

## Cox &amp; Kings India

CMP:374

TARGET: 475

Upside : 27%

Price (Rs.)	374.3
Market Cap (Rs.Crs.)	2551.22
52 High / Low (Rs.)	659.70/365.55
Mcap/Sales TTM	7.52
Book Value (Rs.)	119.02
TTM PE	21.5
P/BV	3.1
BSE	533144
NSE	COX&KINGS

Investment Rationale

- Well Diversification Business
- Strong Fundamentals
- Strong Distribution Network
- Focus on Inorganic Growth
- Industry Growth

Financials		
(in crs)	FY11	FY12
Sales	490.01	675
EBIDTA	227.5	311
EBIDTA Margin	46.43	46.00
PAT	141.5	193
PAT Margin	28.88	28.53
EPS	20.73	28.21
Equity	68.26	68.26
FV	10	10
PE @ CMP	18.06	13.27
PE @ Tgt 475	22.91	16.84
D/E	0.7	0.65
ROE %	14.01	13.5

Company Background

C&K is one of the largest and widely recognized holiday brands in India and has evolved over 250 years. The company caters to overall travel needs of Indian and international travelers. It has presence in 19 countries and in India has 272 touch points covering 164 locations. In India, the company caters to outbound, inbound, and domestic travelers. In its international presence, C&K is primarily an outbound tour operator. Its business can be broadly categorized as leisure travel, corporate travel, forex and visa processing. It provides end-to-end travel solutions including land, air and cruise bookings, hotel bookings, in transit arrangements and various other travel-related services. C&K has subsidiaries in UK, Australia, New Zealand, Japan, US, UAE, Germany, Hong Kong, Greece and Singapore.

Shareholding Pattern		
(%)	Sep-10	Dec-10
Foreign	29.38	30.81
Institutions	6.56	6.1
Corp. Holding	1.88	0.96
Promoters	58.65	58.66
Public&Others	3.52	3.48

Fund Holdings	
Funds	% Holding
Small cap World Fund a/c	5.85
Citibank N.A. New York Nyadr Dept	3.45
Carlson Fund	2.49
Emerging markets growth fund	2.38

Ket Financials Consolidated		
(Rs Crores)	FY09	FY10
Gross Sales	286.9	399.15
Interest	20.13	26.97
PBDT	107.23	200.61
Depreciation	9.57	15.07
Net Profit	62.81	133.85
EPS (Rs)	22.49	21.27
CEPS (Rs.)	25.91	23.67
F.V. (Rs)	10	10
Dividend (%)	2	10
Equity Capital	27.93	62.92
PE (x)	16.64	17.60

Latest Quarterly results Consolidated		
(Rs Crores)	Dec-09	Dec-10
Gross Sales	78.89	108.31
PBIDT	35.67	55.09
Net Profit	19.28	23.02
Equity	62.92	68.26
EPS	3.06	3.37

### Investment Rationale

#### ■ Well Diversified Business

International operations contributing almost 50% of total income, the revenues are well spread across geographies. Consistent innovation and the company's inorganic growth strategy have provided C&K with higher growth rates. Highly recognized brand helps it drive better bargains from business partners. Better bargain helps the company offer cheaper products to customers in comparison to competitors.

With seamless integration of acquisitions and starting of a luxury train, along with the visa processing facility, we believe the company is in a sweet spot to benefit from growth in inbound, outbound and domestic travel. Charter Airlines Business, corporate travel, forex, inbound travel, **MICE business** are contributing significantly.

MICE business is growing very rapidly in India and C&K is one of the favorite tour companies because of its Global Presence. Global Presence is giving competitive edge and synergetic advantage to company among its peers.

#### ■ Strong Fundamentals

##### Y-O-Y Performance

Although debt as a percent of total capital decreased at Cox & Kings Limited over the last fiscal year to 38.41%, it is still in-line with the Hotels, Restaurants and Leisure industry's norm. Additionally, there are enough liquid assets to satisfy current obligations. Cash Collection is a strong suit as the company is more effective than most in the industry managed as the Inventory Processing Period is typical for the industry, at 21.24 days.

##### Q-o-Q Performance

Compared to the same quarter last year, Cox & Kings Limited has been able to grow revenues from 78.89crs to 108.3crs. Most impressively, the company has been able to reduce the percentage of sales devoted to income tax expense from 10.24% to 9.80%. This was a driver that led to a bottom line growth from 19.28crs to 23.02crs.

#### India Distribution Network



14 Sales Offices



115 Franchise Sales Shops



143 PAs

#### Country rankings for Travel and Tourism Direct Industry GDP in 2020

Rank	Country	(\$ in billions)
1	United States	916.5
2	China	500.7
3	Japan	215.8
4	United Kingdom	148.2
5	France	143
6	Spain	123.7
7	Italy	121.8
8	India	110.6
9	Germany	103.7
10	Australia	79.7

China & India are amongst the Top 10 countries for T & T

#### Strong Distribution Network

It plans to add 150 franchisees in the next 12-18 months. Franchise model will allow to increase its presence in more cities without investing in the infrastructure and other associated costs. Franchisees are expected to contribute 15-18% of total revenues in next 2-3 yrs.

#### Focus on Inorganic Growth

C&K is scouting for global acquisitions to drive its growth and strengthen its position as the leading tour operator in the country. For this purpose, C&K has raised Rs. 12 bn through IPO proceeds, GDR and internal accruals.

#### Industry Growth

Indians traveling abroad increased to 12.61 mns from 11.56 mns in 2009. We have already witnessed 18% growth in the number of trips in 2010 from 550mns Indians to 650mns. 65% relates to leisure travel. Arrivals in India grew by 9.3% from 2009 to 2010.

Industry Expects' Indian Tour & Travel industry to grow at an annual rate of 7.8% over the next 10 years. India has been ranked 8<sup>th</sup> with \$110.6 billion direct industry GDP in 2020. India will rank 3rd in terms of annual growth in Travel & Tourism Demand between 2010 and 2019, averaging 8.2% per annum.

#### Valuation

Looking at the industry growth and the company's performance, at CMP Of Rs. 374 the scrip is trading at 18x and 13x FY11E and FY12E with consolidated EPS of 21 and 28 respectively which is at a discount on global peers.. We expect a fair band of 17x PE with a price target of Rs. 475.

#### Concerns

Slow down in global economy and unforeseen events.

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