

February 18, 2014

Cox & Kings (CNKLIM)

₹ 147

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 130 to ₹ 170
EPS (FY14E)	Changed from ₹ 27.9 to ₹ 30.9
EPS (FY15E)	Changed from ₹ 28.8 to ₹ 30.8
RATING	Unchanged

HBR acquisition starts paying off...

Cox & Kings' (C&K) Q3Y14 performance was above our estimates at the topline and bottomline level due to higher-than-expected growth in the education vertical of HBR and domestic leisure division. Operating revenues for the quarter grew 14.1% YoY to ₹ 407.7 crore. The domestic leisure segment grew 12% YoY to ₹ 95 crore while revenues of the international leisure segment declined 8% to ₹ 176 crore due to a subdued macro environment. The performance of the education division improved during the quarter. The education division witnessed 50% YoY growth as Meininger got merged after acquiring full control coupled with demand improvement in the UK. The camping division reported revenues of ₹ 12 crore vs. nil last year. Better topline growth coupled with forex gain of ₹ 39 crore led to healthy expansion in margins during the quarter. As a result, the company managed to report a net profit of ₹ 30.9 crore vs. I-direct estimated net loss of ₹ 8.4 crore for the quarter. The company has effectively repaid \$40 million debt till date and is further planning to reduce its debt by ~₹ 100 crore in Q4FY14E. C&K has also guided for debt reduction of ₹ 450-500 crore in FY15E, which looks feasible in our view, given its healthy operating cash flow. We do not see any concern with regards to its debt servicing ability and debt repayment risk. Hence, we continue to remain positive on the stock.

Education & domestic leisure drive revenue growth

Revenues for the quarter increased 14% YoY to ₹ 407.7 crore. The overall growth is mainly attributable to an improved performance from the leisure division (domestic segment up 12% YoY) and pick-up in education division (up 50% YoY) driven by strong demand in both these divisions.

Healthy cash flow to aid in trimming debt; maintain BUY rating

The company is focusing on trimming down debt through cash generated from the business, which, we believe, would improve its profitability, going ahead. The stock is trading at two-year forward P/E multiple of 4.8x, which still makes this stock attractive for investments from a valuation perspective as well given its improvement in operating performance post HBR acquisition. Hence, we remain positive and maintain our **BUY** rating with a revised target price of ₹ 170/share (i.e. at 5.5x FY15E EPS).

Exhibit 1: Financial Summary

(₹ Crore)	Q3FY14	Q3FY14E	Q3FY13	Q2FY14	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	407.7	386.3	357.2	818.8	-50.2	14.1
EBITDA	105.3	61.6	47.9	452.9	-76.8	119.8
EBITDA Margin (%)	25.8	15.9	13.4	55.3	-2948 bps	1242 bps
Depreciation	29.7	26.8	27.7	74.6	-60.2	7.2
Interest	88.7	77.8	85.1	77.8	13.9	4.2
Other Income	24.6	7.9	29.8	7.9	212.8	-17.3
Reported PAT	30.9	-8.4	3.3	263.7	-88.3	839.7
EPS (₹)	2.3	-0.6	0.2	19.3	-88.3	839.7

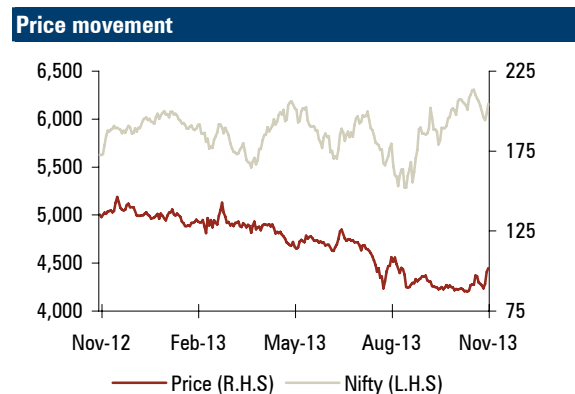
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 170
Target Period	: 12-15 months
Potential Upside	: 16%

Key Financials				
₹ crore	FY12	FY13	FY14E	FY15E
Net sales	837.9	1809.1	2054.4	2301.2
EBITDA	167.3	722.9	890.9	1031.5
Net Profit	41.6	248.5	421.7	420.6
EPS (₹)	3.0	18.2	30.9	30.8

