August 16, 2018

Rating matrix

Rating	:	Hold
Target	:	₹ 225
Target Period	:	12 months
Potential Upside	:	8%

What's Changed?

Target	Unchanged
EPS FY19E	Changed from ₹ 12.8 to ₹ 12.3
EPS FY20E	Changed from ₹ 15.1 to ₹ 17.0
Rating	Unchanged

Quarterly Performance

	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenue	817.3	705.6	15.8	532.3	53.5
EBITDA	297.9	373.1	-20.2	135.6	119.7
EBITDA (%)	36.5	52.9	-1643 bps	25.5	1098 bps
Adjusted PAT	96.4	158.6	-40.2	1.3	NA

*As per IGAAP

Key Financials

₹ crore	FY17	FY18	FY19E	FY20E
Net sales	2179.4	2399.3	2783.7	3081.8
EBITDA	680.9	1024.3	929.1	1159.9
Net Profit	-10.2	366.3	217.8	300.2
EPS (₹)	-0.6	20.8	12.3	17.0

Valuation summary

	FY17	FY18	FY19E	FY20E
PE (x)	NA	10.1	16.9	12.3
Target PE (x)	NA	11.1	18.6	13.5
EV to EBITDA (x)	7.9	5.8	6.5	5.3
Price to book (x)	1.4	1.1	1.1	1.0
RoNW (%)	-0.4	11.1	6.2	8.0
RoCE (%)	8.8	11.3	9.4	11.3

Stock data

Particular	Amount
Mcap	₹ 3689 crore
Debt (FY18)	₹ 3907 crore
Cash & Invest(FY18)	₹ 1647 crore
EV	₹ 5949 crore
52 week H/L	₹ 306/199
Equity cap	₹ 86.4 crore
Face value	₹ 5

Price performance (%)

	1M	3M	6M	12M
Cox & Kings	5.9	6.4	-10.4	-19.6
Nifty	5.7	6.3	8.7	13.2

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Cox & Kings (CNKLIM) ₹ 209

Forex loss hits margins & profitability…

- Cox and Kings' reported a mixed set of numbers. Revenues increased 15.8% YoY to ₹ 817.3 crore (vs. I-direct estimate of ₹ 813 crore) mainly led by 41.1% YoY growth in the Meininger segment & 22.6% YoY growth in Leisure - international
- However, EBITDA declined 20.2% YoY to ₹ 297.9 crore (below I-direct estimate of ₹ 380.8 crore) mainly led by forex loss of ₹ 91 crore (vs. forex gain of ₹ 35 crore in Q1FY18). Excluding the forex impact, the company reported EBITDA growth of 15% YoY to ₹ 389 crore with strong rebound in operating margin of leisure international segment (i.e. up from 20.8% last year to 38.4%)
- The de-merger process of forex division (asset base: over ₹ 200 crore as of FY17, RoA: 13% & RoE: 37%) has entered the last phase

Domestic business continues to remain robust…

During FY18, the company's leisure India revenues increased 12.4% YoY mainly on the back of improving domestic spend and higher growth in foreign tourist arrival. Further, consumer sentiments continue to remain healthy as witnessed in air passenger traffic growth and improved hotel occupancy. In addition, with improved tourism measures by the government, we expect domestic leisure business to continue to outperform in coming years. Hence, we expect leisure revenues to grow at a CAGR of 11% in FY18-20E.

International revenues poised for growth…

Bed capacity addition (up 42.8% YoY in FY18) has led the company to report 29.6% YoY increase in Meininger revenues in FY18. Further, in the coming years, the company plans to have a bed capacity of 15,000 at Meininger by FY19 and 25,000 by the end of FY22 from a bed capacity of 10,400 (i.e. a CAGR of 24% in FY18-22). As a result, we expect Meininger revenues to drive a substantial part of growth in the international business. In the education business, the company plans to add 830 beds (560 beds added in FY18), which will also boost international revenues. Further, various divestments of subsidiaries in leisure international is likely to positively impact the company's EBITDA margins.

Working capital requirement continues to remain higher…

Till FY16, debt levels remained elevated. In FY16, the debt has increased to ₹ 4,101 crore from ₹ 3,456.5 crore in FY15. Although the company had repaid ₹ 600 crore in FY17, debt levels are back to ₹ 3,907 crore in FY18 led by higher working capital. Further, considering higher capex in education business, we believe it will be difficult for the company to reduce debt in FY19E vs. guided debt reduction of ₹ 180-200 crore each year.

