August 16, 2017

Cox & Kings (CNKLIM)

₹ 270

Currency headwinds dent revenue growth…

- Cox and Kings' results were above our estimates. While revenues were below our estimate due to currency weakness, EBITDA and PAT were above our estimate. Revenues increased 0.5% YoY to ₹ 705.6 crore (below I-direct estimate of ₹ 781.2 crore)
- Segment wise, Leisure India and Meininger reported revenue growth of 12.5% YoY and 16.2% YoY but education and leisure international declined 13.7% YoY and 20.9% YoY, respectively
- EBITDA margin increased 790 bps YoY to 52.9% (vs. I-direct estimate of 45.4%) mainly due to forex gains

Improved domestic business to boost leisure India revenues

The company has witnessed healthy growth (up 15% YoY in FY17) in its domestic business. Consumer sentiments continue to remain healthy as witnessed in the air passenger traffic growth, foreign tourist arrivals data led by an improvement in purchasing power. Further, with an improved macroeconomic environment, we expect the company's domestic business to continue to perform well, going forward. In addition, C&K should be a key beneficiary of any positive policy announcements (visa on arrival) given the new government's thrust on tourism.

Meininger to drive international business, going forward…

In Q1FY18, the company reported revenue growth of 16.2% in the Meininger business mainly led by bed capacity addition and healthy average revenues per bed. Going forward, the company plans to have a bed capacity of 25,000 at Meininger by the end of FY22 from a bed capacity of 7,325 in FY17 (i.e. a CAGR of 27.8% in FY17-22). Hence, we believe a substantial part of growth in the international business will be driven by Meininger revenues. Further, the company plans to add 830 beds in the education business by FY18, which will also boost international revenues. In addition, various divestments of subsidiaries in leisure international (like Explore worldwide, Late rooms and Superbreak) are likely to positively impact the company's EBITDA margins.

Improving margins to help in de-leveraging

Till FY16, the company's debt levels remained at elevated levels. In FY16, the company's debt increased to ₹ 4,101 crore from ₹ 3,456.5 crore in FY15. However, in Q1FY17, the company was able to reduce gross debt by ~₹ 600 crore mainly led by equity infusion by the promoter, sale of non-core asset and working capital efficiency. The company has guided at debt reduction of ₹ 180-200 crore each year. However, due to higher capex in the education business, we have assumed a debt reduction of ₹ 50 crore in the next two years. We believe that if the company is able to achieve ₹ 180-200 crore debt reduction, it will lead to a re-rating of the stock from a longer term perspective.

Rich valuation; downgrade to HOLD

Apart from improving macro in the domestic segment, healthy growth in international segment (especially Meininger) is expected to drive revenues over the next two years. The company plans to increase bed capacity at Meininger at a CAGR of 27.8% in FY17-22. Hence, we believe a substantial part of growth in the international business will be driven by Meininger revenues. Further, demerger of its forex segment (huge growth potential) will drive the value for its investors over the long term. Although we remain positive on the stock, the recent run up in the price prompts us to downgrade to **HOLD** with a revised target price of ₹ 290 (i.e. valuing at 27x FY19E EPS & 6x EV/EBITDA).

Rating matrix

Rating	:	Hold
Target	:	₹ 290
Target Period	:	12 months
Potential Upside	:	7%

What's Changed?

