31st March	FY05	FY06	FY07	FY08E	FY09E
Equity capital	80	80	80	80	80
Reserves & surplus	340	387	459	542	653
<i>Share premium</i>	119	119	119	119	119
<i>Others</i>	221	268	341	424	534
Shareholders funds	420	467	539	622	732
Secured loans	153	144	152	222	147
Net deferred tax liability	25	26	22	22	22
Total debt	153	144	152	222	147
Source of funds	598	637	713	866	902
Gross block	363	421	463	743	893
Depreciation	107	153	201	289	407
Net block	257	268	262	455	486
Capital work in progress	2	4	30	0	0
Investments	139	140	86	86	86
Cash, bank bal & deposits	43	60	91	71	35
Sundry debtors	389	442	559	623	738
Loans & advances	56	64	56	56	56
Total current assets	489	566	706	750	828
Sundry creditors	230	278	314	368	442
Others	38	30	16	16	16
Provisions	22	32	40	40	40
Proposed dividend	18	23	24	28	28
Others	4	10	16	10	10
Total current liabilities	289	341	371	425	498
Net current assets	200	225	335	326	330
Application of funds	598	637	713	866	902
Book value (BV) per share (INR)	53	58	67	78	92

Ratios

Year to March	FY05	FY06	FY07	FY08E	FY09E
ROE (%)	11.5	15.8	20.2	19.1	20.4
ROCE (%)	13.1	18.2	23.2	21.4	24.1
Debtor days	303	266	276	270	260
Fixed assets t/o	1.8	2.3	2.8	1.9	2.1
Debt /Equity	0.4	0.3	0.3	0.4	0.2

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E	FY09E
EPS (INR)	5.8	8.8	12.7	13.8	17.3
<i>Y-o-Y growth (%)</i>	<i>62.1</i>	<i>49.9</i>	<i>45.0</i>	<i>9.0</i>	<i>24.8</i>
CEPS (INR)	10.9	17.3	22.8	24.8	32.1
P/E (x)	29.5	19.7	13.6	12.5	10.0
Price/BV (x)	3.3	3.0	2.6	2.2	1.9
P/CEPS (x)	15.8	10.0	7.6	7.0	5.4
EV/EBITDA (x)	13.2	8.1	6.1	6.0	4.5

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Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	110	43	15	2	188

* 12 stocks under review / 6 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	88	74	26

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% 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

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