Cox & Kings Ltd.

16 May 2014

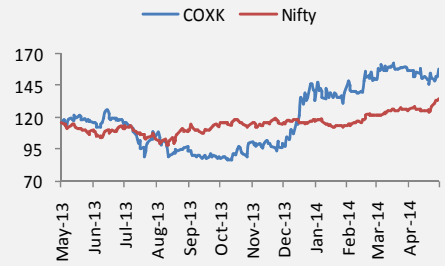
MONEYORE RESEARCH

Concern of Debt Overplayed
CMP: Rs 157

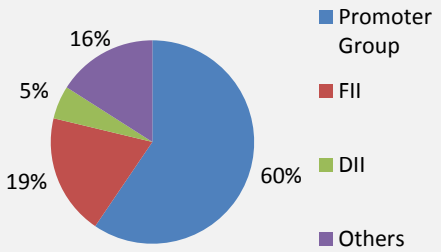
Strong Buy
Target Price: Rs 268

Sector	Travel & Tourism
Market Cap	Rs. 2,151 Cr
52 Weeks Low	Rs. 84
Daily Avg. Volume	18,60,640
Shares in issue	13.7 Cr
Face Value	Rs. 5
Beta	0.63
Pledged Shares	50.1%
Year End	March
BSE Scrip Code	533144
NSE Scrip Code	COX&KINGS
Nifty	7,203
Sensex	24,121

Price Performance



Share Holding Pattern



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Company Background

Founded in 1758, Cox & Kings Ltd. (COXK) is the oldest travel company in the world with a resilient business model, strong brands, and stable cash flows. The company is run by a highly-experienced management team adept in steering the company through a challenging operating environment.

COXK operates in 20 countries across the globe through branch offices, subsidiaries, representative offices, franchised sales shops as well as through global network of sales agents. COXK, through a series of strategic acquisitions, has attained the status of a truly global firm with presence in nearly all tourist friendly territories.

Investment Rationale

Holidaybreak (HBR) acquisition driving business synergies:

The Holidaybreak businesses comprise iconic brands, like PGL, NST, operating for several decades and consistently delivering superior customer experience. In addition, Meininger, European hotel chain catering to value seeking travellers such as student, youth travel and others is an exciting business with a high growth trajectory.

HBR has brought along deep synergies in the form of expanded market reach, cross selling opportunities and a more resilient business model by alleviating seasonality. The acquisition also brings in a unique mix of fast growing & defensive business segments like leisure & education. With the acquisition of HBR, we believe that as a Group, COXK is in better shape today than ever before with an excellent mix of growth and stability across both products and geographies. We also believe, The Company has a great platform to build upon, taking its existing products to more customers and geographies and simultaneously innovating to bring newer products.

Strong brand, network and scale will help to maintain robust margins:

COXK is a premium brand in global Travel and Tourism (T&T) industry, the company has a strong network of offices within India as well as overseas, it has established long-standing relationships in the industry over centuries. The company provides complete range of travel services through a single window, such consolidation has substantially increased its buying power with suppliers. COXK avails as good as 40-50% discounts from hotels, airlines and other travel partners on account of advance and bulk bookings. In terms of expenditure Cox & Kings shells out its majority of the pennies on its human resource and advertisement expenses which comprises nearly 26 and 9 percent of total revenue respectively.

Through a series of strategic acquisitions, the company has significantly expanded its global footprint. In these new geographies the peak periods for outbound travel coincide with the European off-peak travel season

and as a result the seasonality of Holidaybreak's businesses will be reduced. The company's operational efficiency is reflected in its high EBITDA margins which are as high as 46% in congruence with high PAT margins which are over 22%. On the back of abovementioned things, we expect COXK to sustain its margins in future.

Concerns of debt overplayed:

Higher level of debt is considered as the major dampener for COXK .But the company has already initiated various steps to reduce its debt. In FY14, COXK has repaid ~300 Cr of debt. Management recently indicated that, their first priority will be the reduction of debt.

The Company recently announced sale of Holidaybreak's (HBR) camping subsidiary to French outdoor holidays operator Homair Vacancies for GBP 89 million (Rs. 892 Cr) of which GBP 85.5 million to be paid in cash and balance is deferred relating to a tax refund. The management expressed hope that European anti-trust approvals might come in next 90 days and the transaction to be completed by Aug-Sep but effective from April 1. Deal proceeds would be used for debt repayment at the HBR holding company Prometheon and HBR itself. We believe that better cash flows from both the domestic & international businesses and liquidation of non strategic mentioned investment will help company to deleverage its balance sheet with debt to equity ratio easing from current level of 2.9x to 1.4x in FY 16. We also expect Rs. 50 Cr reduction in interest cost on annual basis in FY 16.