Target	Changed from ₹ 275 to ₹ 290
EPS FY18E	Changed from ₹ 8.7 to ₹ 8.8
EPS FY19E	Changed from ₹ 10.8 to ₹ 10.9
Rating	Changed from Buy to Hold

Quarterly Performance

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	705.6	701.9	0.5	460.9	53.1
EBITDA	373.1	315.7	18.2	77.4	382.0
EBITDA (%)	52.9	45.0	790 bps	16.8	3609 bps
Adjusted PAT	158.6	108.1	54.5	-67.8	LP

*As per IGAAP

Key Financials

₹ crore	FY16	FY17	FY18E	FY19E
Net sales	2379.4	2167.2	2395.4	2772.6
EBITDA	784.5	668.7	905.6	1036.8
Net Profit	50.2	61.6	154.8	193.1
EPS (₹)	2.8	3.5	8.8	10.9

Valuation summary

	FY16	FY17	FY18E	FY19E
PE (x)	95.1	77.4	30.8	24.7
Target PE (x)	102.0	83.1	33.1	26.5
EV to EBITDA (x)	8.4	9.7	7.0	5.9
Price to book (x)	1.9	1.8	1.7	1.6
RoNW (%)	2.0	2.4	5.7	6.6
RoCE (%)	9.4	8.6	12.0	13.3

Stock data

Particular	Amount
Mcap	₹ 4771 crore
Debt (FY17)	₹ 3424 crore
Cash & Invest(FY17)	₹ 1693 crore
EV	₹ 6502 crore
52 week H/L	₹ 306/158
Equity cap	₹ 86.4 crore
Face value	₹ 5

Price performance (%)

	1M	3M	6M	12M
Cox & Kings	0.2	19.1	39.3	52.4
Nifty	3.4	7.5	17.4	17.6

Research Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Devang Bhatt
devang.bhatt@icicisecurities.com

Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Total Operating Income	705.6	781.2	701.9	0.5	460.9	53.1	Revenues were flat (up 0.5% YoY) during the quarter mainly due to weakness in currency
Other Income	21.4	14.1	11.4	86.8	-52.5	-140.7	
Employee Expenses	204.7	212.8	192.8	6.2	204.9	-0.1	
Advertisement expenses	0.0	0.0	0.0	NA	0.0	NA	
Other expenses	127.7	213.4	193.4	-33.9	178.6	-28.5	
EBITDA	373.1	355.0	315.7	18.2	77.4	382.0	Forex gain led to rise in EBITDA margins
EBITDA Margin (%)	52.9	45.4	45.0	790 bps	16.8	3609 bps	
Interest	56.4	51.2	67.3	-16.2	51.4	9.6	
Depreciation	19.9	25.8	26.3	-24.3	25.0	-20.1	
Less: Exceptional Items	11.8	0.0	0.0	NA	4.6	NA	Exceptional item for the quarter was due to loss on sale of subsidiary (Business Reservation Center Holland Holding BV)
PBT	306.4	292.2	233.6	9.7	-56.1	LP	
Total Tax	88.6	101.1	80.8	9.7	43.6	103.2	
Reported PAT	158.6	12.1	108.1	46.7	-67.8	LP	
Adjusted PAT	166.9	137.4	108.1	54.5	-59.6	LP	Decline in interest and depreciation expenses led to higher PAT

Source: Company, ICICIdirect.com Research,

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	2,471.0	2,395.4	-3.1	2,765.8	2,772.6	0.2	We expect Meininger and leisure India to drive revenues over FY17-19E
EBITDA	926.6	905.6	-2.3	1,027.9	1,036.8	0.9	
EBITDA Margin (%)	37.5	37.8	31 bps	37.2	37.4	23 bps	We expect EBITDA margin to stabilise at 37% in FY19E
PAT	153.6	154.8	0.8	189.6	193.1	1.8	
EPS (₹)	8.7	8.8	0.7	10.8	10.9	1.8	

