

Rating matrix

Rating	:	Buy
Target	:	₹ 223
Target Period	:	12 months
Potential Upside	:	16%

What's Changed?

Target	Changed from ₹ 200* to 223
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Changed from HOLD to BUY

*Adjusted for de-merged forex business (@ ₹25/share)

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	9.3	15.6	11.3
Target PE (x)	NA	11.1	18.6	13.5
EV to EBITDA (x)	7.5	5.5	6.2	5.0
Price to book (x)	1.3	1.0	1.0	0.9
RoNW (%)	-0.4	11.1	6.2	8.0
RoCE (%)	8.8	11.3	9.4	11.3

Stock data

Particular	Amount
Mcap	₹ 3389 crore
Debt (FY18)	₹ 3907 crore
Cash & Invest(FY18)	₹ 1647 crore
EV	₹ 5649 crore
52 week H/L	₹ 306/199
Equity cap	₹ 86.4 crore
Face value	₹ 5
MF Holding(%)	4.66
FII Holding(%)	31.12

Price performance (%)

	1M	3M	6M	12M
Cox & Kings	9.0	0.7	-6.6	-21.7
Nifty	-9.3	-10.2	-5.5	-3.0

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Cox & Kings (CNKLIM)

₹ 192

Debt overhang to recede post deal...

Cox and Kings' board has entered into an agreement to sell its education business to Midlothian Capital Partners for all cash enterprise value of ₹ 4387 crore (i.e. £467 million). The focus on asset light strategy and reduction in debt burden remain the key main criteria behind this move as education is a capex heavy business. This division reported revenue and EBITDA of ₹ 613 crore and ₹ 242 crore, respectively for FY18. Post this deal, the overall debt burden will come down from ₹ 3907 crore to ₹ 1507 crore. Again, with the transfer of ₹ 250 crore debt to its de-merged entity (i.e. forex division), the debt burden will come down to ₹ 1257 crore, which is 1.6x adjusted FY20E EBITDA against 3.4x earlier. In our view, this is a significant step towards debt reduction and will help improve the return ratios, going forward, with focus on the business with high growth potential (i.e. leisure & hybrid hotel segment). As the transaction is subject to regulatory approval, we have not factored the same in our model.

Deal expected to be EPS accretive by ~11% as per our workings...

Although the revenues will come down 33% post conclusion of this deal, we expect a positive impact on the company's net earnings, going forward. The sale of the education division will lead to an outflow of ₹ 75 crore after adjusting for depreciation & interest (which is 30% of EBITDA), tax rate of 20% (assumed). On the other hand, debt reduction of ₹253 million (₹ 2378 crore) will lead to interest cost savings of ₹ 116 crore (@ average interest rate of 7%). Overall, we expect net earnings to go up by ₹ 41 crore, which is 11.4% FY18 net earnings.

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 the air passenger traffic growth and improved hotel occupancy. In addition, with improved tourism measures by the government, we expect the 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, over 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 substantial part of growth in international business.

Concern over debt being addressed; upgrade to BUY

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. The company plans to increase bed capacity at Meininger at a CAGR of 28% in FY18-22E will also drive the revenue growth of its international segment. With concerns over high debt now being addressed, we upgrade our rating to **BUY** with a revised target price of target price of ₹ 223 (i.e. valuing at 6.5x FY20E adjusted EBITDA).

Deal structure

Exhibit 1: Company to get ₹ 2377 crore for sale of Education business

Deal Structure of Education Business			
Particulars	GBP (in millions)	In ₹ Crore	
Enterprise Value	467	4387	
Takeover of Debt {A}	100	939	
Equity Value	367		
Expenses & Management Incentives	67		
Net proceeds to Shareholders	300		
Cox & Kings Stake	51%		
Proceeds to Cox & Kings {B}	153	1437	
Total Proceeds to company {A+B}	253	2377	

Source: Company, ICICI Direct Research

Debt/EBITDA to come down, going forward

Exhibit 2: Debt/EBITDA to come down from 3.4x to 1.6x

Particulars	Pre			Post		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Leisure - India*	734.0	821.3	903.4	640.0	721.3	793.4
Leisure - International	351.0	407.7	448.5	351.0	407.7	448.5
Education	612.0	680.6	735.0	0.0	0.0	0.0
Meininger	517.0	207.1	767.1	517.0	207.1	767.1
Others	184.6	207.1	227.8	184.6	207.1	227.8
Total	2398.6	2323.8	3081.8	1692.6	1543.2	2236.8
EBITDA						
Leisure - India	296.0	342.2	365.0	241.0	284.2	305.0
Leisure - International	195.0	223.4	251.1	195.0	223.4	251.1
Education	242.0	270.3	301.4	0.0	0.0	0.0
Meininger	143.0	168.5	230.1	143.0	168.5	230.1
Others	10.0	15.8	12.3	10.0	15.8	12.3
Total	886.0	1020.2	1159.9	589.0	691.9	798.5
Debt				3907.0		
Debt/EBITDA				3.4		
				1257.0		
				1.6		

Source: Company, ICICI Direct Research *Post figures are adjusted for forex business

Deal to be EPS accretive by 11.4% as per our workings

Exhibit 3: Expect net positive impact of ₹41.7 crore on company's net earnings

	In GBP million	Net Impact
Outflow		
EBITDA of Education division	28.0	
Depreciation & Interest	8.5	
PBT	19.5	
PAT	15.6	
Less: Minority interest	7.6	-8.0
Inflow		
Debt	253.0	
Interest savings @7% p.a.	17.71	
Less: Tax impact @ 30%	5.3	12.4
Net impact [A-B]		4.4
Net impact on profit (₹ cr) @₹94/GBP		41.7
FY18 Net profit		366.3
Overall impact		11.4%

Source: Company, ICICI Direct Research

Outlook and valuations

Although the company's revenue will come down by 33% post conclusion of this deal, we expect the positive impact on the company's net earnings, going forward. Post this transaction, the company will become pure play on leisure & hotel segment. 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. The company plans to increase bed capacity at Meininger at a CAGR of 28% in FY18-22E to also drive revenue growth of its international segment. With concerns over high debt now being addressed, we upgrade our rating to **BUY** with a revised target price of target price of ₹ 223 (i.e. valuing at 6.5x FY20E adjusted EBITDA).

Exhibit 4: Valuation

FY19E Adjusted EBITDA (₹ crore)	798.5
EV multiple	6.5
Target EV (₹ cr)	5190.5
Debt post transaction (₹ cr)	1257.0
Equity value (₹ cr)	3933.5
O/s shares (ln cr)	17.7
Target price per share (₹)	222.9
Current Market price	192.0
Potential upside (%)	16.1%

Source: Company, ICICI Direct Research, The current deal is not yet incorporated into our model.

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

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
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

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
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	
Goodwill 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

Key ratios		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
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	9.3	15.6	11.3	
EV / EBITDA	7.5	5.5	6.2	5.0	
EV / Net Sales	2.3	2.3	2.1	1.9	
Market Cap / Sales	1.6	1.4	1.2	1.1	
Price to Book Value	1.3	1.0	1.0	0.9	
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

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

Hold: Up to +/-10%;

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