Healthy revenue growth; leverage near term concern; maintain HOLD

We expect the company's domestic leisure revenues to grow at a CAGR of 11% in FY18-20E mainly led by improving domestic spend and higher growth in foreign tourist arrivals. Further, we expect international revenues to grow at a healthy pace mainly led by Meininger. The company plans to increase bed capacity at Meininger at a CAGR of 28% over FY18-22E. Further, de-merger of its forex segment will drive the value for its investors over the long term. Consequently, we remain positive on the stock from a long term perspective. However, increase in working capital requirement is expected to keep debt at elevated levels. Hence, we maintain our **HOLD** rating on the stock with a target price of ₹ 225 (i.e. valuing at 13.5x FY20E EPS & 6x EV/EBITDA).

Variance analysis

	Q1FY19	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Comments
Total Operating Income	817.3	813.0	705.6	15.8	532.3	53.5	The growth is mainly driven by Meininger (up 41.1% YoY to ₹ 182 cr) and leisure international (up 22.6% YoY to ₹65 cr)
Other Income	42.7	15.0	21.4	NA	55.0	NA	
Employee Expenses	244.3	266.2	204.7	19.4	175.7	39.1	
Advertisement expenses	0.0	0.0	0.0	NA	0.0	NA	
Other expenses	275.0	166.1	127.7	115.3	221.0	24.4	Higher marketing cost and opening of new hotels in Meininger along with forex loss of ₹ 91 crore led to higher other expenses
EBITDA	297.9	380.8	373.1	-20.2	135.6	119.7	
EBITDA Margin (%)	36.5	46.8	52.9	-1643 bps	25.5	1098 bps	
Interest	61.3	68.1	56.4	8.9	89.9	-31.7	
Depreciation	28.1	31.4	19.9	40.9	25.7	9.5	
Less: Exceptional Items	5.2	0.0	11.8	-55.9	4.6	NA	This is an expense related to equity sale by Prometheon Enterprise Ltd
PBT	246.0	296.3	306.4	-5.1	70.4	60.5	
Total Tax	84.1	89.8	88.6	-5.1	52.4	60.5	
Reported PAT	96.4	206.5	158.6	-40.2	1.3	3,840.2	
Adjusted PAT	99.9	159.9	166.9	-40.2	2.5	3,840.2	

Source: Company, ICICI Direct Research,

Change in estimates

	FY19E			FY20E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	2,779.5	2,783.7	0.2	3,076.3	3,081.8	0.2	We expect Meininger and leisure India to drive revenues over FY18-20E
EBITDA	1,034.4	929.1	-10.2	1,157.4	1,159.9	0.2	
EBITDA Margin (%)	37.2	33.4	-384 bps	37.6	37.6	1 bps	Adjusting for forex gain, EBITDA margin was at 36.9% in FY18. We expect margins to improve to 37.6% over coming years
PAT	225.3	217.8	-3.3	266.0	300.2	12.9	
EPS (₹)	12.8	12.3	-3.3	15.1	17.0	12.9	

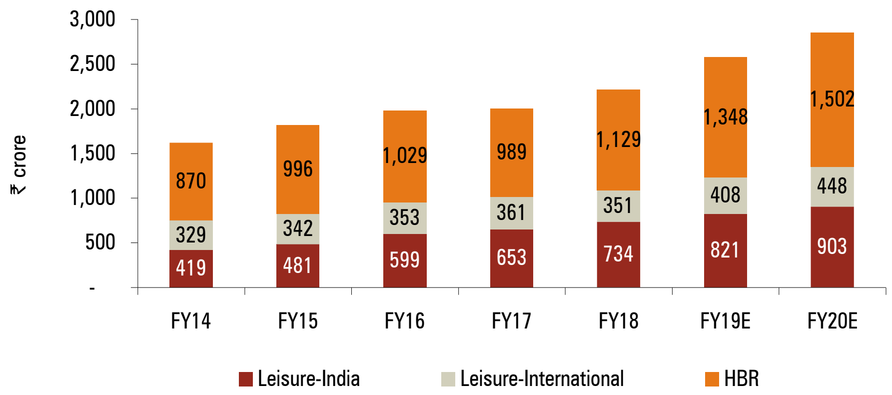
Source: Company, ICICI Direct Research,

Company Analysis

Domestic tourism outlook remains healthy

The company has witnessed healthy growth (up 12% YoY in FY18) in its domestic business. The consumer sentiments continue to remain healthy as witnessed in air passenger traffic growth, foreign tourist arrivals data led by improvement in purchasing power. Further, with improved macro economic 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