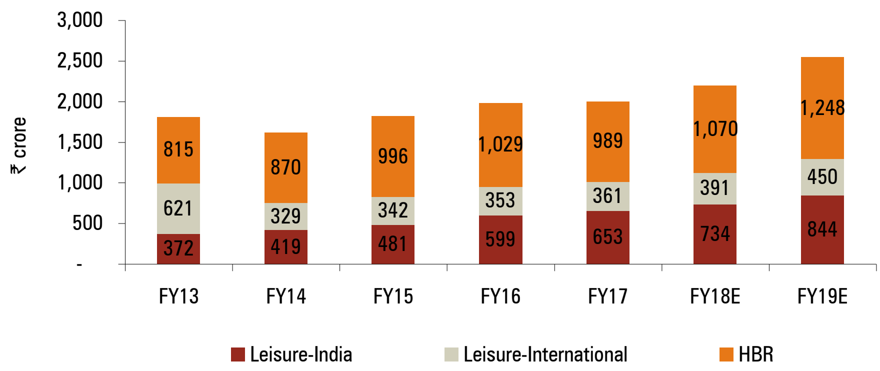
Source: Company, ICICIdirect.com Research,

Company Analysis

Domestic tourism outlook remains healthy

The company has witnessed healthy growth (up 15% YoY in FY17) in its domestic business. Consumer sentiments continue to remain healthy as witnessed in the air passenger traffic growth, foreign tourist arrivals data led by improvement in purchasing power. Further, with an improved macroeconomic environment, we expect the company's domestic business to continue to perform well, going forward. In addition, C&K should be a key beneficiary of any positive policy announcements (visa on arrival) given the new government's thrust on tourism.

Exhibit 1: Revenue growth trend

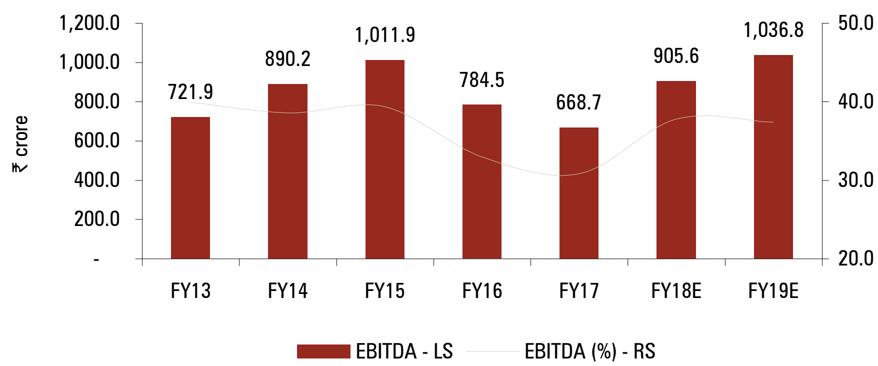


Source: Company, ICICIdirect.com Research

International business to improve, going forward…

In Q1FY18, the company reported revenue growth of 16.2% in the Meininger business mainly led by bed capacity addition and healthy average revenues per bed. Going forward, the company plans to have a bed capacity of 25,000 at Meininger by the end of FY22 from a bed capacity of 7,325 in FY17 (i.e. a CAGR of 27.8% in FY17-22). Hence, we believe a substantial part of growth in the international business will be driven by Meininger revenues. Further, the company plans to add 830 beds in the education business by FY18, which will also boost international revenues. In addition, the various divestments of subsidiaries in leisure international (like Explore worldwide, Late rooms and Superbreak) is likely to positively impact the EBITDA margins.