Valuation Compelling:

We expect COXK's revenues (Adjusted to selloff of camping business) to grow with CAGR of ~12% till FY17 while EBITDA (Adjusted to selloff of camping business) is expected to grow with CAGR of 13% during the same period. We expect an EPS of Rs 25 and 34 in FY15 and FY16 respectively.

In our DCF model we have assumed a weighted average cost of capital (WACC) of 12% and a terminal growth rate of 2% following explicit free cash flow forecasts through FY 2022.W we arrive at a target price of Rs 268, which generates a 70% upside potential from current levels. Therefore, we initiate coverage on COXK with a 'Strong Buy' rating

Financial Statements

Exhibit 1:

Income statement

Figures In Rs Cr	FY 11	FY 12	FY 13	FY 14	FY 15E	FY 16E
Net Sales	497	838	1,809	2,308	2,211	2,476
Operating Expenses	274	671	1,091	1,417	1,372	1,531
EBITDA	223	167	718	890	839	944
Depreciation	19	49	147	171	133	117
Operating Profit	204	118	571	719	706	828
Non Operating Income	43	166	59	264	66	74
EBIT	247	284	629	983	772	902
Interest Expense	54	184	371	324	310	261
EBT	193	100	259	659	462	642
Taxes	63	42	52	164	124	172
PAT	131	58	207	495	338	470
Diluted EPS	19.1	2.0	11.2	32.9	24.8	34.4

Source: Company Data, Moneyore Research

Exhibit 2:

Income statement

Figures In Rs Cr	FY 11	FY 12	FY 13	FY 14	FY 15E	FY 16E
Shareholder's Funds	1,208	1,192	1,326	1,755	2,079	2,535
Minority Interest	-	-	542	821	900	991
LT Debts	750	3,451	3,918	4,739	3,200	2,800
Deferred Tax Liabilities	8	75	68	70	83	93
Other LT Liabilities & LT Provisions	1	27	10	24	24	24
Total Non Current Liabilities	1,967	4,745	5,864	7,409	6,287	6,444
A/C Payables	110	425	470	543	551	674
ST Borrowings	-	255	256	346	229	477
Other CL	286	2,223	1,754	2,182	1,621	2,719
Total Current Liabilities	396	2,903	2,481	3,071	2,401	3,869
Total Liabilities	*2,363*	*7,648*	*8,345*	*10,481*	*8,688*	*10,313*
Net Block	320	4,578	4,695	6,665	5,832	5,915
Capital Work in Progress	6	49	12	-	200	200
Investments	15	276	438	32	32	32
Intangible Assets Under Development	43	75	132	-	132	132
LT Loans & Advances	51	34	-	-	39	67
Total Non Current Assets	434	5,012	5,277	6,698	6,235	6,346
Inventories	9	17	19	20	24	25
Sundry Debtors	414	715	905	1,136	846	1,372
Cash and Bank	961	1,053	1,269	1,379	722	1,068
OCA and Current Investments	198	30	31	30	45	39
Loans and Advances	347	821	844	1,219	816	1,463
Total Current Assets	1,929	2,637	3,068	3,783	2,453	3,967
Total Assets	*2,363*	*7,648*	*8,345*	*10,481*	*8,688*	*10,313*

Source: Company Data, Moneyore Research

Exhibit 3:

Income statement

Figures In Rs Cr	FY 11	FY 12	FY 13	FY 14	FY 15E	FY 16E
Net Cash From Operating Activities	190	1,967	(339)	606	475	887
Net Cash From Investing Activities	(111)	(5,119)	(289)	320	(571)	(228)
Net Cash From Financing Activities	521	2,751	967	1,096	(1,461)	(313)
Net Change in Cash and Cash equivalents	600	(400)	340	2,021	(1,557)	346
Opening cash and cash equivalent	375	961	1,053	1,269	1,379	722
Closing Cash And Cash Equivalent	974	561	1,393	3,290	(178)	1,068

Source: Company Data, Moneyore Research

Guide to Moneyore's research approach

Valuation methodologies

We apply one absolute valuation methodology and two relative valuation methodologies to triangulate the 'fair value' for the stock assessed fundamentally. The following are the most frequently used valuation methodologies in our research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

The target price derived from each methodology is then weighted, based on industry characteristics, to provide a weighted average target or 'fair value' for the stock.

Stock ratings

Strong Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Market-perform recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Underperform recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

MONEYORE

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