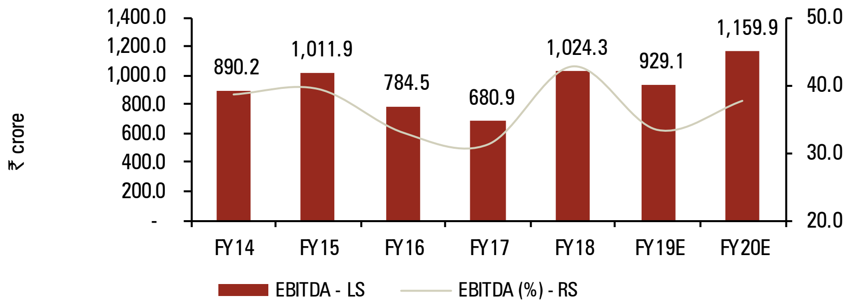


Source: Company, ICICI Direct Research

International business to improve, going forward…

Bed capacity addition (up 42.8% YoY in FY18) has led to the company reporting 29.6% YoY increase in Meininger revenues in FY18. Further, over the coming years the company plans to have a bed capacity of 25,000 at Meininger by the end of FY22 from a bed capacity of 10,461 in FY18 (i.e. a CAGR of 24% in FY18-22). As a result, we expect Meininger revenues to drive substantial part of growth in international business. In addition, in the education business, the company plans to add 830 beds (560 beds added in FY18) which will also boost international revenues. Further, various divestments of subsidiaries in leisure international (like Explore worldwide, Late rooms and Superbreak) are likely to positively impact the company's EBITDA margins.

Exhibit 2: EBITDA & EBITDA margin trend

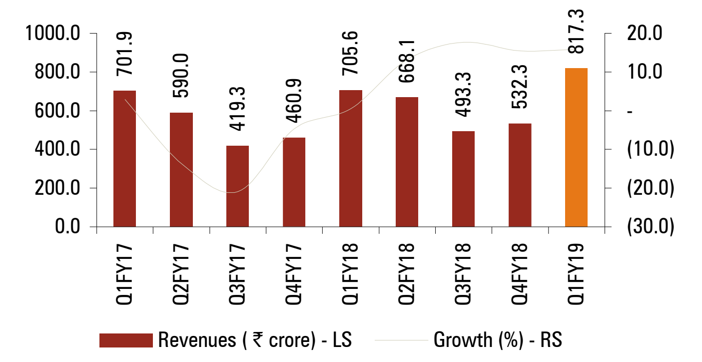


Source: Company, ICICI Direct Research

Expect revenue CAGR of 13.3% during FY18-20E

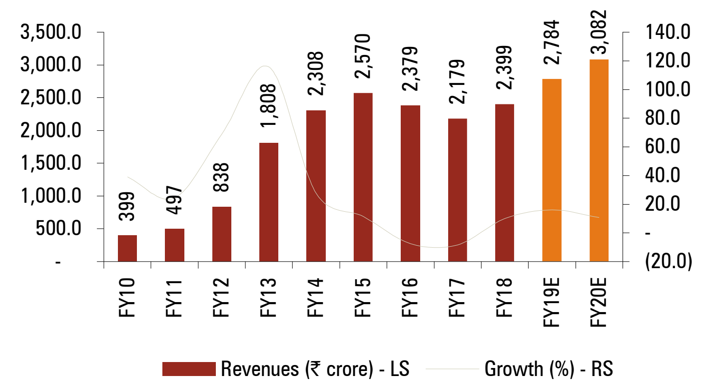
We expect net sales to grow at a CAGR of 13.3% during FY18-20E. The major revenue growth driver would be **leisure India** (healthy domestic outlook), **Leisure international** (low base and improved growth in Dubai and Australia) and **Meininger** (based on higher bed capacity addition).