Exhibit 2: EBITDA & EBITDA margin trend

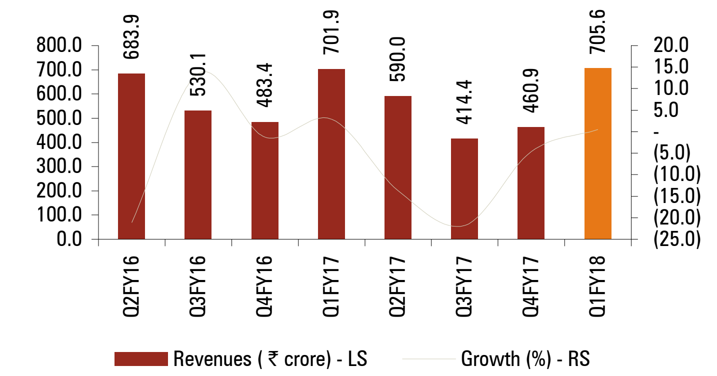


Source: Company, ICICIdirect.com Research

Expect revenue CAGR of 13.1% during FY17-19E

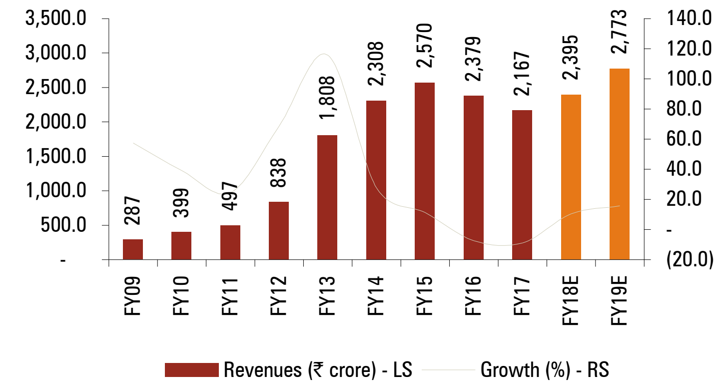
We expect net sales to grow at a CAGR of 13.1% during FY17-19E. The major revenue growth driver would be **leisure India** (healthy domestic outlook), **leisure international** (low base and improved sentiments in UK, addition of Dubai portfolio) and **Meininger** (addition of over 7500 beds).

Exhibit 3: Q1FY18 revenues flat YoY



Source: Company, ICICIdirect.com Research

Exhibit 4: Expect revenue CAGR of 13.1% during FY17-19E

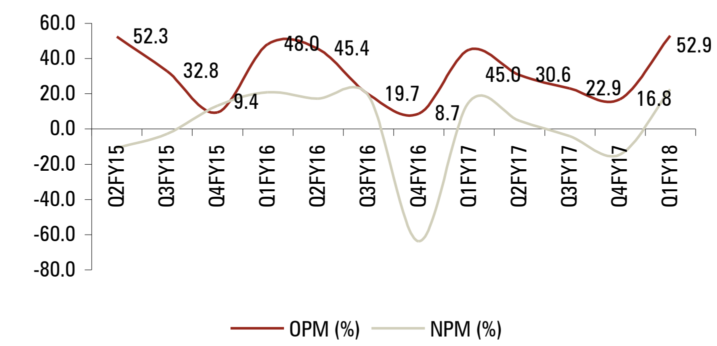


Source: Company, ICICIdirect.com Research

Margins to improve led by improvement in demand

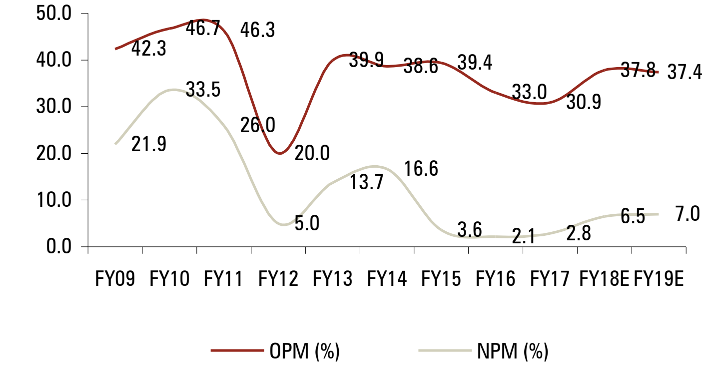
We expect operating margins to improve to 37.4% over the next two years led by healthy asset utilisation and better demand growth. The net margin is also expected to improve led by better performance at the operating level.