Valuation summary				
	FY12	FY13	FY14E	FY15E
PE (x)	48.6	8.1	4.8	4.8
Target PE (x)	55.8	9.3	5.5	5.5
EV to EBITDA (x)	27.8	6.8	5.3	3.9
Price to book (x)	1.7	1.8	1.3	1.0
RoNW (%)	3.5	22.4	27.5	21.5
RoCE (%)	2.4	9.5	11.4	13.3

Stock data	
Mcap	₹ 1802 crore
Debt (FY14E)	₹ 3975 crore
Cash & Invest(FY14E)	₹ 1253 crore
EV	₹ 4523 crore
52 week H/L	₹ 149 /84
Equity cap	₹ 68.3 crore
Face value	₹ 5
MF Holding(%)	8.4
FII Holding(%)	17.4

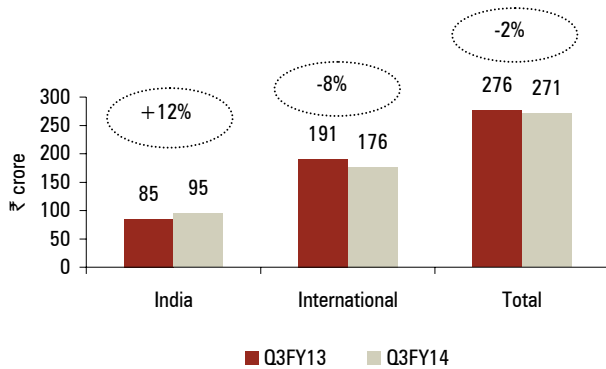


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Leisure division drives revenues growth

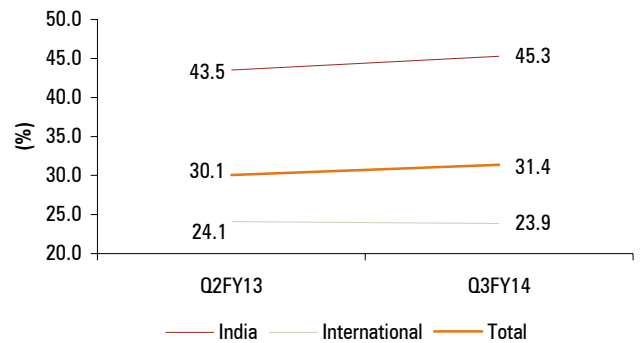
The India leisure division (i.e. ~23% of total revenue for the quarter) reported revenue growth of ~12% YoY despite a challenging macro environment, which, however, was aided by favourable currency movement. As a result, operating margins also improved from 43.5% last year to 45.3% this quarter. The performance of the international division (i.e. ~43% of total revenue) remained muted vs. last year. Combined together, revenue in the leisure segment declined 1.8% YoY to ₹ 271 crore. However, healthy margins of the domestic segment lifted overall margins of the leisure segment by 130 bps YoY to 31.4%.

Exhibit 2: Performance of leisure division



Source: Company, ICICIdirect.com Research

Exhibit 3: Margin trend in leisure segment



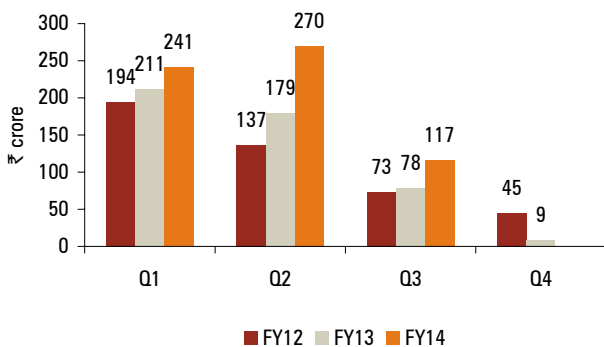
Source: Company, ICICIdirect.com Research

Performance of education division improves despite lean season

The education businesses accounted for 29% of the company's topline vs. 22% share last year. This business being seasonal in nature and Q3 being the lean season the contribution of the education and camping business stood at ₹ 117 crore (up 50% YoY) and ₹ 12 crore, respectively (i.e. 32% share combined together). The order book position (50% booked for FY15) continues to remain strong and there is strong revenue visibility for the next year in the education division. The company plans to launch the Meininger business in Australia in the next 12 months and in India, over the next two years.