Exhibit 3: Q4FY18 revenues up 15.8% YoY



Source: Company, ICICI Direct Research

Exhibit 4: Expect revenue CAGR of 13.3% during FY18-20E

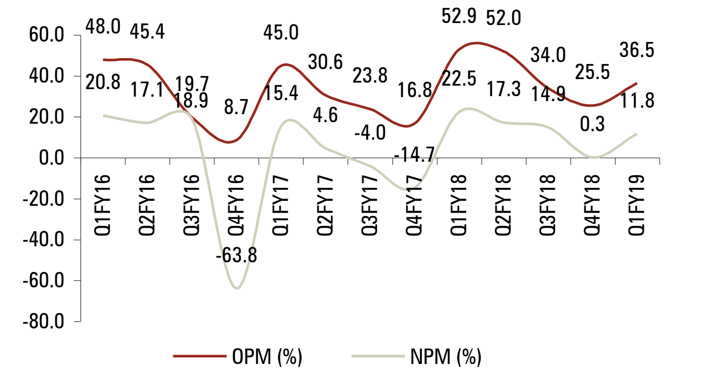


Source: Company, ICICI Direct Research

Margins to improve led by improvement in demand

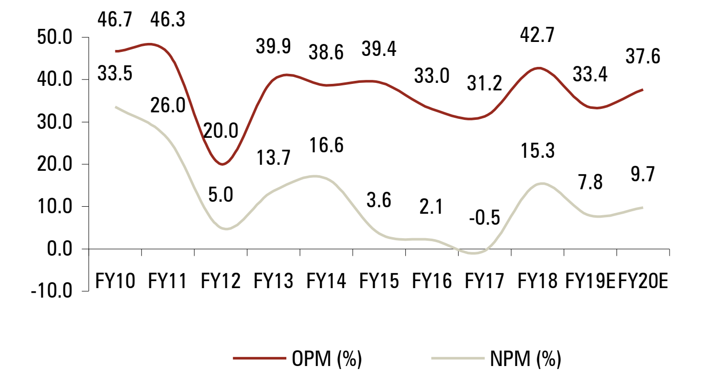
Adjusted for forex, the EBITDA margins were at 36.9%, which we believe will improve to 37.6% in FY20E mainly led by improving revenue growth and cost efficiency.

Exhibit 5: Quarterly trend in margins



Source: Company, ICICI Direct Research

Exhibit 6: Annual trend in margins



Source: Company, ICICI Direct Research

Working capital requirement continues to remain higher….

Till FY16, debt levels remained elevated. In FY16, the debt increased to ₹ 4,101 crore from ₹ 3,456.5 crore in FY15. Although the company had repaid ₹ 600 crore in FY17, the debt levels are back to ₹ 3,907 crore in FY18 led by higher working capital. Further, considering higher capex in education business we believe it will be difficult for the company to reduce debt in FY19E vs. guided debt reduction of ₹ 180-200 crore each year.

Outlook and valuations

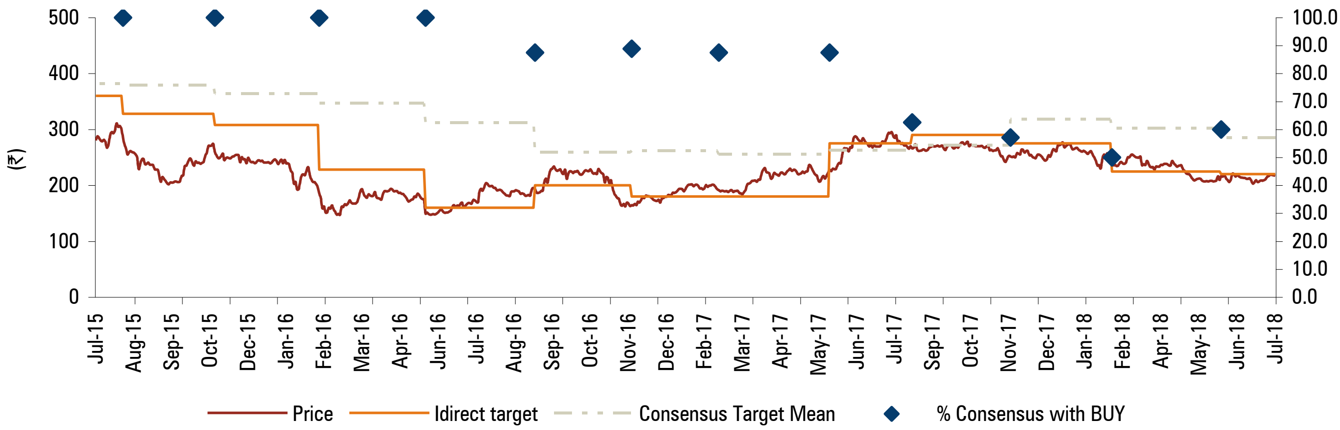
We expect the company's domestic leisure revenues to grow at a CAGR of 11% over FY18-20E mainly led by improving domestic spend and higher growth in foreign tourist arrivals. Further, we expect International revenues to grow at a healthy pace mainly led by Meininger. The company plans to increase bed capacity at Meininger at a CAGR of 28% over FY18-22E. Further, de-merger of its forex segment will drive the value for its investors over the long term. Consequently, we remain positive on the stock from a long term perspective. However, increase in working capital requirement is expected to keep debt at elevated levels. Hence we maintain our **HOLD** rating on the stock with a target price of ₹ 225 (i.e. valuing at 13.5x FY20E EPS & 6x EV/EBITDA).