Exhibit 5: Quarterly trend in margins



Source: Company, ICICIdirect.com Research

Exhibit 6: Annual trend in margins



Source: Company, ICICIdirect.com Research

Debt levels peak out

Till FY16, the company's debt levels remained at elevated levels. In FY16, the debt increased to ₹ 4,101 crore from ₹ 3,456.5 crore in FY15. However, in Q1FY17, the company was able to reduce gross debt by ~₹ 600 crore mainly led by equity infusion by the promoter, sale of non core asset and working capital efficiency. The company has guided debt reduction of ₹ 180-200 crore each year. However, due to higher capex in the education business we have assumed a debt reduction of ₹ 50 crore over next two years. We believe if the company is able to achieve ₹ 180-200 crore debt reduction; it will lead to a re-rating of the stock from a longer term perspective.

Outlook and valuations

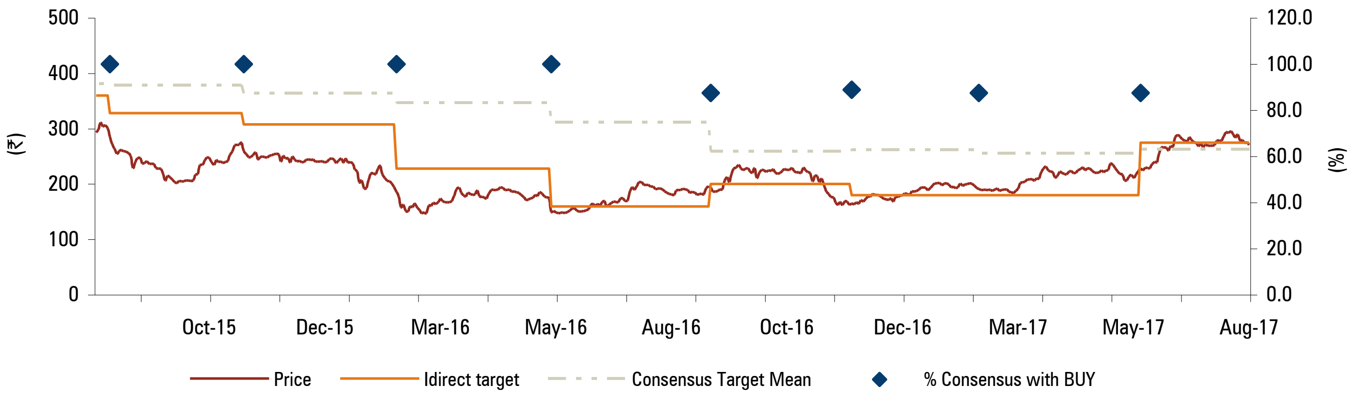
Apart from an improving macro in the domestic segment, healthy growth in the international segment (especially Meininger) is expected to drive revenues over the next two years. The company plans to increase bed capacity at Meininger at a CAGR of 27.8% over FY17-22. Hence, we believe a substantial part of growth in international business will be driven by Meininger revenues. Further, demerger of its forex segment (huge growth potential) will drive the value for its investors over the long term. Although we remain positive on the stock, the recent run up in the stock price prompts us to downgrade the stock to **HOLD** with a revised target price of ₹ 290 (i.e. valuing at 27x FY19E EPS & 6x EV/EBITDA).

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	2379.4	-7.4	2.8	-45.5	95.1	8.4	2.0	9.4
FY17	2167.2	-8.9	3.5	22.8	77.4	9.7	2.4	8.6
FY18E	2395.4	10.5	8.8	151.2	30.8	7.0	5.7	12.0
FY19E	2772.6	15.7	10.9	24.7	24.7	5.9	6.6	13.3