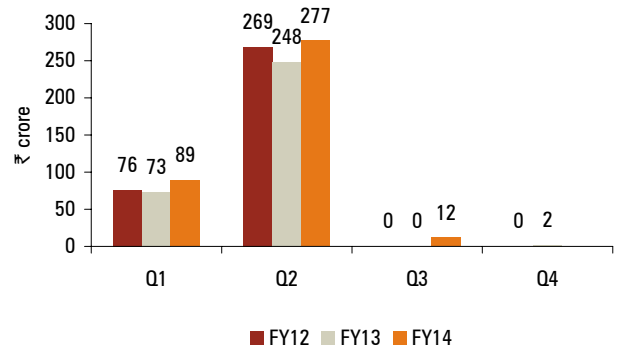
On the camping side, we saw revenues of ₹ 12 crore (vs. nil last year) with operating loss of ₹ 27 crore due to the lean season. However, this division is also witnessing healthy booking trends vs. last year with order book growth of 8% YoY. It achieved almost 35% of the FY15 target already supported by growth in the UK and other connected markets.

Exhibit 4: Education division – revenue trend



Source: Company, ICICIdirect.com Research

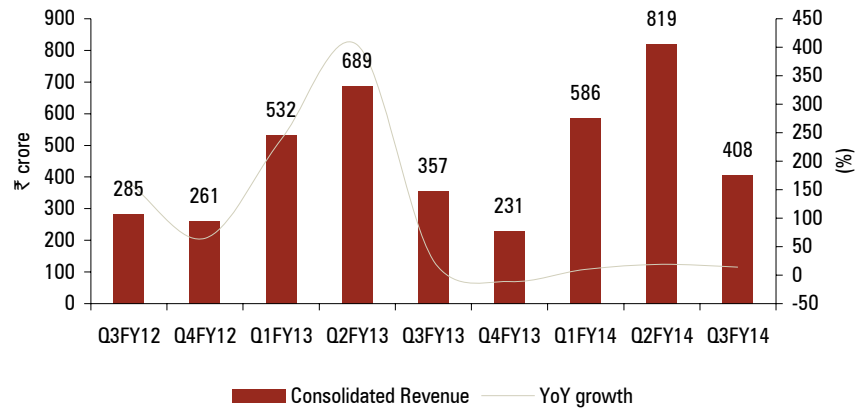
Exhibit 5: Camping division – revenue trend



Source: Company, ICICIdirect.com Research

Exhibit 6: Consolidated performance

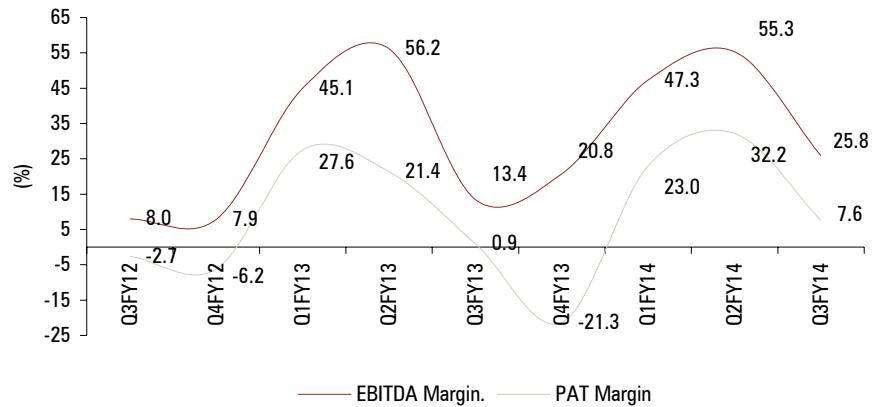
Consolidated revenues for the quarter grew 14% YoY due to the incremental revenue flow from Meininger business due to acquisition of full control over the business coupled with a strong performance of the domestic leisure segment



Source: Company, ICICIdirect.com Research

Exhibit 7: Margin trend (%)

Better topline growth coupled with forex gain of ₹ 39 crore led to healthy expansion in margins during the quarter



Source: Company, ICICIdirect.com Research

Focus remains on trimming down debt

After scaling up operations through the major acquisition of HBR, the company is now aiming to trim down its debt. During 9MFY14, C&K has repaid dollar debt of \$26 million and GBP debt of \$19.4 million, whereas there has been an addition of ₹ 32 crore in the INR debt. Effectively, the company managed to repay the US\$40 millions (i.e. ₹ 250 crore). The company has also guided for debt reduction of ₹ 450-500 crore in FY15E, which looks feasible in our view, given its healthy operating cash flow. We do not see any concern with regard to its debt servicing ability and debt repayment risk.