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	2179.4	-8.4	-0.6	NA	0.0	7.9	-0.4	8.8
FY18	2399.3	10.1	20.8	NA	10.1	5.8	11.1	11.3
FY19E	2783.7	16.0	12.3	-40.5	16.9	6.5	6.2	9.4
FY20E	3081.8	10.7	17.0	37.8	12.3	5.3	8.0	11.3

Source: Company, ICICI Direct Research

Recommendation history vs consensus estimate



Source: Bloomberg, Company, ICICI Direct 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, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Sneh Sadan Graphic Services Pvt. Ltd.	31-Mar-18	18.7	33.0	0.0
2	Kubber Investments Mauritius Pvt. Ltd.	31-Mar-18	10.4	18.3	0.0
3	LIZ Investments Pvt. Ltd.	31-Mar-18	9.7	17.2	0.0
4	Karst Peak Capital Limited	31-Mar-18	6.1	10.9	3.4
5	Macquarie Investment Management Ltd.	31-Mar-18	4.4	7.8	0.0
6	Capital Research Global Investors	31-Mar-18	4.2	7.5	1.0
7	Standford Trading Pvt. Ltd.	31-Mar-18	4.1	7.3	0.0
8	Jupiter Asset Management Ltd.	31-Mar-18	3.4	6.0	0.0
9	Abu Dhabi Investment Authority	31-Mar-18	2.9	5.2	0.0
10	Kerkar (Urrshila)	31-Mar-18	2.6	4.6	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Promoter	51.26	51.26	50.30	49.34	49.34
FII	31.33	33.29	35.65	38.93	39.47
DII	5.89	5.52	2.66	1.76	1.05
Others	11.52	9.93	11.39	9.97	10.14

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Kotak Mahindra Asset Management Company Ltd.	13.52	3.86	Good (Anthony Bruton Meyrick)	35.39	2.89
Karst Peak Capital Limited	11.97	3.42	Mirae Asset Global Investments (India) Pvt. Ltd.	16.97	0.93
Capital Research Global Investors	3.50	1.00	HSBC Global Asset Management (Hong Kong) Limited	7.86	0.49
University of Texas Investment Management Company	2.07	0.59	Reliance Nippon Life Asset Management Limited	7.45	0.43
ABN AMRO Investment Solutions (AAIS)	0.58	0.18	New Horizon Wealth Management Private Limited	4.11	0.25

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Total operating Income	2,179.4	2,399.3	2,783.7	3,081.8
Growth (%)	-8.4	10.1	16.0	10.7
Employee Expenses	746	806	1018	1076
Advertisement expenses	0	NA	NA	NA
Other expenses	753	569	836	846
Total Operating Expenditure	1,498.5	1,375.0	1,854.6	1,921.9
EBITDA	680.9	1,024.3	929.1	1,159.9
Growth (%)	-13.2	50.4	-9.3	24.8
Depreciation	95.3	98.8	110.0	123.0
Interest	225.5	264.8	265.7	265.7
Other Income	-110.8	41.2	95.5	95.5
PBT	238.4	681.1	643.7	866.8
Profits from Associates	-11.6	-25.3	-29.1	-40.0
Total Tax	172.2	222.2	275.0	416.1
PAT	-10.2	366.3	217.8	300.2
Growth (%)	NA	NA	-40.5	37.8
EPS (₹)	-0.6	20.8	12.3	17.0