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Jul-11	Cox & Kings acquires UK travel firm for ₹ 2,300 crore
Jul-12	Cox & Kings inks pact with Singapore-based travel solutions and services provider Abacus International for distribution of services
Jul-12	Cox & Kings' arm opens visa application centres for Royal Norwegian Embassy across India
Dec-13	Cox & Kings' arm signs up for a new 802 bed hotel in Amsterdam
Jan-14	Cox & Kings expands its footprint in Australia
Mar-14	Cox & Kings inks partnership pact with Canada based tour operator
May-14	Cox & Kings' arm receives visa processing contract
Sep-14	Concludes sale of camping division
Nov-14	Concludes ₹ 1000 crore QIP at ₹ 305 per share
Jan-15	CARE upgrades the rating of long term bank facilities with issue of non-convertible debentures of the company to AA (double A) from AA-(Double A minus)
Oct-15	Acquires LateRooms.com for ₹ 85 crore
Dec-15	Sells Explore Worldwide
Apr-16	Divest majority stake in Late Rooms and Superbreak
Mar-17	The company to demerge its forex business

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Sneh Sadan Graphic Services Pvt. Ltd.	31-Mar-17	18.7	33.0	0.0
2	Kubber Investments Mauritius Pvt. Ltd.	31-Mar-17	10.4	18.3	0.0
3	LIZ Investments Pvt. Ltd.	31-Mar-17	9.7	17.2	0.0
4	Macquarie Investment Management Ltd.	31-Mar-17	4.4	7.8	0.0
5	Standford Trading Pvt. Ltd.	31-Mar-17	4.1	7.3	0.0
6	Capital Research Global Investors	31-Mar-17	3.7	6.5	0.0
7	Good (Anthony Bruton Meyrick)	31-Mar-17	3.4	6.0	0.0
8	SSG Investment Holding India I, Ltd.	31-Mar-17	2.7	4.8	0.0
9	Abu Dhabi Investment Authority	31-Mar-17	2.6	4.6	1.9
10	Kerkar (Urrshila)	31-Mar-17	2.6	4.6	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	51.26	51.26	51.26	51.26	51.26
FII	31.27	29.47	29.85	31.12	31.33
DII	1.72	1.81	1.70	4.66	5.89
Others	15.75	17.46	17.19	12.96	11.52

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Abu Dhabi Investment Authority	6.85	1.92	Janus Capital Management LLC	-17.02	-3.97
Prime India Opportunity, Ltd.	6.59	1.85	Birla Sun Life Asset Management Company Ltd.	-3.59	-0.84
Putnam Investment Management, L.L.C.	0.78	0.18	HSBC Global Asset Management (Hong Kong) Limited	-2.05	-0.58
The Vanguard Group, Inc.	0.72	0.17	ICICI Prudential Life Insurance Company Ltd.	-0.85	-0.24
Florida State Board of Administration	0.36	0.10	HSBC Global Asset Management (Canada) Limited	-0.08	-0.03

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Total operating Income	2,379.4	2,167.2	2,395.4	2,772.6
Growth (%)	-7.4	-8.9	10.5	15.7
Employee Expenses	830	746	782	911
Advertisement expenses	45	NA	NA	NA
Other expenses	720	753	708	825
Total Operating Expenditure	1,594.9	1,498.5	1,489.7	1,735.8
EBITDA	784.5	668.7	905.6	1,036.8
Growth (%)	-22.5	-14.8	35.4	14.5
Depreciation	148.5	95.3	80.8	86.5
Interest	256.3	225.5	225.4	222.7
Other Income	109.1	-26.7	-24.3	-30.0
PBT	148.2	310.3	563.4	697.5
Profits from Associates	-0.9	-11.6	-27.0	-30.0
Total Tax	156.7	172.2	246.8	305.0
PAT	50.2	61.6	154.8	193.1
Growth (%)	-45.5	22.8	151.2	24.7
EPS (₹)	2.8	3.5	8.8	10.9