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Total operating Income	837.9	1,809.1	2,054.4	2,301.2
Growth (%)	68.7	115.9	13.6	12.0
Employee Expenses	385	696	793	863
Advertisement expenses	99	125	112	122
Other expenses	187	265	259	285
Total Operating Expenditure	670.6	1,086.2	1,163.5	1,269.7
EBITDA	167.3	722.9	890.9	1,031.5
Growth (%)	-27.3	332.1	23.2	15.8
Depreciation	49.1	147.4	158.8	169.0
Interest	184.3	370.5	325.1	286.1
Other Income	166.0	58.8	64.0	71.1
PBT	68.7	204.6	669.5	647.5
Profits from Associates	14.6	40.4	3.7	4.1
Total Tax	41.8	52.1	163.0	213.7
PAT	41.6	248.5	421.7	420.6
Growth (%)	NM	497.4	69.7	-0.2
EPS (₹)	3.0	18.2	30.9	30.8

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Liabilities				
Equity Capital	68.3	68.3	68.3	68.3
Reserve and Surplus	1,124.2	1,043.3	1,464.9	1,885.6
Total Shareholders funds	1,192.4	1,111.5	1,533.2	1,953.8
Total Debt	3,706.2	4,174.5	3,974.5	3,574.5
Def Tax Liability	76.6	74.6	79.0	82.0
Total Liabilities	4,975.2	5,360.7	5,586.7	5,610.4
Assets				
Gross Block	2,495.1	2,706.7	2,796.7	2,796.7
Less: Acc Depreciation	580.3	727.7	886.4	1,055.4
Net Block	1,914.8	1,979.1	1,910.3	1,741.3
Capital WIP	123.8	126.0	86.0	86.0
Total Fixed Assets	2,038.5	2,105.1	1,996.3	1,827.3
Goodwill on Cons	2,662.9	2,733.3	2,733.3	2,733.3
Investments	276.1	438.1	438.1	438.1
Def Tax Assets	1.7	6.7	6.7	6.7
Inventory	17.3	18.6	37.7	50.6
Debtors	715.1	905.4	1,097.5	1,197.9
Loans and Advances	855.4	843.8	1,085.7	1,075.7
Cash	1,053.3	1,269.3	1,253.9	1,528.3
Total Current Assets	2,641.0	3,037.1	3,474.8	3,852.5
Total Current Liabilities	2,674.7	2,234.5	2,159.4	2,311.4
Net Current Assets	-33.7	802.6	1,315.5	1,541.1
Misc Exp not W/f	0.0	0.0	0.0	0.0
Application of Funds	4,945.5	5,360.7	5,586.7	5,610.4

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Profit after Tax	41.6	248.5	421.7	420.6
Add: Depreciation	49.1	147.4	158.8	169.0
(Inc)/dec in Current Assets	-784.0	-181.8	-452.1	-105.0
Inc/(dec) in CL and Provisions	2,371.5	-440.2	-75.1	152.0
CF from operating activities	1,678.3	-226.2	53.2	636.6
(Inc)/dec in Investments	1.7	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-0.5	-213.9	0.0	0.0
Goodwill on consolidation	-4,392.2	-70.4	131.4	37.7
Others	0.0	587.5	0.0	0.0
CF from investing activities	-4,391.1	303.2	131.4	37.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	2,861.8	468.4	-200.0	-400.0
Dividend paid & dividend tax	0.0	-16.1	0.0	0.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-56.9	-313.3	0.0	0.0
CF from financing activities	2,804.9	139.0	-200.0	-400.0
Net Cash flow	92.1	216.0	-15.4	274.3
Opening Cash	961.2	1,053.3	1,269.3	1,253.9
Closing Cash	1,053.3	1,269.3	1,253.9	1,528.3