Source:Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY19E
Profit after Tax	-10.2	366.3	217.8	300.2
Add: Depreciation	95.3	98.8	110.0	123.0
(Inc)/dec in Current Assets	-371.2	-1,158.4	-410.8	-258.3
Inc/(dec) in CL and Provisions	-186.6	153.0	108.4	56.9
CF from operating activities	-472.7	-540.2	25.4	221.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-298.0	-499.0	-387.4	-500.0
Goodwilll on consolidation	762.5	184.9	0.0	0.0
Others	-47.5	0.0	247.6	225.0
CF from investing activities	416.9	-314.1	-139.8	-275.0
Issue/(Buy back) of Equity	3.6	0.0	0.0	0.0
Inc/(dec) in loan funds	-244.1	483.0	100.0	-100.0
Dividend paid & dividend tax	-19.9	-21.3	-21.3	-21.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	166.2	346.8	0.0	0.0
CF from financing activities	-94.2	808.6	78.7	-121.3
Net Cash flow	-150.0	-45.7	-35.7	-174.4
Opening Cash	1,842.6	1,692.6	1,646.9	1,611.2
Closing Cash	1,692.6	1,646.9	1,611.2	1,436.8

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY19E
Liabilities				
Equity Capital	88.3	88.3	88.3	88.3
Reserve and Surplus	2,511.2	3,203.0	3,399.5	3,678.5
Total Shareholders funds	2,599.5	3,291.3	3,487.8	3,766.7
Total Debt	3,423.9	3,906.9	4,006.9	3,906.9
Def Tax Liability	175.6	232.1	236.1	240.1
Total Liabilities	6,198.9	7,430.3	7,730.8	7,913.7
Assets				
Gross Block	3,036.4	3,710.8	4,187.5	4,633.5
Less: Acc Depreciation	1,340.9	1,439.8	1,549.8	1,672.7
Net Block	1,695.5	2,271.0	2,637.7	2,960.8
Capital WIP	310.7	135.3	46.0	100.0
Total Fixed Assets	2,006.2	2,406.3	2,683.7	3,060.8
Goodwill on Cons	2,202.8	2,468.0	2,468.0	2,468.0
Investments	107.7	110.0	110.0	110.0
Def Tax Assets	0.0	0.0	0.0	0.0
Inventory	19.9	15.5	25.7	19.9
Debtors	1,820.1	2,241.6	2,600.7	2,879.2
Loans and Advances	9.4	10.3	23.1	7.7
Cash	1,692.6	1,646.9	1,611.2	1,436.8
Total Current Assets	3,542.0	3,914.3	4,260.6	4,343.6
Total Current Liabilities	2,191.7	2,344.7	2,453.1	2,510.0
Net Current Assets	1,350.3	1,569.6	1,807.5	1,833.5
Misc Exp not W/f	0.0	0.0	0.0	0.0
Application of Funds	6,198.9	7,430.3	7,730.8	7,913.7

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY18E
Per share data (₹)				
EPS	-0.6	20.8	12.3	17.0
Cash EPS	4.8	26.4	18.6	24.0
BV	147.3	186.5	197.6	213.4
DPS	1.0	1.0	1.0	1.0
Operating Ratios (%)				
EBITDA Margin	31.2	42.7	33.4	37.6
PBT / Total Operating income	-0.5	15.3	7.8	9.7
Asset Turnover	0.3	0.3	0.3	0.0
Debtor Turnover	1.2	1.1	1.1	1.1
Creditor Turnover	7.0	5.7	5.7	5.7
Return Ratios (%)				
RoE	-0.4	11.1	6.2	8.0
RoCE	8.8	11.3	9.4	11.3
RoIC	12.3	14.0	11.2	13.3
Valuation Ratios (x)				
P/E	0.0	10.1	16.9	12.3
EV / EBITDA	7.9	5.8	6.5	5.3
EV / Net Sales	2.5	2.5	2.2	2.0
Market Cap / Sales	1.7	1.5	1.3	1.2
Price to Book Value	1.4	1.1	1.1	1.0
Solvency Ratios				
Debt/EBITDA	5.0	3.8	4.3	3.4
Debt / Equity	1.3	1.2	1.1	1.0
Current Ratio	2.1	2.5	2.5	2.5
Quick Ratio	1.4	1.8	1.8	1.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

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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ANALYST CERTIFICATION

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