Source: ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	50.2	61.6	154.8	193.1
Add: Depreciation	148.5	95.3	80.8	86.5
(Inc)/dec in Current Assets	-358.9	-371.2	-72.3	-172.8
Inc/(dec) in CL and Provisions	227.5	-186.6	106.9	173.6
CF from operating activities	67.3	-400.9	270.1	280.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	69.5	69.7	-250.0	-250.0
Goodwilll on consolidation	307.3	347.2	0.0	0.0
Others	-25.4	0.0	138.7	173.5
CF from investing activities	351.4	416.9	-111.3	-76.5
Issue/(Buy back) of Equity	0.0	3.6	0.0	0.0
Inc/(dec) in loan funds	211.6	-244.1	-50.0	-50.0
Dividend paid & dividend tax	-19.9	0.0	-17.7	-17.7
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-173.8	74.4	0.0	0.0
CF from financing activities	17.8	-166.1	-67.7	-67.7
Net Cash flow	436.5	-150.0	91.2	136.2
Opening Cash	1,406.1	1,842.6	1,692.6	1,783.8
Closing Cash	1,842.6	1,692.6	1,783.8	1,920.0

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	84.7	88.3	88.3	88.3
Reserve and Surplus	2,319.0	2,511.2	2,648.4	2,823.8
Total Shareholders funds	2,403.7	2,599.5	2,736.6	2,912.1
Total Debt	3,668.0	3,423.9	3,373.9	3,323.9
Def Tax Liability	204.4	175.6	179.6	183.6
Total Liabilities	6,276.1	6,199.0	6,290.1	6,419.5
Assets				
Gross Block	3,009.1	2,909.1	3,129.4	3,379.4
Less: Acc Depreciation	1,245.6	1,340.9	1,421.8	1,508.3
Net Block	1,763.5	1,568.2	1,707.6	1,871.1
Capital WIP	40.0	70.3	100.0	100.0
Total Fixed Assets	1,803.5	1,638.4	1,807.6	1,971.1
Goodwill on Cons	2,965.3	2,570.5	2,570.5	2,570.5
Investments	121.0	107.5	107.5	107.5
Def Tax Assets	0.1	0.0	0.0	0.0
Inventory	29.2	19.9	34.0	28.3
Debtors	1,398.6	1,820.1	1,837.5	1,975.0
Loans and Advances	20.2	9.4	19.4	13.9
Cash	1,842.6	1,692.6	1,783.8	1,920.0
Total Current Assets	3,290.6	3,542.0	3,674.7	3,937.2
Total Current Liabilities	2,378.3	2,191.7	2,298.5	2,472.1
Net Current Assets	912.3	1,350.3	1,376.1	1,465.1
Misc Exp not W/f	0.0	0.0	0.0	0.0
Application of Funds	6,276.1	6,199.0	6,290.1	6,419.5

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY18E
Per share data (₹)				
EPS	2.8	3.5	8.8	10.9
Cash EPS	11.3	8.9	13.3	15.8
BV	139.4	147.3	155.1	165.0
DPS	1.0	0.0	1.0	1.0
Operating Ratios (%)				
EBITDA Margin	33.0	30.9	37.8	37.4
PBT / Total Operating income	5.0	13.7	16.6	3.6
Asset Turnover	0.3	0.3	0.3	0.4
Debtor Turnover	1.7	1.2	1.3	1.4
Creditor Turnover	5.2	7.0	7.0	7.0
Return Ratios (%)				
RoE	2.0	2.4	5.7	6.6
RoCE	9.4	8.6	12.0	13.3
RoIC	12.6	11.4	16.1	18.0
Valuation Ratios (x)				
P/E	95.1	77.4	30.8	24.7
EV / EBITDA	8.4	9.7	7.0	5.9
EV / Net Sales	2.8	3.0	2.6	2.2
Market Cap / Sales	2.0	2.2	2.0	1.7
Price to Book Value	1.9	1.8	1.7	1.6
Solvency Ratios				
Debt/EBITDA	4.7	5.1	3.7	3.2
Debt / Equity	1.5	1.3	1.2	1.1
Current Ratio	1.9	2.1	2.1	2.1
Quick Ratio	1.1	1.4	1.3	1.3

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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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;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

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