Source: Company, ICICIdirect.com Research

Key ratios

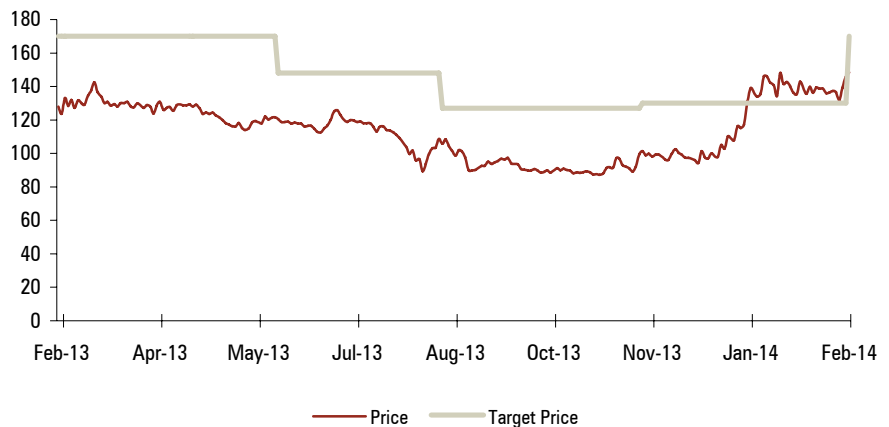
(Year-end March)	FY12	FY13	FY14E	FY15E
Per share data (₹)				
EPS	3.0	18.2	30.9	30.8
Cash EPS	6.6	29.0	42.5	43.2
BV	87.3	81.4	112.3	143.1
DPS	1.0	0.0	0.0	0.0
Operating Ratios (%)				
EBITDA Margin	20.0	40.0	43.4	44.8
PBT / Total Operating income	26.0	5.0	13.7	20.5
Asset Turnover	0.2	0.3	0.3	0.4
Debtor days	1.2	2.0	1.9	1.9
Creditor days	2.0	3.8	3.8	3.8
Return Ratios (%)				
RoE	3.5	22.4	27.5	21.5
RoCE	2.4	9.5	11.4	13.3
RoIC	3.7	20.3	21.9	25.0
Valuation Ratios (x)				
P/E	48.6	8.1	4.8	4.8
EV / EBITDA	27.8	6.8	5.3	3.9
EV / Net Sales	5.5	2.7	2.3	1.8
Market Cap / Sales	2.4	1.1	1.0	0.9
Price to Book Value	1.7	1.8	1.3	1.0
Solvency Ratios				
Debt/EBITDA	22.2	5.8	4.5	3.5
Debt / Equity	3.1	3.8	2.6	1.8
Current Ratio	1.0	1.4	1.6	1.7
Quick Ratio	0.6	0.8	1.0	1.0

Source: Company, ICICIdirect.com Research

Company Description

Cox & Kings (C&K), one of the leading and oldest (established in 1758) players in the travel & tourism industry, caters to the overall travel needs of Indian and international travellers. The company's business is broadly categorised as leisure travel, corporate travel, forex and visa processing. Within leisure travel (contributing ~90% to the revenues), it provides services for outbound travel, inbound travel and domestic travel. Its corporate travel segments provide customised business travel solutions to over 200 companies both domestically and internationally. Besides, C&K also offers travel related foreign exchange and payment solutions along with visa processing services as an outsourced business solution to diplomatic missions in various countries. The company was listed on the bourses in December, 2009 and raised ~₹ 600 crore through an IPO (17x FY10 EPS). In order to scale up the business, the company acquired seven companies in the last five years. Under its major acquisitions, C&K acquired UK-based HolidayBreak Plc by paying ~£312 million (~₹ 2,200 crore) in September 2011.

Exhibit 8: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 9: Recent Releases

Date	Event	CMP	Target Price	Rating
5-Jun-13	Q4FY13 Result update	121	148	BUY
5-Jul-13	Q1FY14 Result preview	120	148	BUY
16-Aug-13	Q1FY14 Result update	106	127	BUY
7-Oct-13	Q2FY14 Result preview	90	127	BUY
18-Nov-13	Q2FY14 Result update	101	130	BUY
8-Jan-14	Q3FY14 Result preview	136	130	BUY
18-Feb-14	Q3FY14 Result update	147	170	BUY

Source: Company, ICICIdirect.com Research

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Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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